As filed with the Securities and Exchange Commission on August 20, 2007

Registration No. 333-

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM S-1

REGISTRATION STATEMENT
Under
THE SECURITIES ACT OF 1933

Orion Energy Systems, Inc.

(Exact name of registrant as specified in its charter)

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

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

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

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

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

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

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

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

CALCULATION OF REGISTRATION FEE

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

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

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

Table of Contents

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

Subject to Completion, Dated , 2007

PROSPECTUS

Shares

Common Stock

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

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

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

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

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

Thomas Weisel Partners LLC

Canaccord Adams

Pacific Growth Equities, LLC

The date of this prospectus is , 2007.

Table of Contents

[MAP OF CUSTOMER LOCATIONS]

[PHOTOGRAPH OF CUSTOMER FACILITY BEFORE AND AFTER INSTALLATION OF ORION ENERGY HIF LIGHTING SYSTEMS]

TABLE OF CONTENTS

Prospectus Summary	1
Risk Factors	10
Cautionary Note Regarding Forward-Looking Statements	25
Use of Proceeds	27
Dividend Policy	27
Capitalization	28
Dilution	30
Selected Historical Consolidated Financial Data	32
Management’s Discussion and Analysis of Financial Condition and Results of Operations	34
Business	63
Management	73
Executive Compensation	77
Principal and Selling Shareholders	102
Related Party Transactions	106
Description of Capital Stock	110
Shares Eligible for Future Sale	117
Material United States Federal Income Tax Considerations for Non-United States Holders of Our Common Stock	120
Underwriting	125
Legal Matters	130
Experts	130
Where You Can Find More Information	130
Index to Consolidated Financial Statements	F-1

Form of Series C Senior Convertible Preferred Stock Purchase Agreement
Note Purchase Agreement
Amended and Restated Articles of Incorporation
Amendment to Amended and Restated Articles of Incorporation
Form of Amended and Restated Articles of Incorporation
Amended and Restated Bylaws
Form of Amended and Restated Bylaws
Amended and Restated Investors' Rights Agreement
Amended and Restated First Offer and Co-Sale Agreement
Form of Warrant to Purchase Common Stock
Form of Warrant to Purchase Common Stock
Credit and Security Agreement
Convertible Subordinated Promissory Note in Favor of GE Capital Equity Investments, Inc.
Convertible Subordinated Promissory Note in Favor of Clean Technology Fund II, L.P.
Convertible Subordinated Promissory Note in Favor of Capvest Venture Fund, LP
Convertible Subordinated Promissory Note in Favor of Technology Transformation Venture Fund, LP
Employment Agreement - Bruce Wadman
Employment Agreement - Neal Verfuerth
Employment Agreement - John Scribante
2003 Stock Option Plan, as Amended
Form of Stock Option Agreement
2004 Stock and Incentive Awards Plan
Form of Stock Option Agreement
Form of Stock Option Agreement
Form of Promissory Note and Collateral Pledge Agreement
Patent and Trademark Security Agreement - Great Lakes Energy Technologies, LLC
Patent and Trademark Security Agreement - Great Lakes Energy Technologies, LLC
Subsidiaries

[Consent of Grant Thornton LLP](#)
[Consent of Wipfli LLP](#)

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

Dealer Prospectus Delivery Obligation

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

Industry and Market Data and Forecasts

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

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

PROSPECTUS SUMMARY

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

Our Business

We design, manufacture and implement energy management systems consisting primarily of high-performance, energy efficient lighting systems, controls and related services. Our energy management systems deliver energy savings and efficiency gains to our commercial and industrial customers without compromising their quantity or quality of light. The core of our energy management system is our high intensity fluorescent, or HIF, lighting system that we estimate cuts our customers' lighting-related electricity costs by approximately 50%, while increasing their quantity of light by approximately 50% and improving lighting quality, when replacing high intensity discharge, or HID, fixtures. We have sold and installed our high-performance HIF lighting systems in over 1,800 facilities across North America, representing over 451 million square feet of commercial and industrial building space, including for 73 Fortune 500 companies, such as General Electric Co., Kraft Foods Inc., Newell Rubbermaid Inc., OfficeMax, Inc., SYSCO Corp., and Toyota Motor Corp.

Our energy management system is comprised of: our HIF lighting system; our InteLite intelligent lighting controls; our Apollo Light Pipe, which collects and focuses daylight and consumes no electricity; and integrated energy management services. We believe that the implementation of our complete energy management system enables our customers to further reduce electricity costs, while permanently reducing base and peak load electricity demand.

Our annual revenue has increased from $12.4 million in fiscal 2004 to $48.2 million in fiscal 2007. For the three months ended June 30, 2007, we recognized revenue of $16.7 million, compared to $9.7 million for the three months ended June 30, 2006. We estimate that the use of our HIF fixtures has resulted in cumulative electricity cost savings for our customers of approximately $224 million and has reduced base and peak load electricity demand by approximately 243 megawatts, or MW, through June 30, 2007. We estimate that this reduced electricity consumption has reduced associated indirect carbon dioxide emissions by approximately 2.8 million tons over the same period.

For a description of the assumptions behind our calculations of customer kilowatt demand reduction, customer kilowatt hours and electricity costs saved and reductions in indirect carbon dioxide emissions associated with our products used throughout this prospectus, see notes (6) through (11) under "— Summary Historical Consolidated and Pro Forma Financial Data and Other Information."

Our Market Opportunity

Our market opportunity is created by growing electricity capacity shortages, underinvestment in transmission and distribution, or T&D, infrastructure, high electricity costs and the high financial and environmental costs associated with adding generation capacity and upgrading the T&D infrastructure.

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

Our Solution

50/50 Value Proposition. We estimate our HIF lighting systems generally reduce lighting-related electricity costs by approximately 50% compared to HID fixtures, while increasing the quantity of light by approximately 50% and improving lighting quality.

Rapid Payback Period. In most retrofit projects where we replace HID fixtures, our customers typically realize a two to three year payback period on our HIF lighting systems without considering utility incentives or government subsidies.

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

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

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

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

Our Competitive Strengths

Compelling Value Proposition. We believe our ability to deliver improved lighting quality while reducing electricity costs differentiates our value proposition from other demand management solutions which require end users to alter the time, manner or duration of their electricity use to achieve cost savings.

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

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

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

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

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

Our Growth Strategies

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

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

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

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

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

Recent Developments

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

Risk Factors

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

- we have a limited operating history, have previously incurred net operating losses, and only recently achieved profitability;
- some of our competitors are larger, have long-standing customer relationships at existing commercial and industrial facilities, and have greater resources than we have;
- we are dependent on the skills, experience and efforts of our senior management;
- our success depends on market acceptance of our energy management products and services;
- our component parts and raw materials are subject to price fluctuations, potential shortages and interruptions of supply;

- we are dependent upon our intellectual property, and our inability to protect our intellectual property or enforce our rights could negatively affect our business and results of operations;
- if the price of electricity decreases, there may be less demand for our energy management products and services;
- we may fail to maintain adequate internal control over financial reporting; and
- our common stock has never traded publicly, and the market price of our common stock may fluctuate significantly.

Our Corporate Information

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

Table of Contents

The Offering

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

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

- reflects the automatic conversion upon closing of this offering of all of our outstanding shares of Series B preferred stock on a one-for-one basis into 2,989,830 shares of common stock;
- reflects the automatic conversion upon closing of this offering of all of our outstanding shares of Series C preferred stock on a one-for-one basis into 1,818,182 shares of common stock;
- reflects the automatic conversion upon closing of this offering of the Convertible Notes into 2,360,802 shares of common stock;
- excludes 954,390 shares of common stock issuable upon the exercise of warrants outstanding as of June 30, 2007 with a weighted average exercise price of $2.24 per share;
- excludes 4,712,077 shares of common stock issuable upon the exercise of options outstanding as of June 30, 2007 with a weighted average exercise price of $1.57 per share;
- excludes 646,700 shares of common stock reserved for future issuance as of June 30, 2007 under our stock option plans;
- assumes an initial public offering price of $ per share, the midpoint of the range set forth on the cover page of this prospectus; and
- assumes no exercise of the underwriters' option to purchase from us up to additional shares to cover over-allotments.

Summary Historical Consolidated and Pro Forma Financial Data and Other Information

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

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

	Fiscal Year Ended March 31,			Three Months Ended June 30,	
	2005	2006	2007	2006	2007
				(unaudited)	
	(in thousands, except per share data)				
Consolidated statements of operations data:					
Revenue	$ 21,783	$ 33,280	$ 48,183	$ 9,680	$ 16,721
Cost of revenue(1)	14,043	22,524	32,487	6,255	11,118
Gross profit	7,740	10,756	15,696	3,425	5,603
Operating expenses(1)	9,090	12,037	13,699	2,998	4,119
Income (loss) from operations	(1,350)	(1,281)	1,997	427	1,484
Other income (expense)	(567)	(1,046)	(843)	(252)	(255)
Income (loss) before income tax and cumulative effect of change in accounting principle	(1,917)	(2,327)	1,154	175	1,229
Income tax expense (benefit)	(702)	(762)	225	34	481
Income (loss) before cumulative change in accounting principle	(1,215)	(1,565)	929	141	748
Cumulative effect of change in accounting principle	(57)	—	—	—	—
Net income (loss)	(1,272)	(1,565)	929	141	748
Accretion of redeemable preferred stock and preferred stock dividends(2)	(104)	(3)	(201)	(1)	(75)
Conversion of preferred stock(3)	(972)	—	(83)	—	—
Net income (loss) attributable to common shareholders	$ (2,348)	$ (1,568)	$ 645	$ 140	$ 673
Net income (loss) attributable to common shareholders:					
Basic	$ (0.36)	$ (0.18)	$ 0.07	$ 0.02	$ 0.07
Diluted	$ (0.36)	$ (0.18)	$ 0.04	$ 0.01	$ 0.04
Weighted average shares outstanding:					
Basic	6,470	8,524	9,080	8,999	9,950
Diluted	6,470	8,524	16,433	15,073	18,088

	As of June 30, 2007		
	Actual	Pro Forma(4)	Pro Forma As Adjusted(5)
	(in thousands, unaudited)		
Consolidated balance sheet data:			
Cash and cash equivalents	$ 696	$12,046	$
Total assets	37,719	49,069	
Long-term debt, less current maturities	9,998	9,998	
Convertible notes	—	10,600	
Temporary equity (Series C convertible redeemable preferred stock)	5,028	5,028	
Series B convertible preferred stock	5,959	5,959	
Treasury stock	(361)	(1,739)	
Shareholder notes receivable	(2,128)	—	
Temporary equity and shareholders' equity	$15,401	$16,151	$

Table of Contents

	Cumulative From December 1, 2001 Through June 30, 2007
	(in thousands, unaudited)
Other information:	
HIF lighting systems sold (6)	853
Total units sold (including HIF lighting systems)	1,108
Customer kilowatt demand reduction (7)	243
Customer kilowatt hours saved (7) (8)	2,914,625
Customer electricity costs saved (9)	$224,426
Indirect carbon dioxide emission reductions from customers' energy savings (tons) (10)	2,842
Square footage retrofitted (11)	451,802

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

(2) For fiscal 2007 and our fiscal 2008 first quarter, represents the impact attributable to the accretion of accumulated dividends on our Series C preferred stock, plus accumulated dividends on our Series A preferred stock prior to its conversion into common stock on March 31, 2007. The Series C preferred stock will convert automatically into common stock on a one-for-one basis upon the closing of this offering and our obligation to pay accumulated dividends will be extinguished. For fiscal 2005 and 2006, represents accumulated dividends on our Series A preferred stock prior to its conversion into common stock. See "Management's Discussion and Analysis of Financial Condition and Results of Operations – Revenue and Expense Components – Accretion of Preferred Stock and Preferred Stock Dividends."

(3) Represents the estimated fair market value of the premium paid to holders of Series A preferred stock upon induced conversion. See "Management's Discussion and Analysis of Financial Condition and Results of Operations – Revenue and Expense Components – Conversion of Preferred Stock."

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

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

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

(7) A substantial majority of our HIF lighting systems, which generally operate at approximately 224 watts per six-lamp fixture, are installed in replacement of HID fixtures, which generally operate at approximately 465 watts per fixture in commercial and industrial applications. We calculate that each six-lamp HIF lighting system we install in replacement of an HID fixture generally reduces electricity consumption by approximately 241 watts (the difference between 465 watts and 224 watts). In retrofit

projects where we replace fixtures other than HID fixtures, or where we replace fixtures with products other than our HIF lighting systems, we generally achieve similar wattage reductions (based on an analysis of the operating wattages of each of our fixtures compared to the operating wattage of the fixtures they typically replace). We calculate the amount of kilowatt demand reduction by multiplying (i) 0.241 kilowatts per six-lamp equivalent unit we install by (ii) the number of units we have installed in the period presented, including products other than our HIF lighting systems (or a total of approximately 1.1 million units).

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

(9) We calculate our customers' electricity costs saved by multiplying the cumulative total customer kilowatt hours saved indicated in the table by $0.077 per kilowatt hour. The national average rate for 2005, which is the most current full year for which this information is available, was $0.0814 per kilowatt hour according to the United States Energy Information Administration.

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

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

RISK FACTORS

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

Risks Relating to Our Business

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

We began operating in April 1996 and first achieved a full fiscal year of profitability in fiscal 2003. However, we incurred net losses attributable to common shareholders of $2.3 million and $1.6 million in fiscal 2005 and 2006, respectively, before achieving net income attributable to common shareholders of $0.6 million in fiscal 2007. As of June 30, 2007, our accumulated deficit was $3.1 million. As a result of our limited operating history, we have limited financial data that can be used to evaluate our business, strategies, performance, prospects, revenue or profitability potential or an investment in our common stock. Any evaluation of our business and our prospects must be considered in light of our limited operating history and the risks and uncertainties encountered by companies at our stage of development and in our market.

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

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

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

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

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

Our continued success depends upon the continued availability, contributions, skills, experience and effort of our senior management. We are particularly dependent on the services of Neal R. Verfuerth, our president, chief executive officer and principal founder. Mr. Verfuerth has major responsibilities with respect to sales, engineering, product development and executive administration. We do not have a formal succession plan in place for Mr. Verfuerth. Our employment agreement with Mr. Verfuerth does not guarantee his services for a specified period of time. All of the employment agreements with our senior management team may be terminated by the employee at any time and without notice. While all such agreements include noncompetition and confidentiality covenants, there can be no assurance that such provisions will be enforceable or adequately protect us. The loss of the services of any of these persons might impede our operations or the achievement of our strategic and financial objectives, and we may not be able to attract and retain individuals with the same or similar level of experience or expertise. Additionally, while we have key man insurance on the lives of Mr. Verfuerth and other members of our senior management team, such insurance may not adequately compensate us for the loss of these individuals. The loss or interruption of the service of members of our senior management, particularly Mr. Verfuerth, or our inability to attract or retain other qualified personnel could have a material adverse effect on our ability to expand our business, implement our strategy or maintain profitable operations.

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

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

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

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

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

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

We depend on a limited number of key suppliers.

We depend on certain key suppliers for the raw materials and key components that we require for our current products, including sheet, coiled and specialty reflective aluminum, power supplies, ballasts and lamps. In particular, we buy most of our specialty reflective aluminum from a single supplier and we also purchase most of our ballast and lamp components from a single supplier. Purchases of components from our current primary ballast and lamp supplier constituted 14% and 26% of our cost of revenue in fiscal 2006 and fiscal 2007, respectively. If these components become unavailable, or our relationships with suppliers become strained, particularly as relates to our primary suppliers, our results of operations and financial condition could be materially adversely affected.

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

In fiscal 2003 through fiscal 2005, we experienced higher than normal failure rates with certain components purchased from two suppliers. These quality issues led to an

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

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

We do not have long-term contracts with our customers, and our dependence on individual key customers can vary from period to period as a result of the significant size of some of our retrofit and multi-facility roll-out projects. Our top 10 customers accounted for approximately 39%, 27%, and 35%, respectively, of our revenue in fiscal 2007, 2006 and 2005, and 55% and 42%, respectively, of our fiscal 2008 and 2007 first quarter revenue. No single customer accounted for more than 9% of our revenue in any of such fiscal years, although one customer accounted for approximately 20% of our fiscal 2008 first quarter revenue. We expect large retrofit and roll-out projects to become a greater component of our revenue in the near term. As a result, we may experience more customer concentration in any given future period. The loss of, or substantial reduction in sales to, any of our significant customers could have a material adverse effect on our results of operations in any given future period.

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

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

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

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

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

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

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

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

We own United States patents and patent applications for some of our products, systems, business methods and technologies. We offer no assurance about the degree of protection which existing or future patents may afford us. Likewise, we offer no assurance that our patent applications will result in issued patents, that our patents will be upheld if challenged, that competitors will not develop similar or superior business methods or products outside the protection of our patents, that competitors will not infringe our patents, or that we will have adequate resources to enforce our patents. Because some patent applications are maintained in secrecy for a period of time, we could adopt a technology without knowledge of a pending patent application, and such technology could infringe a third party patent.

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

We rely on our trademarks, trade names, and brand names to distinguish our company and our products and services from our competitors.

Some of our trademarks may conflict with trademarks of other companies. Failure to obtain trademark registrations could limit our ability to protect our trademarks and impede our sales and marketing efforts. Further, we cannot assure you that competitors will not infringe our trademarks, or that we will have adequate resources to enforce our trademarks.

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

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

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

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

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

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

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

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

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

The efficient operation of our business is dependent on our information technology systems. We rely on those systems generally to manage the day-to-day operation of our business, manage relationships with our customers, maintain our research and development data and maintain our financial and accounting records. The failure of our information technology systems, our inability to successfully maintain and enhance our information technology systems, or any compromise of the integrity or security of the data we generate from our information technology systems, could adversely affect our results of operations, disrupt our business and product development and make us unable, or severely limit our ability, to respond to customer demands. In addition, our information technology systems are vulnerable to damage or interruption from:

- earthquake, fire, flood and other natural disasters;
- employee or other theft;

- attacks by computer viruses or hackers;
- power outages; and
- computer systems, Internet, telecommunications or data network failure.

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

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

We own our manufacturing and distribution facility located at an industrial site. We purchased this property from an adjacent aluminum rolling mill and cookware manufacturing facility in 2004. As part of the transaction to purchase this facility, we agreed to hold the seller harmless from most claims for environmental remediation or contamination. Accordingly, if environmental contamination is discovered at our facility and we are required to remediate the property, our recourse against the prior owners may be limited. Any such potential remediation could be costly and could adversely affect our results of operations or financial condition.

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

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

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

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

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

We intend to undertake a number of strategies in an effort to grow our revenue. If we are successful, our revenue growth may place significant strain on our limited resources. To properly manage any future revenue growth, we must continue to improve our management, operational, administrative, accounting and financial reporting systems and expand, train and manage our employee base, which

may involve significant expenditures and increased operating costs. Due to our limited resources and experience, we may not be able to effectively manage the expansion of our operations or recruit and adequately train additional qualified personnel. If we are unable to manage our anticipated revenue growth effectively, the quality of our customer care may suffer, we may experience customer dissatisfaction, reduced future revenue or increased warranty claims, and our expenses could substantially and disproportionately increase. Any of these circumstances could adversely affect our results of operations.

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

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

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

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

Our ability to use our net operating loss carryforwards may be subject to limitation.

As of March 31, 2007, we had aggregate federal and state net operating loss carryforwards of approximately $5.1 million. Generally, a change of more than 50% in the ownership of a company's stock, by value, over a three-year period constitutes an ownership change for federal income tax purposes. An ownership change may limit a company's ability to use its net operating loss carryforwards attributable to the period prior to such change. Past issuances and transfers of our stock may have been sufficient to qualify as an ownership change for this purpose. As a result, if we continue to

earn taxable income, our ability to use our net operating loss carryforwards attributable to the period prior to any such ownership change to offset taxable income may be or become subject to limitations, which could potentially result in increased future tax liability for us.

Risks Relating to this Offering and Our Common Stock

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

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

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

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

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

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

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

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

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

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

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

Rights." We also intend to register all shares of common stock relating to awards that we have granted or may grant under our outstanding equity incentive compensation plans as in effect on the date of this prospectus. See "Shares Eligible for Future Sale".

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

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

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

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

If we are unable to maintain effective control over financial reporting, such conclusion would be disclosed in our Annual Report on Form 10-K for the year ending March 31, 2009. In the future, we may identify material weaknesses and significant deficiencies which we may not be able to remediate in a timely manner. If we fail to maintain effective internal control over financial reporting in accordance with Section 404, we will not be able to conclude that we have and maintain effective internal control over financial reporting or our independent registered accounting firm may not be able to issue an unqualified report on the effectiveness of our internal control over financial reporting. As a result, our ability to report our financial results on a timely and accurate basis may be adversely affected, we may be subject to sanctions or investigation by regulatory authorities, including the SEC or the Nasdaq Global Market, and investors may lose confidence in our financial information, which in turn could cause the market price of our common stock to significantly decrease. We may also be required to restate our financial statements from prior periods.

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

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

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

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

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

A change of control of our company may be discouraged, delayed or prevented by Sections 180.1140 to 180.1144 of the Wisconsin Business Corporation Law. These provisions generally restrict a broad range of business combinations between a Wisconsin corporation and a shareholder owning 15% or more of our outstanding voting stock. These and other provisions in our amended and restated articles of incorporation that will be in effect upon closing of this offering, including our staggered board of directors and our ability to issue "blank check" preferred stock, as well as the provisions of our amended and restated bylaws and Wisconsin law, could make it more difficult for shareholders or potential acquirors to obtain control of our board of directors or initiate actions that are opposed by the then-current board of directors, including to delay or impede a merger, tender offer or proxy contest involving our company. See "Description of Capital Stock." In addition, our employment arrangements that will be in effect upon closing of this offering with senior management provide for severance payments and accelerated vesting of benefits, including accelerated vesting of stock and options, upon a change of control. This offering will not constitute a change of control under such agreements. These provisions may discourage or prevent a change of control.

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

We expect to use the net proceeds from this offering for working capital and general corporate purposes, including for potential future acquisitions. Consequently, our management will have broad discretion in allocating the net proceeds of this offering. See "Use of Proceeds." You may not agree with such uses and our use of the proceeds from this offering may not yield a significant return or any return at all for our shareholders. The failure by our management to apply these funds effectively could have a material adverse effect on our business, results of operations or financial condition.

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

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

Also, as a public company we will need to:

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

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

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

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

- delaying, deferring, or preventing a change of control, even at a per share price that is in excess of the then current price of our common stock;
- impeding a merger, consolidation, takeover, or other business combination involving us, even at a per share price that is in excess of the then current price of our common stock; or
- discouraging a potential acquirer from making a tender offer or otherwise attempting to obtain control of us, even at a per share price that is in excess of the then current price of our common stock.

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

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This prospectus includes forward-looking statements that are based on our beliefs and assumptions and on information currently available to us. The forward-looking statements are contained principally in the sections entitled “Prospectus Summary,” “Risk Factors,” “Use of Proceeds,” “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and “Business.” When used in this prospectus, the words “anticipate,” “believe,” “could,” “estimate,” “expect,” “intend,” “may,” “plan,” “potential,” “predict,” “project,” “should,” “will,” “would,” and similar expressions identify forward-looking statements. Although we believe that our plans, intentions, and expectations reflected in any forward-looking statements are reasonable, these plans, intentions, or expectations are based on assumptions, are subject to risks and uncertainties and may not be achieved. These statements are based on assumptions made by us based on our experience and perception of historical trends, current conditions, expected future developments and other factors that we believe are appropriate in the circumstances. Such statements are subject to a number of risks and uncertainties, many of which are beyond our control. Our actual results, performance or achievements could differ materially from those contemplated, expressed, or implied, by the forward-looking statements contained in this prospectus. Important factors that could cause actual results to differ materially from our forward-looking statements are set forth in this prospectus, including under the heading “Risk Factors.” Given these uncertainties, you should not place undue reliance on these forward-looking statements. Also, forward-looking statements represent our beliefs and assumptions only as of the date of this prospectus. All forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by the cautionary statements set forth in this prospectus. These forward-looking statements include, among other things, statements relating to:

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

Actual events, results and outcomes may differ materially from our expectations due to a variety of factors. Although it is not possible to identify all of these factors, they include, among others, the following:

- our limited operating history;
- our ability to compete in a highly competitive market;
- our ability to respond successfully to market competition;

- the retention of our senior management;
- the market acceptance of our products and services;
- our dependence on our customers' capital budgets to generate sales of our products and services;
- price fluctuations, shortages or interruptions of component supplies and raw materials used to manufacture our products;
- loss of one or more key customers;
- delivery of satisfactory components by our current suppliers;
- loss of one or more key suppliers;
- warranty and product liability claims;
- our ability to develop new products and services;
- the success of potential acquisitions or investments in new product lines;
- our ability to protect our intellectual property or to respond to any intellectual property litigation brought by others;
- exercising our option to acquire intellectual property rights owned by our chief executive officer;
- reduction in the price of electricity;
- the cost to comply with, and the effects of, any current and future government regulations, laws and policies;
- increased competition from government subsidiaries and utility incentive programs;
- the failure of our information technology systems;
- the discovery of environmental contamination at our manufacturing facility or the expenses and responsibility associated with disposal of hazardous materials;
- our ability to effectively manage our anticipated growth;
- our ability to obtain additional capital;
- fluctuations in our quarterly results;
- our ability to use our net operating losses;
- the costs associated with being a public company and our ability to comply with the internal control and financial reporting obligations of the SEC and Sarbanes-Oxley; and
- other factors discussed in more detail under "Risk Factors."

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

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

USE OF PROCEEDS

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

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

We intend to use the net proceeds for working capital and general corporate purposes, including to fund increased sales and marketing expenses, as well as for potential future acquisitions. As of the date of this prospectus, we have not entered into any agreements, understandings or commitments with respect to any acquisitions.

We will have broad discretion in the way that we use the net proceeds of this offering. The amounts that we actually spend for the purposes described above may vary significantly and will depend, in part, on the timing and amount of our future revenue, our future expenses and any potential acquisitions that we may pursue. Pending the final application of the net proceeds of this offering as described above, we intend to invest the net proceeds of this offering in short-term, interest-bearing, investment-grade securities. See "Risk Factors – Risks Related to Our Business — Our management team will have broad discretion in allocating the net proceeds of this offering."

DIVIDEND POLICY

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

CAPITALIZATION

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

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

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

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

	As of June 30, 2007		
	Actual	Pro Forma	Pro Forma as Adjusted
	(In thousands, except share and per share data, unaudited)		
Cash and cash equivalents	$ 696	$ 12,046	$
Long-term debt, less current maturities	$ 9,998	$ 9,998	$
Convertible notes	—	10,600	
Temporary equity:			
Series C convertible redeemable preferred stock ($0.01 par value 1,818,182 shares issued and outstanding, actual and pro forma; no shares issued and outstanding, pro forma as adjusted)	5,028	5,028	
Shareholders' equity:			
Series B convertible preferred stock ($0.01 par value 2,989,830 shares issued and outstanding, actual and pro forma; no shares issued and outstanding, pro forma as adjusted)	5,959	5,959	
Common stock (no par value 80,000,000 shares authorized and 12,219,969 shares outstanding, actual; 80,000,000 shares authorized and 11,913,037 shares outstanding, pro forma; 200,000,000 shares authorized and shares outstanding, pro forma as adjusted)	—	—	
Additional paid-in capital	9,993	9,993	
Treasury stock	(361)	(1,739)	
Shareholder notes receivable	(2,128)	—	
Accumulated deficit	(3,090)	(3,090)	
Total temporary equity and shareholders' equity	15,401	16,151	
Total capitalization	$ 25,399	$ 36,749	$

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

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

Table of Contents

DILUTION

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

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

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

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

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

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

The following table summarizes, as of June 30, 2007, the differences between the number of shares of common stock owned by existing shareholders and to be owned by new public investors, the aggregate cash consideration paid to us and the average price per share paid by our existing shareholders and to be paid by new public investors purchasing shares of common stock in this offering at an

estimated initial public offering price of $ per share (the midpoint of the range set forth on the cover page of this prospectus). All information in the row titled "Existing shareholders" in the following table is presented on a pro forma basis assuming (i) the conversion of 4,808,012 shares of our outstanding preferred stock into common stock on a one-for-one basis; (ii) the conversion of the Convertible Notes into 2,360,802 shares of our common stock; and (iii) the repayment of certain shareholder notes with 306,932 shares of common stock (see "Related Party Transactions" and "Executive Compensation — Compensation Discussion and Analysis — Long-Term Equity Compensation").

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

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

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

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

SELECTED HISTORICAL CONSOLIDATED FINANCIAL DATA

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

	Fiscal Year Ended March 31,					Three Months Ended June 30, (unaudited)	
	2003	2004	2005	2006	2007	2006	2007
	(in thousands, except per share amounts)						
Consolidated statements of operations data:							
Revenue	$ 9,018	$ 12,423	$ 21,783	$ 33,280	$ 48,183	$ 9,680	$ 16,721
Cost of revenue(1)	5,091	7,376	14,043	22,524	32,487	6,255	11,118
Gross profit	3,927	5,047	7,740	10,756	15,696	3,425	5,603
General and administrative expenses(1)	1,434	1,927	3,461	4,875	6,162	1,269	1,571
Sales and marketing expenses(1)	1,772	2,381	5,416	5,991	6,459	1,518	2,111
Research and development expenses(1)	139	261	213	1,171	1,078	211	437
Income (loss) from operations	582	478	(1,350)	(1,281)	1,997	427	1,484
Interest expense	108	222	570	1,051	1,044	253	295
Dividend and interest income	—	—	3	5	201	1	40
Income (loss) before income tax and cumulative effect of change in accounting principle	474	256	(1,917)	(2,327)	1,154	175	1,229
Income tax expense (benefit)	173	102	(702)	(762)	225	34	481
Income (loss) before cumulative change in accounting principle	301	154	(1,215)	(1,565)	929	141	748
Cumulative effect of change in accounting principle	—	—	(57)	—	—	—	—
Net income (loss)	301	154	(1,272)	(1,565)	929	141	748
Accretion of redeemable preferred stock and preferred stock dividends(2)	(122)	(122)	(104)	(3)	(201)	(1)	(75)
Conversion of preferred stock(3)	—	—	(972)	—	(83)	—	—
Net income (loss) attributable to common shareholders	$ 179	$ 32	$ (2,348)	$ (1,568)	$ 645	$ 140	$ 673
Net income (loss) attributable to common shareholders:							
Basic	$ 0.03	$ 0.01	$ (0.36)	$ (0.18)	$ 0.07	$ 0.02	$ 0.07
Diluted	$ 0.02	$ 0.00	$ (0.36)	$ (0.18)	$ 0.04	$ 0.01	$ 0.04
Weighted average shares outstanding:							
Basic	5,964	6,197	6,470	8,524	9,080	8,999	9,950
Diluted	9,169	10,218	6,470	8,524	16,433	15,073	18,088

	As of March 31,					As of June 30, 2007 (unaudited)
	2003	2004	2005	2006	2007	
	(in thousands)					
Consolidated balance sheet data:						
Cash and cash equivalents	$ 175	$ 107	$ 493	$ 1,089	$ 285	$ 696
Total assets	6,397	11,147	21,397	24,738	33,583	37,719
Long-term debt, less current maturities	1,058	4,796	7,921	10,492	10,603	9,998
Temporary equity (Series C convertible redeemable preferred stock)	—	—	—	—	4,953	5,028
Series A convertible preferred stock	1,007	1,007	116	116	—	—
Series B convertible preferred stock	—	779	4,167	5,591	5,959	5,959
Shareholder notes receivable	(105)	(104)	(246)	(398)	(2,128)	(2,128)
Temporary equity and shareholders' equity	$ 2,192	$ 3,448	$ 5,699	$ 6,622	$ 14,308	$ 15,401

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

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

(2) For fiscal 2007 and our fiscal 2008 first quarter, represents the impact attributable to the accretion of accumulated dividends on our Series C preferred stock, plus accumulated dividends on our Series A preferred stock prior to its conversion into common stock on March 31, 2007. The Series C preferred stock will convert automatically into common stock on a one-for-one basis upon the closing of this offering and our obligation to pay accumulated dividends will be extinguished. For fiscal 2005 and 2006, represents accumulated dividends on our Series A preferred stock prior to its conversion into common stock. See "Management's Discussion and Analysis of Financial Condition and Results of Operations – Revenue and Expense Components – Accretion of Preferred Stock and Preferred Stock Dividends."

(3) Represents the estimated fair market value of the premium paid to holders of Series A preferred stock upon induced conversion. See "Management's Discussion and Analysis of Financial Condition and Results of Operations – Revenue and Expense Components – Conversion of Preferred Stock."

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

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

Overview

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

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

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

Our fiscal year ends on March 31. We call our fiscal years ended March 31, 2005, 2006 and 2007, "fiscal 2005," "fiscal 2006" and "fiscal 2007," respectively. We call our current fiscal year, which will end on March 31, 2008, "fiscal 2008." Our fiscal first quarter ends on June 30, our fiscal second quarter ends on September 30, our fiscal third quarter ends on December 31 and our fiscal fourth quarter ends on March 31.

Revenue and Expense Components

Revenue. We sell our energy management products and services directly to commercial and industrial customers, and indirectly to end users through wholesale sales to electrical contractors and value-added resellers. We currently generate the substantial majority of our revenue from sales of HIF lighting systems and related services to commercial and industrial customers.

We recognize revenue on product only sales at the time of shipment. For projects consisting of multiple elements of revenue, such as a combination of product sales and services, we separate the project into separate units of accounting based on their relative fair values for revenue recognition purposes. Additionally, the deferral of revenue on a delivered element may be required if such revenue is contingent upon the delivery of the remaining undelivered elements. We recognize revenue at the time of product shipment on product sales and on services completed prior to product shipment. We recognize revenue associated with services provided after product shipment, based on

their fair value, when the services are completed and once acceptance has been received. When other significant obligations or acceptance terms remain after products are delivered, revenue is recognized only after such obligations are fulfilled or acceptance by the customer has occurred. We also offer our products under a sales program where we finance our customer's purchase. The contractual future cash flows and residual rights to the related equipment are then sold without recourse to a third party finance company. We recognize revenue for the net present value of the future payments from the finance company upon completion of the project. See "— Critical Accounting Policies and Estimates."

Our dependence on individual key customers can vary from period to period as a result of the significant size of some of our retrofit and multi-facility roll-out projects. Our top 10 customers accounted for approximately 35%, 27%, and 39%, respectively, of our revenue in fiscal 2005, 2006 and 2007, and 42% and 55%, respectively, of our fiscal 2007 and 2008 first quarter revenue. No single customer accounted for more than 9% of our revenue in any of such fiscal years, although one customer accounted for approximately 20% of our fiscal 2008 first quarter revenue. As large retrofit and roll-out projects become a greater component of our 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 revenue in any given period and may result in significant quarterly revenue variations.

Our level of revenue for any given period is dependent upon a number of factors, including (i) the demand for our products and systems; (ii) the number and timing of large retrofit and multi-facility retrofit, or "roll-out," projects; (iii) the level of our wholesale sales; (iv) our ability to realize revenue from our services and our shared savings sales program; (v) our execution of our sales process; (vi) the selling price of our products and services; (vii) changes in capital investment levels by our customers and prospects; and (viii) customer sales cycles. As a result, our revenue may be subject to quarterly variations and our revenue for any particular fiscal quarter may not be indicative of future results. See "— Quarterly Results of Operations." We expect our revenue to increase in fiscal 2008 primarily as we solicit new customers, expand our joint lead generation and sales initiative with electrical contractors and value-added resellers, expand our sales force and sales locations, roll-out our products and services to multiple customer locations and attempt to expand implementation of all aspects of our energy management system for existing national customers.

Cost of Revenue. Our cost of revenue consists of costs for: (i) raw materials, including sheet, coiled and specialty reflective aluminum; (ii) electrical components, including ballasts, power supplies and lamps; (iii) wages and related personnel expenses, including stock-based compensation charges, for our fabricating assembly, logistics and project installation service organizations; (iv) manufacturing facilities, including depreciation on our manufacturing facilities and equipment, taxes, insurance and utilities; (v) warranty expenses; (vi) installation and integration; and (vii) shipping and handling. Our cost of aluminum can be subject to commodity price fluctuations, which we attempt to mitigate with forward fixed-price, minimum quantity purchase commitments with our suppliers. We also purchase many of our electrical components through forward purchase contracts. We buy most of our specialty reflective aluminum from a single supplier, and most of our ballast and lamp components from a single supplier, although we believe we could obtain sufficient quantities of these raw materials and components on a price and quality competitive basis from other suppliers if necessary. Purchases from our current primary supplier of ballast and lamp components constituted 14% of our cost of revenue in fiscal 2006 and 26% in fiscal 2007. Our production labor force is non-union and, as a result, our production labor costs have been relatively stable. We anticipate adding additional production personnel to support our anticipated increase in sales volumes, although we are attempting to achieve efficiencies in our cost of revenue by implementing more highly systematized production processes. We are also expanding our network of qualified installers to realize efficiencies in the installation process.

Gross Margin. Our gross profit has been and will continue to be, affected by the relative levels of our revenue and our cost of revenue, and as a result, our gross profit may be subject to quarterly variation. Our gross profit as a percentage of revenue, or gross margin, is affected by a number of factors, including: (i) our mix of large retrofit and multi-facility roll-out projects with national accounts; (ii) the level of our wholesale sales; (iii) our realization rate on our billable services; (iv) our project pricing; (v) our level of warranty claims; (vi) our level of utilization of our manufacturing facilities and related absorption of our manufacturing overhead costs; (vii) our level of efficiencies in our manufacturing operations; and (viii) our level of efficiencies from our subcontracted installation service providers. As a result, our gross margin may be subject to quarterly variation.

Operating Expenses. Our operating expenses consist of: (i) general and administrative expenses; (ii) sales and marketing expenses; and (iii) research and development expenses. Personnel related costs are our largest operating expense and we expect these costs to increase on an absolute dollar basis in fiscal 2008 as a result of our planned expansion of our sales force, as well as contemplated additions to our personnel infrastructure, as we attempt to generate and support additional revenue growth.

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

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

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

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

In fiscal 2007, we began recognizing compensation expense for the fair value of our stock option awards granted over their related vesting period using the modified prospective method of adoption under the provisions of the Statement of Financial Accounting Standards No. 123(R), *Share-Based Payment.* Prior to fiscal 2007, we accounted for our stock option awards under the intrinsic value method under the provisions of Accounting Principles Board Opinion (APB) No. 25, *Accounting for Stock Issued to Employees*, and we did not recognize the fair value expense of our stock option awards in our statements of operations, although we did report our pro forma stock option award fair value expense in the footnotes to our financial statements. We recognized $0.4 million of stock-based compensation

expense in fiscal 2007 and $0.1 million in our fiscal 2008 first quarter. As a result of prior option grants, including option grants in fiscal 2008 through the date of this prospectus, we expect to recognize a total of $3.9 million of stock-based compensation over a weighted average period of three years, including $1.0 million in fiscal 2008. These charges have been, and will continue to be, allocated to cost of revenue, general and administrative expenses, sales and marketing expenses and research and development expenses based on the departments in which the personnel receiving such awards have primary responsibility. A substantial majority of these charges have been, and likely will continue to be, allocated to general and administrative expenses and sales and marketing expenses. See "— Critical Accounting Policies — Stock-Based Compensation" and the notes to our financial statements included elsewhere in this prospectus.

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

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

Income Taxes. As of March 31, 2007, we had net operating loss carryforwards of approximately $5.1 million for both federal and state tax purposes. Included in the $5.1 million loss carryforward were $3.0 million of compensation expenses that were associated with the exercise of nonqualified stock options. The benefit from our net operating losses created from these compensation expenses has not been recognized and will be accounted for in our shareholders' equity as a credit to additional paid-in capital as the deduction reduces our income taxes payable. We also had federal and state credit carryforwards of approximately $0.3 million and $0.4 million, respectively, as of March 31, 2007. These federal and state net operating losses and credit carryforwards are available, subject to the discussion in the following paragraph, to offset future taxable income and, if not utilized, will begin to expire in varying amounts between 2016 and 2027. Our income before income tax in fiscal 2007 was $1.2 million. If we maintain this level of income before income tax in future fiscal years, we would expect to utilize our federal net operating loss carryforwards in less than six fiscal years, or over a shorter period if our income before income tax increases further. State net operating loss carryforwards would be utilized over approximately 10 fiscal years or a shorter period if our income before income taxes increases further.

Generally, a change of more than 50% in the ownership of a company's stock, by value, over a three-year period constitutes an ownership change for federal income tax purposes. An ownership change may limit a company's ability to use its net operating loss carryforwards attributable to the period prior to such change. Past issuances and transfers of our stock may have been sufficient to qualify as an ownership change for this purpose. As a result, if we continue to earn taxable income, our ability to use our net operating loss

carryforwards attributable to the period prior to any such ownership change to offset taxable income may be or become subject to limitations, which could potentially result in increased future tax liability for us.

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

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

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

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

Table of Contents

Results of Operations

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

	Fiscal Year Ended March 31, (dollars in thousands)								Three Months Ended June 30, (unaudited)				
	2005		2006			2007			2006		2007		
	Amount	% of Revenue	Amount	% of Revenue	% Change	Amount	% of Revenue	% Change	Amount	% of Revenue	Amount	% of Revenue	% Change
Revenue	$ 21,783	100.0%	$ 33,280	100.0%	52.8%	$ 48,183	100.0%	44.8%	$ 9,680	100.0%	$ 16,721	100.0%	72.7%
Cost of revenue	14,043	64.5%	22,524	67.7%	60.4%	32,487	67.4%	44.2%	6,255	64.6%	11,118	66.5%	77.7%
Gross profit	7,740	35.5%	10,756	32.3%	39.0%	15,696	32.6%	45.9%	3,425	35.4%	5,603	33.5%	63.6%
General and administrative expenses	3,461	15.9%	4,875	14.6%	40.9%	6,162	12.8%	26.4%	1,269	13.1%	1,571	9.4%	23.8%
Sales and marketing expenses	5,416	24.9%	5,991	18.0%	10.6%	6,459	13.4%	7.8%	1,518	15.7%	2,111	12.6%	39.1%
Research and development expenses	213	1.0%	1,171	3.5%	449.8%	1,078	2.2%	(7.9%)	211	2.2%	437	2.6%	107.1%
Income (loss) from operations	(1,350)	(6.2%)	(1,281)	(3.8%)	5.1%	1,997	4.1%	NM	427	4.4%	1,484	8.9%	247.5%
Interest expense	570	2.6%	1,051	3.2%	84.4%	1,044	2.2%	0.7%	253	2.6%	295	1.8%	16.6%
Dividend and interest income	3	0.0%	5	0.0%	66.7%	201	0.4%	NM	1	0.0%	40	0.2%	NM
Income (loss) before income taxes and cumulative effect of change in accounting principle	(1,917)	(8.8%)	(2,327)	(7.0%)	(21.4%)	1,154	2.4%	NM	175	1.8%	1,229	7.4%	602.3%
Income tax expense (benefit)	(702)	(3.2%)	(762)	(2.3%)	8.5%	225	0.5%	NM	34	0.4%	481	2.9%	
Net income (loss) before cumulative change in accounting principle	(1,215)	(5.6%)	(1,565)	(4.7%)	(28.8%)	929	1.9%	NM	141	1.5%	748	4.5%	430.5%
Cumulative effect of change in accounting principle, net of tax	(57)	(0.3%)	—	0.0%	100.0%	—	0.0%	NM	—	0.0%	—	0.0%	—
Net income (loss)	(1,272)	(5.8%)	(1,565)	(4.7%)	(23.0%)	929	1.9%	NM	141	1.5%	748	4.5%	430.5%
Accretion of redeemable preferred stock and preferred stock dividends	(104)	(0.5%)	(3)	(0.0%)	97.1%	(201)	(0.4%)	NM	(1)	(0.0%)	(75)	(0.4%)	NM
Conversion of preferred stock	(972)	(4.5%)	—	0.0%	100.0%	(83)	(0.2%)	100%	—	0.0%	—	0.0%	0.0%
Net income (loss) attributable to common shareholders	$ (2,348)	(10.8%)	$ (1,568)	(4.7%)	33.2%	$ 645	1.3%	NM	$ 140	1.4%	$ 673	4.0%	380.7%

NM = Not meaningful.

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

Revenue. Our revenue increased for our fiscal 2008 first quarter from our fiscal 2007 first quarter primarily as a result of increased sales of our HIF lighting systems and related services. As of June 30, 2007, we had a backlog of firm purchase orders of approximately $11.3 million, compared to approximately $10.1 million as of March 31, 2007. We generally expect this level of firm purchase order backlog to be converted into revenue within the following quarter. 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 cost of revenue increased for our fiscal 2008 first quarter compared to our fiscal 2007 first quarter principally because of our higher sales volumes, as well as increased production personnel costs as we increased the number of our production employees to support our sales growth.

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

Operating Expenses

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

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

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

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

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

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

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

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

Revenue. Our fiscal 2007 revenue increased from our fiscal 2006 revenue primarily as a result of increased sales of our HIF lighting systems and related services, including a substantial increase in our retrofit project sales to multiple location large commercial and industrial end users as we began to recognize the benefits of our sales process.

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

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

Operating Expenses

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

administrative expenses decreased as our revenue growth exceeded growth in our general and administrative expenses.

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

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

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

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

Income Taxes. As a result of our profitability in fiscal 2007 compared to our net loss in fiscal 2006, we recognized an income tax expense in fiscal 2007 compared to an income tax benefit in fiscal 2006. Our effective tax rate was 19.5% in fiscal 2007 compared to a negative 32.7% in fiscal 2006. Our effective tax rate in fiscal 2007 was favorably impacted by federal research and development tax credits, as well as state income tax credits from jobs creation. These benefits were partially offset by the impact of state income taxes.

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

Conversion of Preferred Stock. In fiscal 2007, we recognized the estimated fair market value of the premium paid to holders of Series A preferred shares upon the induced conversion into shares of our common

stock. There were no conversions of Series A preferred shares in fiscal 2006.

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

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

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

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

Operating Expenses

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

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

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

research and development expenses decreased in fiscal 2006 compared to fiscal 2005 as our revenue growth exceeded the growth in our research and development expenses.

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

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

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

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

Quarterly Results of Operations

The following tables present our unaudited quarterly results of operations for the last nine fiscal quarters in the period ended June 30, 2007 (i) on an absolute dollar basis (in thousands) and (ii) as a percentage of revenue for the applicable fiscal quarter. You should read the following tables in conjunction with our consolidated financial statements and related notes contained elsewhere in this prospectus. In our opinion, the unaudited financial information presented below has been prepared on the same basis as our audited consolidated financial statements, and includes all adjustments, consisting only of normal recurring adjustments, that we consider necessary for a fair presentation of our operating results for the fiscal quarters presented. Operating results for any fiscal quarter are not necessarily indicative of the results for any future fiscal quarters or for a full fiscal year.

	For the Three Months Ended								
	June 30, 2005	Sept 30, 2005	Dec 31, 2005	Mar 31, 2006	June 30, 2006	Sept 30, 2006	Dec 31, 2006	Mar 31, 2007	June 30, 2007
	(in thousands, unaudited)								
Revenue	$ 5,004	$ 7,984	$ 8,898	$ 11,394	$ 9,680	$ 10,631	$ 13,563	$ 14,309	$ 16,721
Cost of revenue	3,799	5,509	5,759	7,457	6,255	7,378	9,200	9,654	11,118
Gross profit	1,205	2,475	3,139	3,937	3,425	3,253	4,363	4,655	5,603
General and administrative expenses	966	1,100	1,509	1,300	1,269	1,336	1,614	1,943	1,571
Sales and marketing expenses	1,690	1,376	1,369	1,556	1,518	1,608	1,551	1,782	2,111
Research and development expenses	239	330	269	333	211	229	257	381	437
Income (loss) from operations	(1,690)	(331)	(8)	748	427	80	941	549	1,484
Interest expense	215	228	376	232	253	260	261	270	295
Dividend and interest income	—	—	1	4	1	11	16	173	40
Income (loss) before income taxes	(1,905)	(559)	(383)	520	175	(169)	696	452	1,229
Income tax expense (benefit)	(623)	(183)	(126)	170	34	(33)	136	88	481
Net income (loss)	(1,282)	(376)	(257)	350	141	(136)	560	364	748
Accretion of redeemable preferred stock and preferred stock dividends	0	(1)	(1)	(1)	(1)	(45)	(79)	(76)	(75)
Conversion of preferred stock	—	—	—	—	—	—	—	(83)	—
Net income (loss) attributable to common shareholders	$ (1,282)	$ (377)	$ (258)	$ 349	$ 140	$ (181)	$ 481	$ 205	$ 673

Table of Contents

	For the Three Months Ended								
	June 30, 2005	Sept 30, 2005	Dec 31, 2005	Mar 31, 2006	June 30, 2006	Sept 30, 2006	Dec 31, 2006	Mar 31, 2007	June 30, 2007
					(unaudited)				
Revenue	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Cost of revenue	75.9%	69.0%	64.7%	65.4%	64.6%	69.4%	67.8%	67.4%	66.5%
Gross margin	24.1%	31.0%	35.3%	34.6%	35.4%	30.6%	32.2%	32.6%	33.5%
General and administrative expenses	19.3%	13.8%	17.0%	11.4%	13.1%	12.6%	11.9%	13.6%	9.4%
Sales and marketing expenses	33.8%	17.2%	15.4%	13.7%	15.7%	15.1%	11.4%	12.5%	12.6%
Research and development expenses	4.8%	4.1%	3.0%	2.9%	2.2%	2.1%	1.9%	2.7%	2.6%
Income (loss) from operations	(33.8%)	(4.1%)	(0.1%)	6.6%	4.4%	0.8%	6.9%	3.8%	8.9%
Interest expense	4.3%	2.9%	4.2%	2.0%	2.6%	2.4%	1.9%	1.8%	1.7%
Dividend and interest income	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	1.2%	0.2%
Income (loss) before income taxes	(38.1%)	(7.0%)	(4.3%)	4.6%	1.8%	(1.6%)	5.1%	3.2%	7.4%
Income tax expense (benefit)	(12.5%)	(2.3%)	(1.4%)	1.5%	0.3%	(0.3%)	1.0%	0.7%	2.9%
Net income (loss)	(25.6%)	(4.7%)	(2.9%)	3.1%	1.5%	(1.3%)	4.1%	2.5%	4.5%
Accretion of redeemable preferred stock and preferred stock dividends	0.0%	(0.0%)	(0.0%)	(0.0%)	(0.0%)	(0.4%)	(0.6%)	(0.5%)	(0.5%)
Conversion of preferred stock	—	—	—	—	—	—	—	(0.6%)	—
Net income (loss) attributable to common shareholders	(25.6%)	(4.7%)	(2.9%)	3.1%	1.5%	(1.7%)	3.5%	1.4%	4.0%

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

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

Liquidity and Capital Resources

Overview

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

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

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

Cash Flows

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

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

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

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

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

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

Cash Flows Related to Financing Activities. Cash used in financing activities was $0.7 million for our fiscal 2008 first quarter compared to cash provided by financing activities of $0.2 million for our fiscal 2007 first quarter. This change was due

to $0.7 million of payments on our long-term debt and revolving credit facility, offset by $0.4 million in net proceeds from common stock option and warrant exercises.

Cash flows provided by financing activities in fiscal 2007 were $6.4 million, primarily consisting of: (i) the sale of our Series C preferred stock, resulting in net proceeds of $4.8 million; (ii) the exercise of common stock options, resulting in net proceeds of $0.8 million; (iii) the sale of our Series B preferred stock, resulting in net proceeds of $0.4 million; (iv) borrowings under our revolving credit agreement, resulting in net proceeds of $1.2 million; and (v) the impact of deferred taxes on our stock-based compensation, resulting in a tax benefit of $0.4 million. These cash flows were partially offset by $1.2 million of long-term debt repayments.

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

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

Working Capital

Our net working capital as of June 30, 2007 was $14.3 million, consisting of $26.5 million in current assets and $12.1 million in current liabilities. Our net working capital as of June 30, 2006 was $7.5 million, consisting of $15.3 million in current assets and $7.8 million in current liabilities. We expect to continue to increase our inventories of raw materials and components to support our anticipated increase in sales volumes and to reduce our risk of unexpected raw material or component shortages or supply interruptions. We attempt to maintain a two month supply of on-hand inventory of purchased components and raw materials to meet anticipated demand. We also expect that our accounts receivable and payables will continue to increase as a result of our anticipated revenue growth and increased inventory levels. We had available borrowing capacity under our revolving credit facility of $5.8 million as of June 30, 2007, based upon our revolving credit facility borrowing base formula described below. The net proceeds of our recent convertible note placement will help support our ongoing working capital needs, as will the net proceeds from this offering. Pending final application, these net proceeds will be invested in short-term, interest-bearing, investment-grade securities. See "Use of Proceeds."

We believe that our existing cash and cash equivalents, our anticipated cash flows from operating activities, our borrowing capacity under our revolving credit facility and the net proceeds from our recent convertible subordinated note placement and this offering will be sufficient to meet our anticipated cash needs for at least the near term. Our future working capital requirements will depend on many factors, including the rate of our anticipated revenue growth, our introduction of new products and services and enhancements to our existing energy management system, the timing and extent of our planned expansion of our sales force and other administrative and production personnel, the timing and extent of our planned advertising and promotional campaign, and our research and development activities. To the extent that our cash and cash equivalents, cash flows from operating activities and net proceeds from our recent convertible subordinated note placement and this offering are insufficient to fund our future activities, we may need to raise additional funds through additional

public or private equity or debt financings. We also may need to raise additional funds in the event we decide to acquire product lines, businesses or technologies. In the event additional funding is required, we may not be able to obtain the financing on terms acceptable to us, or at all.

Indebtedness

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

In addition to our revolving credit facility, we also have other existing long-term indebtedness and obligations under various debt instruments and capital lease obligations, including pursuant to a bank term note, a bank first mortgage, a debenture to a community development organization, a federal block grant loan, a city industrial revolving loan and various capital leases and equipment purchase notes. As of June 30, 2007, the total amount of principal outstanding on these various obligations was $5.1 million. These obligations have varying maturity dates between 2010 and 2024 and bear interest at annual rates of between 2.0% and 16.2%. The weighted average annual interest rate of such obligations as of June 30, 2007 was 8.1%. Based on interest rates in effect as of June 30, 2007, we expect that our total debt service payments on such obligations for fiscal 2008, including scheduled principal, lease and interest payments, will approximate $1.0 million. All of these obligations are subject to security interests on our assets. Several of these obligations have covenants, such as customary financial and restrictive covenants, including maintenance of a minimum debt service coverage ratio; a minimum current ratio; minimum net worth requirements; limitations on executive compensation and advances; limits on capital expenditures; limits on distributions; and restrictions on our ability to make loans, advances, extensions of credit, investments, capital contributions, incur additional indebtedness, create liens, guaranty obligations, merge or consolidate or undergo a change in control. As of June 30, 2007, we were in compliance with all such covenants, as amended.

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

Capital Spending

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

Contractual Obligations

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

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

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

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

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

Off-Balance Sheet Arrangements

We have no off-balance sheet arrangements.

Internal Control Over Financial Reporting

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

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

A number of these significant deficiencies identified in connection with the audit of our fiscal 2007 consolidated financial statements were previously identified as material weaknesses or significant deficiencies in connection with the audit of our fiscal 2006 and 2005 consolidated financial statements, including numbers (i), (ii), (v), (vii), (x) in the foregoing paragraph.

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

To improve our internal control over our financial reporting process and remediate and correct the significant deficiencies identified in connection with our fiscal 2007 audit, we have hired a director of business risk who has experience with the requirements of Section 404 of Sarbanes-Oxley and we are in the process of hiring an internal audit manager. In order to comply with Section 404, we have already started to review our processes and implement new systems and controls to help us remediate the significant deficiencies noted above. In particular, we have begun performing system process evaluation and testing of our internal controls over financial reporting to better allow our management and auditors to assess the effectiveness of our internal controls over financial reporting so

that our independent auditors can deliver a report to us addressing these assessments. We are not required to be compliant under Section 404 of Sarbanes-Oxley until the audit of our fiscal 2009 consolidated financial statements. See "Risk Factors – Risks Relating to the Offering – Our failure to maintain adequate internal control over financial reporting in accordance with Section 404 of Sarbanes-Oxley or to prevent or detect material misstatements in our annual or interim consolidated financial statements in the future could result in inaccurate financial reporting, sanctions or securities litigation or otherwise harm our business."

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

Inflation

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

Quantitative and Qualitative Disclosure About Market Risk

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

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

Interest Rate Risk. As of June 30, 2007, $6.7 million of our $10.7 million of outstanding debt was at floating interest rates. An increase of 1.0% in the prime rate would result in an increase in our interest expense of approximately $67,000 per year.

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

Critical Accounting Policies and Estimates

The discussion and analysis of our financial condition and results of operations is based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of our consolidated financial statements requires us to make certain estimates and judgments that affect our reported assets, liabilities, revenue and expenses, and our related disclosure of contingent assets and liabilities. We re-evaluate our estimates on an ongoing basis, including those related to revenue recognition, inventory valuation, the collectibility of receivables, stock-based compensation and income taxes. We base our estimates on historical experience and on various assumptions that we believe to be reasonable under the circumstances. Actual results may differ from these estimates. A summary of our critical accounting policies is set forth below.

Revenue Recognition. We recognize revenue when the following criteria have been met: there is persuasive evidence of an arrangement; delivery has occurred and title has passed to the customer; the price is fixed and determinable and no further obligation exists; and collectibility is reasonably assured. The majority of our revenue is recognized when products are shipped to a customer or when services are completed and acceptance provisions, if any, have been met. In certain of our contracts, we provide multiple deliverables. We record the revenue associated with each element of these arrangements based on its fair value, which is generally the price charged for the element when sold on a standalone basis. Since we contract with vendors for installation services to our customers, we determine the fair value of our installation services based on negotiated pricing with such vendors. Additionally, we offer a sales program under which we finance the customer’s purchase. Our contracts under this sales program are typically one year in duration and, at the completion of the initial one-year term, provide for (i) four automatic one-year renewals at agreed upon pricing; (ii) an early buyout for cash; or (iii) the return of the equipment at the customer’s expense. Upon completion of the installation, we sell the future lease cash flows and residual rights to the equipment on a non-recourse basis to an unrelated third party finance company in exchange for cash and future payments. We recognize revenue based on the net present value of the future payments from the third party finance company upon completion of the project.

Deferred revenue or deferred costs are recorded for project sales consisting of multiple elements, where the criteria for revenue recognition have not been met. The majority of our deferred revenue relates to prepaid services to be provided at determined future dates. As of June 30, 2006 and 2007, our deferred revenue was $0.1 million and $0.2 million, respectively. In the event that a customer project contains multiple elements that are not sold on a standalone basis, we defer all related revenue and costs until the project is complete. Deferred costs on product are recorded as a current asset as project completions occur within a few months. As of June 30, 2006 and 2007, our deferred costs were $0.4 million and $0.3 million, respectively.

Inventories. Inventories are stated at the lower of cost or market value and include raw materials, work in process and finished goods. Items are removed from inventory using the first-in, first-out method. Work in process inventories are comprised of raw materials that have been converted into components for final assembly. Inventory amounts include the cost to manufacture the item, such as the cost of raw materials and related freight, labor and other applied overhead costs. We review our inventory for obsolescence and marketability. If the estimated market value, which is based upon assumptions about future demand and market conditions, falls below cost, then the inventory value is reduced to its market value. Our inventory obsolescence reserves were $0.4 million, $0.4 million and $0.5 million at March 31, 2006, March 31, 2007 and June 30, 2007, respectively.

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

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

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

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

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

Both prior to and following our April 1, 2006 adoption of SFAS 123(R), the fair value of each option for financial reporting purposes was estimated on the date of grant using the Black-Scholes option-pricing model with the following assumptions used for grants:

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

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

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

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

In fiscal 2005 and 2006, we estimated volatility based upon an internal computation analyzing historical volatility based on our share transaction data and share valuations established by our compensation committee and board of directors, which we believe collectively provided us with a reasonable basis for estimating volatility. In fiscal 2007, we determined volatility based on an analysis of a peer group of public companies. We intend to continue to consistently use the same methodology and

group of publicly traded peer companies as we used in fiscal 2007 to determine volatility in the future until sufficient information regarding the volatility of our share price becomes available or the selected companies are no longer suitable for this purpose.

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

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

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

Date of grant	Number of shares underlying options granted	Exercise price per share(1)	Fair market value per share(2)	Financial reporting intrinsic value per share(3)
April 2006	40,000	$2.25 – 2.50	$2.20	$ —
May 2006	40,000	2.50	2.20	—
June 2006	150,000	2.50	2.20	—
July 2006	27,000	2.50	2.20	—
August 2006	5,000	2.50	2.20	—
September 2006	2,000	2.75	2.20	—
October 2006	2,000	2.75	2.20	—
November 2006	35,000	2.75	2.20	—
December 2006	920,000	2.20	2.20	—
March 2007	436,500	2.20	4.15	1.95
April 2007	50,000	2.20	4.15	1.95
July 2007	429,432	4.49	4.49	—

(1) The exercise price per share was at least equal to the fair market value of our common stock on each applicable stock option grant date as determined by our compensation committee and board of directors on the basis described in the paragraphs below. For option grants made between April 2006 and November 2006, the per share exercise price was established principally based on the per share issuance price of our then recent preferred stock placements to third-party investors and, in our opinion, such per share exercise prices were above the then current fair market value of our common stock.

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

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

For options granted between April 2006 and November 2006, our compensation committee and board of directors established the exercise price of such stock options principally

based on the per share issuance price of our then recent preferred stock placements to third-party investors and, in our opinion, such per share exercise prices were above the then current fair market value of our common stock otherwise reflected in independent third party sales of our common stock.

We engaged Wipfli LLP, an independent third party valuation firm, or Wipfli to perform an independent valuation analysis of the fair market value of our common stock as of November 30, 2006. Wipfli's report assessed the fair market value of our common stock at $2.20 per share as of such date. Wipfli's analysis was prepared in accordance with the methodology prescribed by the AICPA Practice Aid *Valuation of Privately-Held Company Equity Securities Issued as Compensation*, or the AICPA Practice Aid and calculated its final valuation using the Probability Weighted Expected Return Method. The Wipfli report took into account our issuance in July and September 2006 of a total of 1.8 million shares of our Series C preferred stock at a price of $2.75 per share. Wipfli recognized that the Series C preferred stock provided for certain rights and preferences not otherwise available to shareholders of our common stock, including a 6% cumulative dividend, a senior liquidation preference to our Series B preferred stock and common stock, a conversion right on a share-for-share basis into common stock at the holders' option or upon certain qualified events, and a redemption right if certain liquidity events were not achieved within five years. Wipfli's assessment noted that recent transactions had taken place involving the sale of common and preferred stock among our shareholders, as well as our issuances of new shares, at prices between $2.00 and $3.00 per share. The report took into account that our sales had increased significantly over the past four years, but that our profitability had decreased significantly in fiscal 2005 and 2006, resulting in net losses in both fiscal years. However, the report noted that we had shown an increase in profitability for the 12 months prior to November 30, 2006. Wipfli noted that we had experienced difficulty obtaining our revolving credit facility in fiscal 2006, but that our financial situation had improved in fiscal 2007. Wipfli believed that, due to the borrowing base limitations in our revolving credit facility, we could continue to experience cash flow difficulties as we continued to grow, depending upon our level of profitability and working capital needs.

For options granted from December 2006 to the June 18, 2007 release date of Wipfli's April 30, 2007 valuation described below, our compensation committee and board of directors considered various sources to establish the fair market value of our common stock for purposes of establishing the exercise price of such stock options, including: (i) independent third-party sales of our common stock; (ii) transactions in which we issued shares of our common and preferred stock to third-party investors; and (iii) Wipfli's November 30, 2006 independent valuation described above. Our compensation committee and our board determined that there were no other significant events that had occurred during this period that would have given rise to a change in the fair market value of our common stock from these indicia of fair market value and that the exercise prices of stock options granted during this period were at least equal to our common stock's fair market value on each applicable grant date.

We engaged Wipfli to perform another valuation analysis of the fair value of our common stock as of April 30, 2007. Wipfli's analysis was prepared in accordance with the methodology prescribed by the AICPA Practice Aid. Wipfli considered a variety of valuation methodologies and economic outcomes and calculated its final valuation using the Probability Weighted Expected Return Method. The Wipfli analysis took into account that, in April 2007, we had signed an arm's-length negotiated letter of intent to issue a new series of preferred stock to institutional investors on terms similar to our Series C preferred stock, contemplating gross proceeds of approximately $9.0 million at a per share price of $4.49.

Wipfli's analysis stated that the proposed per share price of the new series of preferred stock reflected liquidation preferences and dividend rights not otherwise available to our shareholders of common stock. The analysis also noted that transactions involving the sale of our common stock among shareholders within the prior six months had occurred at prices between $2.50 and $3.00 per share. Wipfli's analysis took into account that we had experienced liquidity and profitability difficulties in fiscal 2005 and 2006, but that we had recovered in fiscal 2007 and that, based on our financial condition and growth potential, our outlook from a financial perspective was positive. In accordance with the AICPA Practice Aid, Wipfli's valuation then gave further recognition to our consideration of a potential initial public offering, while also considering the economic value of other potential strategic alternatives or economic outcomes that might occur. In this regard, Wipfli analyzed various preliminary valuation data received in May 2007 by our board of directors in connection with our potential initial public offering. Wipfli assessed our probability of an initial public offering at 50%, our probability of completing a strategic alternative at 40%, and our probability of our remaining a private company at 10%. Based on such relative probabilities and (i) preliminary indications of the potential increase in value of our common stock resulting from a potential initial public offering; (ii) the potential increase in value of our common stock from other potential strategic alternatives; (iii) the value of our common stock resulting from remaining a privately-held company; and (iv) the per share value implied by the arm's-length negotiated letter of intent related to our proposed new series of preferred stock, Wipfli concluded that the fair value of our common stock as of April 30, 2007 was $4.15 per share.

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

On July 27, 2007, we granted stock options for 429,432 shares at an exercise price of $4.49 per share. Our compensation committee and board of directors determined that the exercise price of such stock options was at least equal to the fair market value of our common stock as of such date primarily based on the $4.49 per share conversion price of our substantially simultaneous subordinated convertible note placement. Our compensation committee and board of directors based this determination on the fact that the valuation of our common stock reflected in such conversion price was the result of significant arm's-length negotiations with sophisticated institutional investors, led by an indirect affiliate of GEEFS, and took into account the possibility of our potential near-term initial public offering. In determining that such exercise price was at least equal to the fair market value of our common stock on such date, our compensation committee and board of directors also took into account Wipfli's April 30, 2007 valuation of our common stock at $4.15 per share, which also took into account Wipfli's assessed 50% possibility of our potential initial public offering and the potential resulting value of our common stock. Our compensation committee and board of directors determined that there were no other significant events that had

occurred during this period that would have given rise to a change in the fair market value of our common stock and that, despite the increasing possibility of a near-term initial public offering, such potential offering remained contingent upon many variable factors, including: (i) our financial results; (ii) investor interest in our company; (iii) economic and stock market conditions generally and specifically as they may impact us, participants in our industry or comparable companies; (iv) changes in financial estimates and recommendations by securities analysts following participants in our industry or comparable companies; (v) earnings and other announcements by, and changes in market evaluations of, us, participants in our industry or comparable companies; (vi) changes in business or regulatory conditions affecting us, participants in our industry or comparable companies; and (vii) announcements or implementation by our competitors or us of acquisitions, technological innovations or new products.

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

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

Common Stock Warrants. We issued common stock warrants to placement agents in connection with our various stock offerings and services rendered in fiscal 2005, 2006 and 2007. The value of warrants recorded as offering costs was $0.4 million, $30,000 and $18,000 in fiscal 2005, 2006 and 2007, respectively. The value of warrants recorded for services was $6,000 in fiscal 2006. As of March 31, 2007 and June 30, 2007, warrants were outstanding to purchase a total of 1,109,390 and 954,390 shares of our common stock at weighted average exercise prices of $2.24. These warrants were valued using a Black-Scholes option pricing model with the following assumptions: (i) contractual terms of 5 years; (ii) weighted average risk-free interest rates of 4.32% to 4.62%; (iii) expected volatility ranging between 39% and 60%; and (iv) dividend yields of 0%.

Accounting for Income Taxes. As part of the process of preparing our consolidated financial statements, we are required to determine our income taxes in each of the jurisdictions in which we operate. This process involves estimating our actual current tax expenses, together with assessing temporary differences resulting from recognition of items for income tax and accounting purposes. These differences result in deferred tax assets and liabilities, which are included within our consolidated balance sheet. We must then assess the likelihood that our deferred tax assets will be recovered from future taxable income and, to the extent we believe that recovery is not likely, establish a valuation allowance. To the extent we establish a valuation allowance or increase this allowance in a period, we must reflect this increase as an expense within the tax provision in our statements of operations.

Our judgment is required in determining our provision for income taxes, our deferred tax assets and liabilities, and any valuation allowance recorded against our net deferred tax assets. We continue to monitor the realizability of our deferred tax assets and adjust the valuation allowance accordingly. We have determined that a valuation allowance against our net deferred tax assets was not necessary as of March 31, 2006 or 2007. In making this determination, we considered all available positive and negative evidence, including projected future taxable income, tax planning strategies and recent financial performance.

As of March 31, 2007, our federal and state net operating loss carryforwards were $5.1 million. Included in the $5.1 million loss carryforwards are $3.0 million of federal and $2.7 million of state expenses that are associated with the exercise of non-qualified stock options. The benefit from the net operating losses created from these expenses will be recorded as a reduction in taxes payable and an increase in additional paid in capital when the benefits are realized.

In July 2006, the FASB issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes – an Interpretation of FASB Statement No. 109*, or FIN 48, which became effective for us on April 1, 2007. FIN 48 prescribes a recognition threshold and a measurement attribute for the financial statement recognition and measurement of tax positions taken or expected to be taken in a tax return. For those benefits to be recognized, a tax position must be more-likely-than-not to be sustained upon examination by taxing authorities. The adoption of FIN 48 resulted in an increase of $0.2 million to our accumulated deficit as of April 1, 2007. As of the adoption date, the balance of gross unrecognized tax benefits was $1.6 million, of which $0.4 million, if recognized, would affect our effective tax rate. Of this amount, $60,000 and $0.3 million were recorded as current and deferred tax liabilities, respectively. The remaining amount of unrecognized tax benefits of $1.2 million relates to net operating loss carryforwards created by the exercise of non-qualified stock options. The benefit from the net operating losses created from these expenses will be recorded as a reduction in taxes payable and a credit to additional paid-in capital in the period in which the benefits are realized. The amount of unrecognized tax benefits did not materially change as of June 30, 2007. It is expected that the amount of unrecognized tax benefits may change in the next 12 months; however, quantification of such change cannot be estimated. We recognize penalties and interest related to unrecognized tax benefits in income tax expense. Interest and penalties are immaterial as of the date of adoption and are included in unrecognized tax benefits. Due to the existence of net operating loss carryforwards, all years since 2000 are open for examination by taxing authorities.

Recent Accounting Pronouncements

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

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

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

BUSINESS

Overview

We design, manufacture and implement energy management systems consisting primarily of high-performance, energy efficient lighting systems, controls and related services. Our energy management systems deliver energy savings and efficiency gains to our commercial and industrial customers without compromising their quantity or quality of light. The core of our energy management system is our HIF lighting system that we estimate cut our customers' lighting-related electricity costs by approximately 50%, while increasing their quantity of light by approximately 50% and improving lighting quality when replacing HID fixtures. Our customers typically realize a two to three year payback period from electricity cost savings generated by our HIF lighting systems without considering utility incentives or government subsidies. We have sold and installed our HIF fixtures in over 1,800 facilities across North America, representing over 451 million square feet of commercial and industrial building space, including for 73 Fortune 500 companies, such as General Electric Co., Kraft Foods Inc., Newell Rubbermaid Inc., OfficeMax, Inc., SYSCO Corp., and Toyota Motor Corp.

Our energy management system is comprised of: our HIF lighting system; our InteLite intelligent lighting controls; our Apollo Light Pipe, which collects and focuses daylight and consumes no electricity; and integrated energy management services. We believe that the implementation of our complete energy management system enables our customers to further reduce electricity costs, while permanently reducing base and peak load electricity demand. From December 1, 2001 through June 30, 2007, we have installed over 850,000 HIF lighting systems for our commercial and industrial customers. We are focused on leveraging this installed base to expand our customer relationships from single-site implementations of our HIF lighting systems to enterprise-wide roll-outs of our complete energy management system. We are also expanding our customer base by executing our systematized, multi-step sales process.

Our annual revenue has increased from $12.4 million in fiscal 2004 to $48.2 million in fiscal 2007. For the three months ended June 30, 2007, we recognized revenue of $16.7 million, compared to $9.7 million for the three months ended June 30, 2006. We estimate that the use of our HIF fixtures has resulted in cumulative electricity cost savings for our customers of approximately $224 million and has reduced base and peak load electricity demand by approximately 243 MW through June 30, 2007. We estimate that this reduced electricity consumption has reduced associated indirect carbon dioxide emissions by approximately 2.8 million tons over the same period.

For a description of the assumptions behind our calculations of customer kilowatt demand reduction, customer kilowatt hours and electricity costs saved and reductions in indirect carbon dioxide emissions associated with our products used throughout this prospectus, see notes (6) through (11) under "Summary Historical Consolidated and Pro Forma Financial Data and Other Information."

Our Industry

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

Today's Electricity Market

Growing Demand for Electricity. Demand for electricity in the United States has grown steadily in recent years and is expected to grow significantly for the foreseeable future. According to the EIA, $298 billion was spent on electricity in 2005 in the United States, up from $203 billion in 1994, an increase of 47%. Additionally, the EIA predicts consumption will increase from 3,821 billion kWh in 2005 to 5,478 billion kWh in 2030, or approximately 43%. As a result of this rapidly growing demand, the National Electric Reliability Council, or NERC, expects capacity margins to drop below minimum target levels in Texas, New England, the Mid-Atlantic, the Midwest and the Rocky Mountain area within the next two to three years. We believe that meeting this increasing domestic electricity demand will require either an increase in energy supply through capacity expansion, broader adoption of demand management programs, or a combination of these solutions.

Challenges to Capacity Expansion. Based on the forecasted growth in electricity demand, the EIA estimates that the United States will require 292 GW of new generating capacity between 2006 and 2030 (the equivalent of 584 power plants rated at an average of 500 MW each). According to data provided by the International Energy Agency, or IEA, we estimate that new generating capacity and associated T&D investment will cost approximately $2.2 million per MW.

In addition to the high financial costs associated with adding power generation capacity, there are environmental concerns about the effects of emissions from additional power plants, especially coal-fired power plants. According to the IEA, global energy-related carbon dioxide emissions in 2030 are expected to exceed 2003 levels by 52%, with power generation expected to contribute to about half of this increase. Coal-fired plants, which generate significant emissions of carbon dioxide and other pollutants, are projected by the EIA to account for 54% of the power generation capacity expansion expected in the United States between 2006 and 2030. We believe that concerns over emissions may make it increasingly difficult for utilities to add coal-fired generating capacity. Clean coal energy initiatives are characterized by an uncertain legislative and regulatory framework and would involve substantial infrastructure cost to readily commercialize.

Although the EIA expects clean-burning natural gas-fired plants to account for 36% of total required domestic capacity additions, natural gas production has recently leveled off, which may make it difficult to fuel significant numbers of additional plants, and natural gas prices have approximately doubled in the last decade according to the EIA. Environmentally-friendly renewable energy alternatives, such as solar and wind, generally require subsidies and rebates to be cost competitive and do not provide continuous electricity generation. As a result, we do not believe that renewable energy sources will account for a meaningful percentage of overall electricity supply growth in the near term. We believe these challenges to expanding generating capacity will increase the need for energy efficiency initiatives to meet demand growth.

Underinvestment in Electricity Transmission and Distribution. According to the DOE, the majority of U.S. transmission lines, transformers and circuit breakers – the backbone of the U.S. T&D system – is more than 25 years old. The underinvestment in T&D infrastructure has led to well-documented power reliability issues, such as the August 2003 blackout that affected a number of states in the northeastern United States. To upgrade and maintain the U.S. T&D system, the Electric Power Research Institute, or EPRI, estimates that the United States will need to invest over $110 billion, or $5.5 billion per year, by 2025. This underinvestment is projected to become more pronounced as electricity demand grows. According to NERC, electricity demand is expected to increase by 19% between 2006 and 2015, while transmission capacity is expected to increase by only 7%.

High Electricity Costs. The price of one kWh of electricity (in nominal dollars, including the effects of inflation) has reached historic highs, according to the EIA. Rising electricity prices, coupled with increasing electricity consumption, are resulting in increasing electricity costs, particularly for businesses. Based on the most recent EIA electricity rate and consumption data available, we estimate that commercial and industrial electricity expenditures rose 74% and 21%, respectively, from 1994 to 2005, and rose 9% and 6%, respectively, in comparing monthly expenditures in April 2006 and April 2007. As a result, we believe that

electricity costs are an increasingly significant expense for businesses, particularly those with large commercial and industrial facilities.

Our Market Opportunity

We believe that energy efficiency measures represent permanent, cost-effective and environmentally-friendly alternatives to expanding electricity capacity in order to meet demand growth. The American Council for an Energy Efficient Economy, or ACEEE, estimates that the United States can save up to 24% of its estimated electricity usage from 2000 to 2020 by deploying currently available energy efficiency products and technologies across all sectors, the equivalent of over $70 billion per year in energy savings.

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

- Thirty-two states have, through legislation or regulation, ordered utilities to design and fund programs that promote or deliver energy efficiency.
- Twelve states have implemented, or are in the process of implementing, Energy Efficiency Resource Standards, which generally require utilities to allocate funds to energy efficiency programs to meet near-term savings targets set by state governments or regulatory authorities. These states include California, Texas, Colorado, New Jersey and Illinois.
- In recent years, there has also been an increasing focus on “decoupling,” a regulatory initiative designed to break the linkage between utility kWh sales and revenues, in order to remove the disincentives for utilities to promote load reducing initiatives. Decoupling aims to encourage utilities to actively promote energy efficiency by allowing utilities to generate revenues and returns on investment from employing energy management solutions. To date, nearly half of all states have adopted or are adopting forms of decoupling for gas or electric utilities.

One method utilities use to reduce demand is the implementation of demand response programs. Demand response is a method of reducing electricity usage during periods of peak demand in order to promote grid stability, either by temporarily curtailing end use or by shifting generation to backup sources, typically at customer facilities. While demand response is an effective tool for addressing peak demand, these programs typically reduce consumption for only up to 100 hours per year, based on demand conditions, and require end users to compromise their consumption patterns, for example by reducing lighting or air conditioning.

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

The Role of Lighting

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

Our Solution

50/50 Value Proposition. We estimate our HIF lighting systems generally reduce lighting-related electricity costs by approximately 50% compared to HID fixtures, while increasing the quantity of light by approximately 50% and improving lighting quality. From December 1, 2001 through June 30, 2007, we believe that the use of our HIF fixtures has saved our customers $224 million in electricity costs and reduced their energy consumption by 2.9 billion kWh.

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

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

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

Base and Peak Load Relief for Utilities. The implementation of our energy management systems can substantially reduce our customers' electricity demand during peak and off-peak periods. Since commercial and industrial lighting represents approximately 14% of total energy usage in the United States, our systems can substantially reduce the need for additional base and peak load generation and distribution capacity, while reducing the impact of peak demand periods on the electrical grid. We estimate that the HIF fixtures we have installed from December 1, 2001 through June 30, 2007 have had the effect of reducing base and peak load demand by approximately 243 MW.

Environmental Benefits. By permanently reducing electricity consumption, our energy management systems reduce associated indirect carbon dioxide emissions that would otherwise have resulted from generation of this energy. We estimate that one of our HIF lighting systems, when replacing a standard HID fixture, displaces 0.241 kW of electricity, which, based on information provided by the EPA, reduces a customer's indirect carbon dioxide emissions by approximately 1.8 tons per year. Based on these figures, we estimate that the use of our HIF fixtures has reduced indirect carbon dioxide emissions by 2.8 million tons through June 30, 2007.

Our Competitive Strengths

Compelling Value Proposition. By permanently reducing lighting-related electricity usage, our systems enable our commercial and industrial customers to achieve significant cost savings, without compromising the quantity or quality of light in their facilities. As a result, our energy management systems offer our customers a rapid return on their investment, without relying on government subsidies or utility incentives. We believe our ability to deliver improved lighting quality while reducing electricity costs differentiates our value proposition from other demand management solutions which require end users to alter the time, manner or duration of their electricity use to achieve cost savings.

Large and Growing Customer Base. We have developed a large and growing national customer base, and have installed our products in over 1,800 commercial and industrial facilities across North America. As of June 30, 2007, we have completed or are in the process of completing retrofits in over 400 facilities for our 73 Fortune 500 customers. We believe that the willingness of our blue-chip customers to install our products across multiple facilities represents a significant endorsement of our value proposition, which in turn helps us sell our energy management systems to new customers.

Systematized Sales Process. We have invested substantial resources in the development of our innovative sales process. We primarily sell directly to our end user customers using a systematized multi-step sales process that focuses on our value proposition and provides our sales force with specific, identified tasks that govern their interactions with our customers from the point of lead generation through delivery of our products and services. In addition, we have developed relationships with numerous electrical contractors, who often have significant influence over the choice of lighting solutions that their customers adopt.

Innovative Technology. We have developed a portfolio of 16 U.S. patents primarily covering various elements of our HIF fixtures. We also have nine patents pending that primarily cover various elements of our InteLite controls and our Apollo Light Pipe and certain business methods. To complement our innovative energy management products, we have introduced integrated energy management services to provide our customers with a turnkey solution. We believe that our demonstrated ability to innovate provides us with significant competitive advantages.

Strong, Experienced Leadership Team. We have a strong and experienced senior management team led by our president and chief executive officer, Neal R. Verfuerth, who was the principal founder of our company in 1996 and invented many of the products that form our energy management system. Our senior executive management team of seven individuals has a combined 40 years of experience with our company and a combined 77 years of experience in the lighting and energy management industries.

Efficient, Scalable Manufacturing Process. We have made significant investments in our manufacturing facility since fiscal 2005, including investments in production efficiencies, automated processes and modern production equipment. These investments have substantially increased our production capacity, which we expect will enable us to support substantially increased demand from our current level. In addition, these investments, combined with our modular product design and use of standard components, enable us to reduce our cost of revenue, while better controlling production quality and allowing us to be responsive to customer needs on a timely basis.

Our Growth Strategies

Leverage Existing Customer Base. We are expanding our relationships with our existing customers by transitioning from single-site facility implementations to comprehensive enterprise-wide roll-outs of our HIF lighting systems. For the quarter ended as of June 30, 2007, we had completed or were in the process of completing retrofits at over 100 facilities for our top five customers by revenue for that quarter. We also intend to leverage our large installed base of HIF lighting systems to implement all aspects of our energy management system for our existing customers.

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

Provide Load Relief to Utilities and Grid Operators. Because commercial and industrial lighting represents a significant percentage of overall electricity usage, we believe that as we increase our market penetration, our systems will, in the aggregate, have a significant impact on reducing base and peak load electricity demand. We estimate our HIF lighting systems can generally eliminate demand at a cost of approximately $1.0 million per MW when used in replacement of typical HID fixtures, as compared to the IEA's estimate of approximately $2.2 million per MW of capacity for new generation and T&D assets. We intend to market our energy management systems directly to utilities and grid operators as a lower-cost, permanent alternative to capacity expansion. We believe that utilities and grid operators may increasingly view our systems as a way to help them meet their requirements to provide reliable electric power to their customers in a cost-effective and environmentally-friendly manner. In addition, we believe that potential regulatory decoupling initiatives could increase the amount of incentives that utilities and grid operators will be willing to pay us or our customers for the installation of our systems.

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

Develop New Sources of Revenue. We recently introduced our InteLite and Apollo Light Pipe products to complement our core HIF lighting systems. We are continuing to develop new energy management products and services that can be utilized in connection with our current products, including intelligent HVAC integration controls, direct solar solutions, comprehensive lighting management software and controls and additional consulting services. We are also exploring opportunities to monetize emissions offsets based on our customers' electricity savings from implementation of our energy management systems, and executed our first sale of indirect carbon dioxide emissions offset credits in fiscal 2007.

Products and Services

We provide a variety of products and services that together comprise our energy management system. The core of our energy management system is our HIF lighting system, which we primarily sell under the Compact Modular brand name. We offer our customers the option to build on our core HIF lighting system by adding our InteLite controls and Apollo Light Pipe. Together with these products, we offer our customers a variety of integrated energy management services such as system design, project management and installation. We refer to the combination of these products and services as our energy management system.

Products

The following is a description of our primary products:

The Compact Modular. Our primary product category is our line of high-performance HIF lighting systems, the Compact Modular, which includes a variety of fixture configurations to meet customer specifications. The Compact Modular generally operates at 224 watts per six-lamp fixture, compared to approximately 465 watts for the HID fixtures that it typically replaces. This wattage difference is the primary reason our HIF lighting systems are able to reduce electricity consumption by approximately 50% compared to HID fixtures. Our Compact Modular has a thermally efficient design that allows it to operate at significantly lower temperatures than HID fixtures and most other legacy lighting fixtures typically found in commercial and industrial facilities. Because of the lower operating temperatures of our fixtures, our ballasts and lamps operate more efficiently, allowing more electricity to be converted to light rather than to heat or vibration, while allowing these components to last longer before needing replacement. In addition, the heat reduction provided by installing our HIF lighting systems reduces the electricity consumption required to cool our customers' facilities, which further reduces their electricity costs. The EPRI estimates that commercial buildings use 5% to 10% of their electricity consumption for cooling required to offset the heat generated by lighting fixtures.

In addition, our patented optically-efficient reflector increases light quantity by efficiently harvesting and focusing emitted light. We and some of our customers have conducted tests that generally show that our Compact Modular product line can increase light quantity in footcandles by approximately 50% when replacing HID fixtures. Further, we believe, based on customer data, that our Compact Modular products provide a greater quantity of light per watt than competing HIF fixtures.

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

InteLite Motion Control and Ambient Light Sensors. Our InteLite products include motion control and ambient light sensors which can be programmed to turn individual fixtures on and off based on user-defined parameters regarding motion and/or light levels in a given area. Our InteLite products can be added to our HIF lighting systems at or after installation on a "plug and play" basis by coupling the sensors directly to the modular power pack. Because of their modular design, our InteLite products can be added to our energy management system easily and at lower cost when compared to lighting systems that require similar controls to be included at original installation or retrofitted.

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

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

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

Services

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

- comprehensive site assessment, which includes a review of the current lighting requirements and energy usage at the customer's facility;
- site field verification, where we perform a test implementation of our energy management system at a customer's facility upon request;
- utility incentive and government subsidy management, where we assist our customers in identifying, applying for and obtaining available utility incentives or government subsidies;
- engineering design, which involves designing a customized system to suit our customer's facility lighting and energy management needs, and providing the customer with a written analysis of the potential energy savings and lighting and environmental benefits associated with the designed system;
- project management, which involves our working with the electrical contractor in overseeing and managing all phases of implementation from delivery through installation;
- installation services, which we provide through our national network of qualified installers; and
- recycling in connection with our retrofit installations, where we remove, dispose of and recycle our customer's legacy lighting fixtures.

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

Our warranty policy generally provides for a limited one-year warranty on our products. Ballasts, lamps and other electrical components are excluded from our standard warranty since they are covered by a separate warranty offered by the original equipment manufacturer. We coordinate and process customer warranty inquiries and claims, including inquiries and claims relating to ballast and lamp components, through our customer service department. Additionally, we sometimes satisfy our warranty claims even if they are not covered by our warranty policy as a customer accommodation.

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

Our Customers

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

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

Sales and Marketing

We primarily sell our products directly to commercial and industrial customers using a systematized multi-step process that focuses on our value proposition and provides our sales force with specific, identified tasks that govern their interactions with our customers from the point of lead generation through delivery of our products and services. We intend to significantly expand our sales force in fiscal 2008.

We also sell our products and services indirectly to our customers through their electrical contractors or distributors, or to electrical contractors and distributors who buy our products and resell them to end users as part of an installed project. Even in cases where we sell through these indirect channels, we strive to have our own relationship with the end user customer.

We also sell our products on a wholesale basis to electrical contractors and value-added resellers. We often train our value-added resellers to implement our systematized sales process to more effectively resell our products to their customers. We attempt to leverage the customer relationships of these electrical contractors and value-added resellers to further extend the geographic scope of our selling efforts.

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

We have historically focused our marketing efforts on traditional direct advertising, as well as developing brand awareness through customer education and active participation in trade organizations and energy management seminars. We intend to launch an expanded advertising and marketing campaign to increase the visibility of our brand name and raise awareness of our value proposition.

Competition

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

There are a number of lighting fixture manufacturers that sell HIF products that compete with our Compact Modular product line. Some of these manufacturers also sell HID products that compete with our HIF lighting systems, including Cooper Industries, Ltd., Ruud Lighting, Inc. and Acuity Brands, Inc. These companies generally have large, diverse product lines. Many of these competitors are better capitalized than we are, have strong existing customer relationships, greater name recognition, and more extensive engineering and marketing capabilities. We also compete for sales of our HIF lighting systems with manufacturers and suppliers of older fluorescent technology in the retrofit market.

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

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

Intellectual Property

We have been issued 16 United States patents, and have applied for nine additional United States patents. The patented and patent pending technologies include the following:

- Portions of our core HIF lighting technology (including our optically efficient reflector and some of our thermally efficient fixture I-frame constructions) are patented.
- Our ballast assembly method is patent pending.

- Our light pipe technology and its manufacturing methods are patent pending.
- Our wireless lighting control system is patent pending.
- The technology and methodology of our shared savings program is patent pending.

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

Manufacturing and Distribution

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

We generally maintain a 60-day supply of raw material and purchased component inventory. We manufacture products to order and are typically able to ship most orders within 30 days of our receipt of a purchase order. We contract with transportation companies to ship our products and we manage all aspects of distribution logistics. We generally ship our products directly to the end user.

Research and Development

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

Regulation

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

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

Employees

As of June 30, 2007, we had approximately 180 full-time employees. Our employees are not represented by any labor union, and we have never experienced a work stoppage or strike. We consider our relations with our employees to be good.

Properties

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

Legal Proceedings

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

MANAGEMENT

Executive Officers and Directors

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

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

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

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

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

Michael J. Potts has been our executive vice president since 2003 and has served as a director since 2001. Mr. Potts joined our company as our vice president – technical services in 2001. From 1988 through 2001, Mr. Potts was employed by Kohler Co., one of the world's largest manufacturers of plumbing products. From 1990 through 1999 he held the position of supervising engineer – energy in Kohler's

energy and utilities department. In 2000, Mr. Potts assumed the position of supervisor – energy management group of Kohler's entire corporate energy portfolio, as well as the position of general manager of its natural gas subsidiary. Mr. Potts is licensed as a professional engineer in Wisconsin.

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

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

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

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

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

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

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

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

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

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

Board of Directors

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

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

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

Board Committees

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

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

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

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

EXECUTIVE COMPENSATION

Compensation Discussion and Analysis

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

Overview of Our Executive Compensation Philosophy and Design

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

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

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

Setting Executive Compensation

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

During fiscal 2007, our compensation committee generally was directly involved in setting compensation for our chief executive officer and in determining and approving equity awards for all of our NEOs. In the past, our compensation committee also negotiated our employment agreement with our chief executive officer and president. Historically, our chief executive officer set base salaries and performance targets for our executive officers, other than himself, and negotiated employment agreements with certain of our executive officers. For fiscal 2008 and future years, our compensation committee will have primary responsibility for, among other things, determining our compensation philosophy, evaluating the performance of our executive officers, setting the compensation and other benefits of our executive officers, and administering our incentive compensation plans. Our chief executive officer will make recommendations to our compensation committee regarding the compensation of other executive officers, including his wife, who is our vice

president of operations, and may attend meetings of our compensation committee at which our compensation committee considers the compensation of other executives.

For fiscal 2007, we did not engage in a formal benchmarking process for our compensation programs for NEOs. We based compensation levels in part on informal market surveys and relied on the collective experience of the members of our compensation committee and our chief executive officer, their business judgment and our experiences in recruiting and retaining executives. In anticipation of our becoming a public company and to develop our executive compensation program that will take effect upon the closing of this offering, our compensation committee has engaged Towers Perrin, a nationally-recognized compensation consulting firm, to provide recommendations and advice on our executive and director compensation programs to benchmark our NEOs' and directors' compensation to provide advice on change-of-control severance provisions, and to provide advice regarding initial public offering bonuses for our NEOs. Our compensation committee expects to consider this guidance prior to the closing of this offering. In addition to the advice of Towers Perrin, our compensation committee plans to consider publicly available compensation data from national and regional companies of similar size and growth potential in the lighting and energy management industries.

Changes to Executive Compensation in Connection with Our Initial Public Offering

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

- We propose to enter into new, standardized employment agreements with our NEOs. The agreements will outline the executive's position, base salary and incentive and benefit plan participation during a specified term. The agreements will automatically renew unless either party gives written notice in advance of the expiration of the term. The agreements also will provide for employment protections and severance benefits in the event of certain terminations, and for enhanced protections and benefits following a change of control. Our compensation committee's goals in putting these agreements in place are to secure and retain our executive officers and to ensure stability and structure during our development stage, particularly as a new public company. These employment agreements would replace the existing employment agreements we have with certain of our NEOs.
- We have amended and restated our 2004 Equity Incentive Plan, which will be renamed the Orion Energy Systems, Inc. 2004 Stock and Incentive Awards Plan. Among other things, the amendment and restatement does the following:
  - Increases the shares available under the plan from 1.0 million to 3.5 million shares;
  - Replaces the authority of our chief executive officer to make grants of awards with the ability of our board of directors to delegate to another committee of the board, including a committee comprised solely of our chief executive officer, the ability to make grants of awards, subject to various restrictions and limitations on such delegated authority;
  - Expands the list of performance goals that may be used for IRC Section 162(m) awards;

  - Permits the grant of annual and long-term cash bonus awards for IRC Section 162(m) purposes;
  - Includes a provision requiring that awards be adjusted in certain circumstances, such as in the event of a stock split, to avoid potential adverse accounting consequences;
  - Imposes a 10-year limit on the term of a stock option;
  - Permits cashless exercises of stock options through a broker-dealer;
  - Adds restricted stock units as a form of award available under the plan;
  - Caps the amount of an award that may vest or be paid upon a change of control to the extent needed to preserve our deduction under the IRC "excess parachute payment" rules;
  - Permits awards to be assumed under the plan in the event we acquire another entity;
  - Prohibits the repricing or backdating of stock options and stock appreciation rights; and
  - Expands the list of plan provisions that may be amended only with shareholder approval.
- We have revised and amended our compensation committee charter to reflect our compliance with current rules and guidelines of the Nasdaq Global Market, the Exchange Act, and Sarbanes Oxley.
- We are considering a management cash bonus program connected to the closing of this offering and the post-offering price performance of our common stock.

Elements of Compensation

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

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

Base Salary

We pay our NEOs a base salary to compensate them for services rendered and to provide them with a steady source of income for living expenses throughout the year. We set the base salaries of our NEOs initially through an arm's-length negotiation with each individual executive during the hiring

process, and based upon the individual's level of responsibility and our assessment of the individual's experience, skills and knowledge. Our chief executive officer and our compensation committee review the base salaries of our NEOs (other than our chief executive officer) for potential increases once per year. Our chief executive officer recommends changes in base salaries, and our compensation committee accepts, modifies or rejects our chief executive officer's recommendation, based upon various factors, including the individual NEO's experience, level of responsibility, skills, knowledge, base salary in prior years, contributions to our company in prior years and compensation received through elements other than base salary. Pursuant to the terms of our chief executive officer's employment agreement, his base salary is subject to a guaranteed increase of 8% each year, so the compensation committee did not review his base salary for potential increases along with the other NEOs. Under the terms of our proposed new employment agreement with our chief executive officer, the compensation committee may increase our chief executive officer's base salary from time to time in its discretion, and there is no guaranteed annual increase in his salary. We generally pay lower base salaries than what we believe our competitors may pay for similar positions, based on our informal review of publicly available data, and offer what we believe to be comparatively higher levels of short-term and long-term incentive compensation in order to better link pay with performance.

In fiscal 2007, we increased the base salary of Mr. Scribante from $135,000 to $150,000 in recognition of his increasing responsibilities, experience, knowledge and skill, and in light of his past and expected future contributions to our company. In fiscal 2007, we also increased Mr. Verfuerth's base salary by 8%, from $250,000 to $270,000 and, effective at the beginning of fiscal 2008, we increased Mr. Verfuerth's base salary from $270,000 to $291,600, in each case pursuant to the terms of his existing employment agreement. In fiscal 2008, we increased the base salaries of Ms. Verfuerth and Messrs. Waibel and Potts by $15,000 each, to $165,000, in view of the length of time since their base salaries had last been adjusted and in light of their increasing responsibilities.

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

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

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

Our compensation committee based Mr. Verfuerth's target performance levels on our business plan, setting the targets at what it considered a "stretch" level at the time of grant. Our compensation committee viewed achievement of 75% of the designated targets as more likely to be achieved than target performance. Our compensation committee selected the four performance metrics described above as appropriate measures of key elements of our company's financial performance that were consistent with

the overall goals and objectives of our executive compensation program. The committee allocated Mr. Verfuerth's bonus potential among the metrics seeking to balance metrics relating to growth and profitability in order to reflect the relative importance of each metric to what the committee considered the desired performance of our company consistent with our executive compensation philosophy.

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

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

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

Our compensation committee also awarded discretionary cash bonuses of $20,000 each to Ms. Verfuerth and Messrs. Waibel and Potts in light of their high levels of performance and significant contributions to our company in fiscal 2007.

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

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

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

Long-Term Equity Incentive Compensation

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

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

Our compensation committee made awards for fiscal 2007 in December 2006, when we granted time-vesting stock options to Ms. Verfuerth and Messrs. Verfuerth, Waibel and Potts under our 2004 Equity Incentive Plan. For each of our NEOs who received an option award, we based the decision to grant the option award, and the determination of the amount of the option award, on various factors, including the responsibilities of the individual executive, the executive's past performance and anticipated future contributions, prior option grants (including the vesting schedule of such prior grants), the executive's total cash compensation and the desirability of retaining the executive. Taking these factors into account, our compensation committee initially determined the number of option shares that it would grant to Mr. Verfuerth and then, working from this number, determined the proportionately smaller numbers of option shares that it considered appropriate for grants to our other executives, including our other NEOs. Our compensation committee granted Mr. Verfuerth an option to purchase 250,000 shares of our common stock, Mr. Waibel an option to purchase 100,000 shares, Mr. Potts an option to purchase 75,000 shares, and Ms. Verfuerth an option to purchase 50,000 shares, in each case at an exercise price of $2.20 per share. Following approval of the grants by our compensation committee, our board of directors ratified and approved the compensation committee's actions.

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

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

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

We made all of the option grants to our NEOs in fiscal 2007 under our 2004 Equity Incentive Plan. As required by the 2004 Equity Incentive Plan, all options granted in fiscal 2007 to our NEOs had an exercise price equal to or higher than the fair market value of our common stock on the date of grant as determined at the time of grant by our compensation committee and our board of directors. An exercise

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

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

Retirement and Other Benefits

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

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

In connection with the formation of our company, we loaned Mr. Verfuerth $47,069 to purchase common stock. This note bore interest at 1.46% and was payable upon demand. Interest of $19,883 had accrued on the note through June 30, 2007. Mr. Verfuerth paid this note and all accrued interest in cash on August 2, 2007. In addition, from time to time, we advanced Mr. Verfuerth and Ms. Verfuerth amounts net of payment of the guarantee fees described below. Pursuant to Mr. Verfuerth's existing employment agreement, we forgave $36,667 of these outstanding advances in fiscal 2007, as reflected in the Summary Compensation Table. The outstanding advances were $229,307 as of June 30, 2007 and did

not bear interest. Mr. Verfuerth paid the balance outstanding, net of amounts that we forgave pursuant to his existing employment agreement, in cash on August 2, 2007.

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

Severance and Change of Control Arrangements

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

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

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

In connection with the termination of employment of Messrs. Wadman and Prange in fiscal 2007, we entered into separation agreements providing for certain payments and other benefits. The terms of the separation agreements are described below under "Payments upon Termination or Change of Control." We agreed to provide these payments and other benefits in order to obtain certain

protections for our company, including a release of claims and certain restrictive covenants, and to settle any disputes that might otherwise arise in connection with the termination of employment.

Other Policies

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

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

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

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

Effective April 1, 2006, we adopted the provisions of Statement of Financial Accounting Standards 123(R), *Share Based Payment*, or “SFAS 123(R),” which requires us to expense the estimated fair

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

In fiscal 2007, as in past years, we granted incentive stock options to our NEOs under our 2004 Equity Incentive Plan. We have also granted non-qualified stock options under our equity-based plans. We intend for the incentive stock options that we grant to qualify under Section 422 of the IRC, which would result in favorable tax treatment to the recipient of the option if the recipient complies with various restrictions and disposes of the stock acquired under the option in a so-called “qualifying” disposition. Our company does not receive an income tax deduction with respect to incentive stock options unless there is a disqualifying disposition of the stock acquired under the option. Our compensation committee believes that the favorable tax treatment of incentive stock options to the recipient is a valuable tool in our efforts to provide competitive compensation to attract and retain excellent employees for key positions and therefore, despite the potential loss of income tax deductions to our company, may continue to grant incentive stock options to our executives.

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

Summary Compensation Table for Fiscal 2007

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

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

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

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

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

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

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

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

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

Grants of Plan-Based Awards for Fiscal 2007

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

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

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

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

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

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

Table of Contents

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

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

Outstanding Equity Awards at Fiscal 2007 Year End

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

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

(1) Does not reflect the July 27, 2007 grant of options to purchase 180,958 and 125,974 shares of our common stock, respectively, to Mr. Verfuerth and Ms. Verfuerth described above under "Compensation Discussion and Analysis – Elements of

Compensation — Long-Term Equity Incentive Compensation," because such stock options were not outstanding as of March 31, 2007.

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

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

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

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

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

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

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

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

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

Option Exercises and Stock Vested for Fiscal 2007

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

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

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

Payments Upon Termination or Change of Control

Arrangements in Effect Prior to this Offering

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

Mr. Wadman's employment with us terminated on February 19, 2007. In connection with Mr. Wadman's termination of employment, we entered into a separation agreement, effective July 5, 2007, pursuant to which we agreed to provide him with six months' severance pay and COBRA coverage at our expense for six months. The severance pay was equal to $87,500 in the aggregate, and the value of the COBRA coverage was approximately $5,435. We also agreed to amend Mr. Wadman's existing option agreement, which was exercisable with respect to 20,000 shares of common stock on the date of termination, to permit Mr. Wadman to exercise the option with respect to an additional 20,000 shares during a nine-month period between June 30, 2009 and March 31, 2010 so long as he complies with his obligations under his separation agreement. The amendment also extends the exercise period of the option with respect to the original 20,000 shares beyond the normal expiration date of the option.

Based on an assumed initial public offering price of $ per share (the mid-point of the range set forth on the cover page of this prospectus), we estimate the value of the amendment to his option to be $. In exchange for these benefits, Mr. Wadman agreed to a release of claims and to certain restrictive covenants, including mutual non-disparagement, confidentiality and customary non-competition and non-solicitation restrictions for a period of 20 months following the effective date of his separation agreement. The 20-month period will expire on March 5, 2009.

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

New Employment Agreements

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

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

"Good reason" is defined in the new employment agreements as the occurrence of any of the following without the executive's consent: (i) a material diminution in the executive's base salary; (ii) a material diminution in the executive's authority, duties or responsibilities; (iii) a material diminution in

the authority, duties or responsibilities of the supervisor to whom the executive is required to report; (iv) a material diminution in the budget over which the executive retains authority; (v) a material change in the geographic location at which the executive must perform services; or (vi) a material breach by us of any provision of the employment agreement.

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

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

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

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

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

A change of control under the proposed new employment agreements would generally occur when a third party acquires 20% or more of our outstanding stock, there is a hostile board election, a merger occurs in which our shareholders cease to own 50% of the equity of the successor, or we are liquidated or dissolved, or substantially all of our assets are sold, in each case after the closing of this offering.

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

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

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

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

Equity Plans

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

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

Following this offering, a change of control under our 2004 Stock and Incentive Awards Plan would generally occur when a third party acquires 20% or more of our outstanding stock, there is a hostile board election, a merger occurs in which our shareholders cease to own 50% of the equity of the successor, or we are liquidated or dissolved or substantially all of our assets are sold.

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

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

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

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

Director Compensation

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

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

In October 2006, we paid Messrs. Kackley and Trotter $5,000 each in respect of consulting services they provided us in fiscal year 2007.

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

Director Compensation for Fiscal 2007

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

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

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

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

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

PRINCIPAL AND SELLING SHAREHOLDERS

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

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

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

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

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

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

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

	Number of Shares Beneficially Owned		Number of Shares to be Sold in Offering	Percentage of Shares Beneficially Owned		
	Before Offering	After Offering		Before Offering	After Offering	After Offering if Over-allotment is Exercised
Directors and current and certain former executive officers						
Neal R. Verfuerth (1)	3,341,993			17.2%		
Daniel J. Waibel (2)	1,050,000			5.4		
Michael J. Potts (3)	806,986			4.0		
John Scribante (4)	270,340			1.4		
Patricia A. Verfuerth (5)	3,341,993			17.2		
Thomas A. Quadracci (6)	36,409			*		
Diana Propper de Callejon (7)	2,193,157			11.3		
James R. Kackley (8)	211,000			1.1		
Eckhart G. Grohmann (9)	1,270,000			6.5		
Patrick J. Trotter (10)	514,790			2.7		
Bruce Wadman (11)	20,000			*		
James L. Prange (12)	72,023			*		
All directors and current and certain former executive officers as a group (14 individuals)	9,906,698			48.2%		
Principal shareholders						
Clean Technology Affiliates(13)	2,193,157			11.3%		
GEEFS Indirect Affiliate (14)	1,781,737			9.2		
Richard J. Olsen (15)	1,011,639			5.2		

* Indicates less than 1%.

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

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

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

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

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

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

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

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

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

(10) Includes (i) 504,790 shares of common stock and (ii) 10,000 shares of common stock issuable upon the exercise of vested and exercisable options. The number does not include 10,000 shares of

common stock subject to an option held by Mr. Trotter on June 30, 2007 that will not become exercisable within 60 days. Excludes an option of 5,000 shares granted on July 27, 2007.

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

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

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

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

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

RELATED PARTY TRANSACTIONS

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

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

Each of our executive officers, directors or nominees for director is required to disclose to our audit and finance committee certain information relating to related person transactions for review, approval or ratification by our audit and finance committee. Any related person transaction must be disclosed to our full board of directors.

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

Clean Technology Fund II, LP and Diana Propper de Callejon

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

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

Clean Technology also is a holder of 1,636,364 shares of our Series C preferred stock, which will automatically convert into shares of our common stock on a one-for-one basis upon closing of this offering. Holders of Series C preferred shares are entitled to certain registration rights with respect to the common stock issuable upon conversion of those Series C preferred shares according to the terms of an agreement between us and the Series C holders. See "Description of Capital Stock."

GEEFS

On August 3, 2007, we issued an $8.0 million Convertible Note to an indirect affiliate of GEEFS as part of our $10.6 Convertible Note placement described under “Description of Capital Stock.” This Convertible Note will convert automatically upon closing of this offering into 1,781,738 shares of our common stock. GEEFS is an indirect affiliate of General Electric Co. Neither GEEFS nor any other affiliates of General Electric Co. owned any interest in our company prior to the issuance of the Convertible Note.

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

Richard J. Olsen

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

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

Thomas A. Quadracci

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

Patrick J. Trotter

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

Neal and Patricia Verfuerth

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

We also held an unsecured note receivable due from Mr. Verfuerth in fiscal 2005, 2006 and 2007 bearing interest at 1.46% per annum. The largest aggregate amount of principal outstanding on this note during fiscal 2005, 2006 and 2007, including accrued interest, was $63,344, $65,849 and $66,780, respectively. The note was fully repaid on August 2, 2007. During fiscal 2007, we also held a note receivable due from Mr. Verfuerth in the aggregate principal amount of $812,500 and a note receivable due from Ms. Verfuerth in the aggregate principal amount of $565,625, each bearing interest at 7.65% per annum. These notes were fully repaid as described under "Executive Compensation – Compensation Discussion and Analysis – Long-Term Equity Compensation." These notes were recorded as shareholder notes receivable in our consolidated financial statements.

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

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

purchase money security interest and was also previously secured by a personal guarantee of Mr. Verfuerth, which was released effective July 5, 2007. As of March 31, 2007, the remaining balance on the loan was $0.4 million.

- In March 2004, we received a secured note from a local bank to provide a $3.3 million loan for working capital purposes. We pay principal and interest payments of $24,755 per month on the note, which are payable through the expiration of the note in February 2014. The note bears interest at a fixed rate of 6.9% per annum. The note is 75% guaranteed by the United States Department of Agriculture Rural Development Association and was also previously guaranteed by a personal guarantee of Mr. Verfuerth, which was released effective August 15, 2007. As of March 31, 2007, the remaining balance on the note was $1.6 million.

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

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

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

DESCRIPTION OF CAPITAL STOCK

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

Common Stock

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

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

Preferred Stock

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

- decreasing the amount of earnings and assets available for distribution to holders of common stock;
- restricting dividends on the common stock;
- diluting the voting power of the common stock;
- impairing the liquidation rights of the common stock; or

- delaying, deferring or preventing changes in our control or management.

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

Warrants

As of June 30, 2007, there were outstanding warrants, issued in connection with our offerings of common stock and Series B preferred stock, to purchase 954,390 shares of our common stock at exercise prices ranging between $1.50 and $2.60 per share, with a weighted average exercise price of $2.24 per share. These warrants were held by approximately 130 holders and expire in various periods from December 31, 2007 through December 31, 2014.

Stock Options

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

Convertible Notes

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

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

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

Registration Rights

Upon closing of this offering, all outstanding shares of our convertible preferred stock will be automatically converted into shares of our common stock on a one-for-one basis according to our current articles of incorporation. The shares of our Series C preferred stock, which we call our Series C shares, will be automatically converted into 1,818,182 shares of our common stock. Holders of Series C shares are entitled to certain registration rights with respect to common stock issuable upon conversion of those Series C preferred shares according to the terms of an agreement between us and the Series C holders. Additionally, the holders of our Convertible Notes will also be entitled to certain registration rights with respect to their shares of common stock received upon conversion of the Convertible Notes according to the terms of an agreement between us and the holders of the Convertible Notes. We are generally required to pay all expenses incurred in connection with registrations effected in connection with the exercise of these registration rights, excluding underwriting discounts and commissions, and fees and expenses of counsel to the Series C holders in excess of $50,000 per offering.

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

The holders of our Series C preferred stock and the Convertible Notes have entered into lock-up agreements described under the caption "Underwriting," pursuant to which they have agreed, subject to

certain exceptions and extensions, not to offer, sell, contract to sell, pledge or otherwise dispose of, directly or indirectly, any shares of our common stock, enter into any transaction which would have the same effect, or enter into any swap, hedge or other arrangement that transfers, in whole or in part, any economic consequences of their ownership of our common stock for a period of 180 days from the date of this prospectus or to exercise registration rights during such period with respect to such shares, although they may sell certain shares in this offering.

Demand Rights

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

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

Piggyback Rights

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

At any time beginning six months after the closing of this offering, if we propose to register any of our equity securities under the Securities Act, the holders of the common shares received upon conversion of the Convertible Notes are entitled to notice of such registration and are entitled to include their shares of common stock in such registration. Such holders have agreed not to exercise this right in connection with this offering and, subject to certain exceptions and extensions described below, have agreed not to sell any of their common stock received upon conversion of the Convertible Notes in this offering or for 180 days after the date of this prospectus.

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

Form S-3 Rights

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

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

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

Amended and Restated Articles of Incorporation and Amended and Restated Bylaws

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

Members of the board of directors may be removed only for cause at a meeting of the shareholders called for the purpose of removing the director, and the meeting notice must state that the purpose, or one of the purposes, of the meeting is removal of the director and must state the alleged cause upon which the director's removal would be based.

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

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

Wisconsin Business Corporation Law

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

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

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

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

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

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

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

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

Under Wisconsin law, a resident domestic corporation cannot engage in a business combination with an interested shareholder for a period of three years following the date such person becomes an interested shareholder, unless the board of directors approved the business combination or the acquisition of the stock that resulted in the person becoming an interested shareholder before such acquisition. A resident domestic corporation may engage in a business combination with an interested shareholder after the three-year period with respect to that shareholder expires only if one or more of the following conditions is satisfied:

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

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

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

Limitations of Directors' Liability and Indemnification

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

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

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

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

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

Transfer Agent and Registrar

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

SHARES ELIGIBLE FOR FUTURE SALE

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

Eligibility of Restricted Shares for Resale in the Public Markets

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

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

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

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

Lock-up Agreements

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

Rule 144

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

- one percent of our then-outstanding shares of common stock, which is expected to equal approximately shares immediately after this offering; and
- the average weekly trading volume of our common stock on the Nasdaq Global Market during the four calendar weeks preceding the filing of a notice of the sale on Form 144.

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

Rule 144(k)

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

Rule 701

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

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

Stock Options

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

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

Warrants

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

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

The following is a general discussion of the material United States federal income and estate tax considerations applicable to a non-United States holder with respect to such holder's acquisition, ownership and disposition of shares of our common stock. This discussion is for general information only and is not tax advice. Accordingly, all prospective non-United States holders of our common stock should consult their own tax advisors with respect to the United States federal, state, local and non-United States tax consequences of the acquisition, ownership and disposition of our common stock. For purposes of this discussion, a non-United States holder means a beneficial owner of our common stock who is not for United States federal income tax purposes:

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

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

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

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

- insurance companies;
- real estate investment companies, regulated investment companies or grantor trusts;

- corporations that accumulate earnings to avoid United States federal income tax;
- tax-exempt organizations;
- financial institutions;
- brokers or dealers in securities or currencies;
- partnerships and other pass-through entities;
- pension plans;
- holders that own or are deemed to own more than 5% of our common stock;
- owners that hold our common stock as part of a straddle, hedge, conversion transaction, synthetic security or other integrated investment;
- persons that received our common stock as compensation for performance of services;
- persons that have a functional currency other than the United States dollar; and
- certain former citizens or residents of the United States.

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

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

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

Distributions on Our Common Stock

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

Generally, but subject to the discussions below under "Status as United States Real Property Holding Corporation" and "Backup Withholding and Information Reporting," distributions of cash or property paid to you generally will be subject to withholding of United States federal income tax at a 30% rate or such lower rate as may be provided by an applicable United States income tax treaty. You are

urged to consult your own tax advisor regarding your entitlement to benefits under a relevant United States income tax treaty. If we determine, at a time reasonably close to the date of payment of a distribution on our common stock, that the distribution will not constitute a dividend because we do not anticipate having current or accumulated earnings and profits as determined under United States federal income tax principles, we intend not to withhold any United States federal income tax on the distribution as permitted by United States Treasury Regulations.

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

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

Sale, Exchange or Other Taxable Disposition of Our Common Stock

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

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

Status as a United States Real Property Holding Corporation

Under certain circumstances, gain recognized on the sale, exchange or other disposition of, and certain distributions in excess of basis with respect to, our common stock would be subject to United States federal income tax, notwithstanding your lack of other connections with the United States, if we are or have been, at any time during the shorter of (i) your holding period of our common stock or (ii) the five-year period ending on the date of such sale, exchange or other disposition (or distribution in excess

of basis) a “United States real property holding corporation” for United States federal income tax purposes, unless our common stock is regularly traded on an established securities market and you actually or constructively hold no more than 5% of our outstanding common stock. If we are determined to be a United States real property holding corporation and the foregoing exception does not apply, then a purchaser must withhold 10% of the proceeds payable to you from your sale or other taxable disposition of our common stock (unless our common stock is regularly traded on an established securities market), and you generally will be taxed on the net gain derived from the disposition at the graduated United States federal income tax rates applicable to United States persons. Generally, a corporation is a United States real property holding corporation only if the fair market value of its United States real property interests equals or exceeds 50% of the sum of the fair market value of its worldwide real property interests plus its other assets used or held for use in a trade or business. Although there can be no assurance, currently we do not believe that we are, or have been, a United States real property holding corporation, or that we are likely to become one in the future. Furthermore, no assurance can be provided that our stock will be regularly traded on an established securities market for purposes of the rules described above.

United States Federal Estate Tax

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

Backup Withholding and Information Reporting

We must report annually to the IRS and to each non-United States holder the amount of dividends on our common stock paid to such holder and the amount of any tax withheld with respect to those dividends, together with other information. These information reporting requirements apply even if no withholding was required because the dividends were effectively connected with the holder’s conduct of a United States trade or business, or withholding was reduced or eliminated by an applicable tax treaty. This information also may be made available under a specific treaty or agreement to the tax authorities of the country in which the non-United States holder resides or is established. Under certain circumstances, the Code imposes a backup withholding obligation (currently at a rate of 28%) on certain reportable payments. However, backup withholding generally will not apply to payments of dividends to a non-United States holder of our common stock provided the non-United States holder furnishes to us or our paying agent the required certification as to its non-United States status, such as by providing a valid IRS Form W-8BEN or W-8ECI, or otherwise establishes an exemption.

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

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

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

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

UNDERWRITING

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

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

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

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

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

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

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

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

We have agreed that we will not (i) offer, sell, issue contract to sell, pledge or otherwise dispose of, directly or indirectly, any shares of our common stock or any securities convertible into or exchangeable or exercisable for any shares of our common stock; (ii) offer, sell, issue, contract to sell, contract to purchase or grant any option, right or warrant to purchase shares of our common stock or any securities convertible into or exchangeable for shares of our common stock; (iii) enter into any swap, hedge or any other agreement that transfers, in whole or in part, the economic consequences of ownership of shares of our common stock or any securities convertible or exchangeable into shares of our common stock; (iv) establish or increase a put equivalent position or liquidate or decrease a call equivalent position in shares of our common stock or any securities

convertible or exchangeable into shares of our common stock within the meaning of Section 16 of the Exchange Act or (v) file with the SEC a registration statement under the Securities Act relating to shares of our common stock or any securities convertible into or exchangeable for shares of our common stock, or publicly disclose the intention to take any such action, in each case, without the prior written consent of Thomas Weisel Partners LLC, for a period of 180 days after the date of this prospectus except for issuances pursuant to or the conversion of convertible securities, options or warrants outstanding on the date of this prospectus and the filing of a registration statement on Form S-8 for shares of common stock relating to awards that we have granted or may grant under our outstanding equity incentive compensation plans, as in effect on the date of this prospectus. However, in the event that either (1) during the last 17 days of the "lock-up" period, we release earnings results or material news or a material event relating to us occurs or (2) prior to the expiration of the "lock-up" period, we announce that we will release earnings results during the 16-day period beginning on the last day of the "lock-up" period, then in each case the "lock-up" period will be extended until the expiration of the 18-day period beginning on the date of the release of the earnings results or the occurrence of the material news or material event, as applicable, unless Thomas Weisel Partners LLC waives, in writing, such extension.

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

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

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

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

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

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

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

Over-allotment involves sales by the underwriters of shares in excess of the number of shares the underwriters are obligated to purchase, which creates a syndicate short position. The short position may be either a covered short position or a naked short position. In a covered short position, the number of shares over-allotted by the underwriters is not greater than the number of shares that they may purchase in the over-allotment option. In a naked short position, the number of shares involved is greater than the number of shares in the over-allotment option. The underwriters may close out any covered short position by either exercising their over-allotment option and/or purchasing shares in the open market.

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

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

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

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

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

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

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

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

For the purposes of this provision, the expression an “offer of shares to the public” in relation to any shares in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the shares to be offered so as to enable an investor to decide to purchase or subscribe the shares, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State and the expression Prospectus Directive means Directive 2003/71/EC and includes any relevant implementing measure in each Relevant Member State.

Each of the underwriters has represented and agreed that:

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

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

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

The underwriters will not offer or sell any of our shares directly or indirectly in Japan or to, or for the benefit of any Japanese person or to others, for re-offering or re-sale directly or indirectly in Japan or to any Japanese person, except in each case pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Securities and Exchange Law of Japan and any other applicable

laws and regulations of Japan. For purposes of this paragraph, "Japanese person" means any person resident in Japan, including any corporation or other entity organized under the laws of Japan.

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

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

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

LEGAL MATTERS

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

EXPERTS

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

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

WHERE YOU CAN FIND MORE INFORMATION

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

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

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

	Page Number
Report of Independent Registered Public Accounting Firm	F-2
Consolidated Balance Sheets	F-3
Consolidated Statements of Operations	F-4
Consolidated Statements of Temporary Equity and Shareholders’ Equity	F-5
Consolidated Statements of Cash Flows	F-6
Notes to Consolidated Financial Statements	F-7

REPORT OF INDEPENDENT
REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Shareholders
Orion Energy Systems, Inc.

We have audited the accompanying consolidated balance sheets of Orion Energy Systems, Inc. and Subsidiaries (the Company) as of March 31, 2006 and 2007, and the related consolidated statements of operations, temporary equity and shareholders' equity, and cash flows for each of the three years in the period ended March 31, 2007. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company as of March 31, 2006 and 2007, and the consolidated results of their operations and their consolidated cash flows for each of the three years in the period ended March 31, 2007, in conformity with accounting principles generally accepted in the United States of America.

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

/s/ Grant Thornton LLP

Milwaukee, Wisconsin
August 16, 2007

ORION ENERGY SYSTEMS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(in thousands, except share amounts)

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

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

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

	Fiscal year ended March 31,			Three months ended June 30, (unaudited)	
	2005	2006	2007	2006	2007
Revenue	$ 21,783	$ 33,280	$ 48,183	$ 9,680	$ 16,721
Cost of revenue	14,043	22,524	32,487	6,255	11,118
Gross profit	7,740	10,756	15,696	3,425	5,603
Operating expenses:					
General and administrative	3,461	4,875	6,162	1,269	1,571
Sales and marketing	5,416	5,991	6,459	1,518	2,111
Research and development	213	1,171	1,078	211	437
Total operating expenses	9,090	12,037	13,699	2,998	4,119
Income (loss) from operations	(1,350)	(1,281)	1,997	427	1,484
Other income (expense):					
Interest expense	(570)	(1,051)	(1,044)	(253)	(295)
Dividend and interest income	3	5	201	1	40
Total other income (expense)	(567)	(1,046)	(843)	(252)	(255)
Income (loss) before income tax and cumulative effect of change in accounting principle	(1,917)	(2,327)	1,154	175	1,229
Income tax expense (benefit)	(702)	(762)	225	34	481
Income (loss) before cumulative change in accounting principle	(1,215)	(1,565)	929	141	748
Cumulative effect of change in accounting principle, net of income tax benefit of $38	(57)	—	—	—	—
Net income (loss)	(1,272)	(1,565)	929	141	748
Accretion of redeemable preferred stock and preferred stock dividends	(104)	(3)	(201)	(1)	(75)
Conversion of preferred stock	(972)	—	(83)	—	—
Net income (loss) attributable to common shareholders	$ (2,348)	$ (1,568)	$ 645	$ 140	$ 673
Basic net income (loss) per common share attributable to common shareholders	$ (0.36)	$ (0.18)	$ 0.07	$ 0.02	$ 0.07
Weighted average common shares outstanding	6,470,413	8,524,012	9,080,461	8,998,944	9,950,486
Diluted net income (loss) per common share attributable to common shareholders	$ (0.36)	$ (0.18)	$ 0.04	$ 0.01	$ 0.04
Weighted average common shares and share equivalents outstanding	6,470,413	8,524,012	16,432,647	15,072,660	18,087,951

The accompanying notes are an integral part of these consolidated statements

ORION ENERGY SYSTEMS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF TEMPORARY EQUITY AND SHAREHOLDERS' EQUITY

(in thousands, except share amounts)

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

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

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

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

The accompanying notes are an integral part of these consolidated statements

ORION ENERGY SYSTEMS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Company includes Orion Energy Systems, Inc., a Wisconsin corporation, and all consolidated subsidiaries. The Company is a developer, manufacturer and seller of lighting and energy management systems. The corporate offices are located in Plymouth, Wisconsin and manufacturing and operations facilities are located in Plymouth and Manitowoc, Wisconsin.

Principles of Consolidation

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

Unaudited financial information

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

Use of Estimates

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

Cash and cash equivalents

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

Fair value of financial instruments

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

Accounts receivable

The majority of the Company's accounts receivable are due from companies in the commercial, industrial and agricultural industries, and wholesalers. Credit is extended based on an evaluation of a customer's financial condition. Generally, collateral is not required for end users; however, the payment of certain trade accounts

ORION ENERGY SYSTEMS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

receivable from wholesalers is secured by irrevocable standby letters of credit. Accounts receivable are due within 30-60 days. Accounts receivable are stated at the amount the Company expects to collect from outstanding balances. The Company provides for probable uncollectible amounts through a charge to earnings and a credit to an allowance for doubtful accounts based on its assessment of the current status of individual accounts. Balances that are still outstanding after the Company has used reasonable collection efforts are written off through a charge to the allowance for doubtful accounts and a credit to accounts receivable.

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

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

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

Inventories

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

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

Inventories were comprised of the following (in thousands):

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

Prepaid Expenses and Other Current Assets

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

ORION ENERGY SYSTEMS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Property and Equipment

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

In accordance with Statement of Financial Accounting Standards (SFAS) No.144, *Accounting for the Impairment or Disposal of Long-Lived Assets,* the Company periodically reviews the carrying values of property and equipment for impairment when events or changes in circumstances indicate that the assets may be impaired. The estimated future undiscounted cash flows expected to result from the use of the assets and their eventual disposition are compared to the assets' carrying amount to determine if a write down to market value is required. No writedowns were recorded in fiscal 2005, 2006, 2007 or the three months ended June 30, 2006 and 2007 (unaudited).

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

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

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

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

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

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

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

ORION ENERGY SYSTEMS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Patents and Licenses

Patents and licenses are being amortized on a straight-line basis over 15-17 years. The Company capitalized $40,000, $56,000 and $81,000 of costs associated with obtaining patents and licenses in fiscal 2005, 2006 and 2007. An additional $78,000 was capitalized in the three months ended June 30, 2007 (unaudited). Amortization expense recorded to cost of revenue for fiscal 2005, 2006 and 2007 was $9,000, $14,000 and $19,000. The costs and accumulated amortization for patents and licenses was $246,000 and $52,000 as of March 31, 2006; $314,000 and $71,000 as of March 31, 2007; and $392,000 and $76,000 as of June 30, 2007 (unaudited). The average remaining useful life of the patents and licenses as of March 31, 2007 was approximately 15 years. As of March 31, 2007, amortization expense of the patents and licenses for each of the fiscal years ending 2008 through 2012 is estimated to be $20,000, with $143,000 remaining after 2012.

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

Investment

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

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

Other Long-Term Assets

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

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

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

Accrued Expenses

Accrued expenses include warranty accruals, accrued wages, accrued vacations, sales tax payable, income tax payable and other various unpaid expenses.

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

The Company generally offers a limited warranty of one year on its products in addition to those standard warranties offered by major original equipment component manufacturers. The manufacturers' warranties cover

ORION ENERGY SYSTEMS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

Revenue Recognition

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

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

These four criteria are met for the Company's product sales 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. Revenue associated with installation services is recognized when services are complete and acceptance provisions, if any, have been met. Services other than installation, that are completed prior to delivery of the product, are recognized upon shipment. 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.

The Company determines the fair value of installation services using vendor-specific objective evidence (VSOE). The Company contracts with third-party vendors for the installation services provided to customers and, therefore, determines VSOE based upon negotiated pricing with such third-party vendors.

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

ORION ENERGY SYSTEMS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

A sales program is offered to customers where their purchase is financed by the Company. The contracts are one year in duration and at the completion of the initial one year term, provide for automatic annual renewals of generally up to four years at agreed pricing, an early buyout for cash or for the return of the equipment at the customer's expense. Upon completion of the installation, the future lease cash flows and residual rights to the related equipment are then sold by the Company, without recourse, to an unrelated third party finance company in exchange for cash and future payments

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

Shipping and Handling Costs

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

Advertising

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

Research and Development

The Company expenses research and development costs as incurred.

Income Taxes

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

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

Stock Option Plans

Effective April 1, 2006, the Company adopted the provisions of SFAS 123(R), *Share-Based Payment*, for its stock option plans. The Company previously accounted for these plans under the recognition and measurement principles of Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees* (APB 25),

ORION ENERGY SYSTEMS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Financial Accounting Standards Board's (FASB) Interpretation No. 44, *Accounting for Certain Transactions Involving Stock Compensation, an Interpretation of APB 25*, and disclosure requirements established by SFAS 123, *Accounting for Stock-Based Compensation as amended by SFAS 148 Accounting for Stock-Based Compensation — Transition and Disclosure*.

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

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

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

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

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

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

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

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

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

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

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

ORION ENERGY SYSTEMS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Net Income (Loss) per Common Share

Basic net income per common share is computed by dividing net income available to common shareholders by the weighted-average number of common shares outstanding for the period and does not consider common stock equivalents. In accordance with EITF D-42, *The Effect on the Calculation of Earnings per Share for the Redemption or Induced Conversion of Preferred Stock,* the $972,000 and $83,000 excess in fiscal 2005 and fiscal 2007 of (1) fair value of the consideration transferred to the holders of the convertible preferred stock over (2) the fair value of securities issuable pursuant to the original conversion terms was subtracted from net income (loss) to arrive at net income (loss) available to common shareholders in the calculation of earnings per share. Diluted net income per common share reflects the dilution that would occur if preferred stock were converted, warrants and employee stock options were exercised, and shares issued per exercise of stock options for which the exercise price was paid by a non-recourse loan from the Company were outstanding. In the computation of diluted net income per common share, the Company uses the "if converted" method for preferred stock and restricted stock, and the "treasury stock" method for outstanding options and warrants.

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

	Fiscal year ended March 31,			Three months ended June 30, (unaudited)	
	2005	2006	2007	2006	2007
Weighted average common shares outstanding	6,470,413	8,524,012	9,080,461	8,998,944	9,950,486
Weighted average effect of preferred stock, restricted stock and assumed conversion of stock option and warrants	—	—	7,352,186	6,073,716	8,137,465
Weighted average common share and common share equivalents outstanding	6,470,413	8,524,012	16,432,647	15,072,660	18,087,951

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

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

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

Concentration of Credit Risk and Other Risks and Uncertainties

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

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

ORION ENERGY SYSTEMS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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

Segment Information

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

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

Adoption of FIN 48 (unaudited)

In July 2006, the FASB issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes – an Interpretation of FASB Statement No. 109*, (FIN 48), which became effective for the Company on April 1, 2007. FIN 48 prescribes a recognition threshold and a measurement attribute for the financial statement recognition and measurement of tax positions taken or expected to be taken in a tax return. For those benefits to be recognized, a tax position must be more-likely-than-not to be sustained upon examination by taxing authorities. The adoption of FIN 48 resulted in an increase of the Company's accumulated deficit of $210,000 at June 30, 2007 (unaudited). As of the adoption date, the balance of gross unrecognized tax benefits was $1.6 million, $370,000 of which would impact our effective tax rate if recognized. Of this amount, $60,000 and $310,000 were recorded as current and deferred tax liabilities. The remaining amount of unrecognized tax benefits of $1.2 million relates to net operating loss carryforwards deductions created by the exercise of non-qualified stock options. The benefit from the net operating losses created from these expenses will be recorded as a reduction in taxes payable and a credit to additional paid-in capital in the period in which the benefits are realized. The amount of the unrecognized tax benefits did not materially change as of June 30, 2007. It is expected that the amount of unrecognized tax benefits may change in the next 12 months; however, quantification of such change cannot be estimated. The Company recognizes penalties and interest related to uncertain tax liabilities in income tax expense. Penalties and interest are immaterial as of the date of adoption and are included in unrecognized tax benefits. Due to the existence of net operating loss and credit carryforwards, all years since 2000 are open to examination by tax authorities.

Recent Accounting Pronouncements

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

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

In June 2006, the FASB ratified EITF Issue No. 06-3, *How Taxes Collected from Customers and Remitted to Governmental Authorities Should Be Presented in the Income Statement (that is, Gross versus Net Presentation)*, which allows companies to adopt a policy of presenting taxes in the income statement on either a gross or net basis. Taxes within the scope of this EITF would include taxes that are imposed on a revenue transaction between a seller and

a customer. If such taxes are significant, the accounting policy should be disclosed as well as the amount of taxes included in the financial statements if presented on a gross basis. EITF 06-3 is effective for interim and annual reporting periods beginning after December 15, 2006. The adoption of EITF Issue 06-3 had no impact on the Company's financial statements as the Company's revenue has historically been, and will continue to be, presented net of sales taxes.

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

NOTE B — RELATED PARTY TRANSACTIONS

As of March 31, 2006 and 2007, the Company had non-interest bearing advances of $55,000 and $157,000, respectively, to a shareholder, and also held an unsecured, 1.46% note receivable due from the same shareholder in the amounts of $66,000 and $67,000, including interest receivable. These advances and this note were repaid subsequent to June 30, 2007. During 2006 and 2007, the Company forgave $37,000 and $37,000, of shareholder advances as part of a contractual employment relationship. The amount forgiven for the three months ending June 30, 2007 (unaudited) was $9,000.

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

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

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

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

NOTE C — LONG-TERM DEBT

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

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

Revolving Credit Agreement

The Company's $25 million revolving credit agreement has an interest rate of prime plus 1% (effective rate of 9.25% at March 31, 2007), plus annual fees and minimum monthly interest costs. Borrowings under this

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

Term Note

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

First Mortgage Note Payable

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

Debenture Payable

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

Lease Obligations

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

Other Long-term Debt

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

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

ORION ENERGY SYSTEMS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE D — INCOME TAXES

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

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

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

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

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

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

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

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

As of March 31, 2007, the Company had net operating loss carryforwards of approximately $5.1 million for both federal and state. Included in the $5.1 million loss carryforwards are carryforward deductions of $3.0 million of expenses that are associated with the exercise of non-qualified stock options that have not yet been recognized by the Company in its financial statements. The benefit from the net operating losses created from these expenses will be recorded as a reduction in taxes payable and a credit to additional paid-in capital in the period in which the benefits are realized. The Company also has federal and state tax credit carryforwards of approximately $296,000 and $406,000 as of March 31, 2007. Both the net operating losses and tax credit carryforwards expire between 2016 and 2027.

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

NOTE E — COMMITMENTS AND CONTINGENCIES

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

2008	$853
2009	211
2010	201
2011	159
2012	79

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

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

NOTE F — TEMPORARY EQUITY AND SHAREHOLDERS' EQUITY

Stock Split

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

Series C Redeemable Preferred Stock

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

- senior rank to other classes and series of stock with respect to the payment of dividends and proceeds upon liquidation
- entitlement to receive cumulative dividends accruing at a non compounded annual rate of 6% upon the occurrence of certain events (accumulated dividends through March 31, 2007 and June 30, 2007 (unaudited) were $198,000 and $273,000)

- liquidation preference equal to the purchase price plus any accumulated dividends
- conversion into common stock at a one-to-one ratio upon certain qualifying exit events resulting in net proceeds to the Company of at least $30 million (upon conversion in a qualifying event, all rights related to accrued and unpaid dividends would be extinguished)
- weighted average dilution protection for any issuance of stock or other equity instruments (other than for stock options granted under existing stock plans) at a price per share less than the Series C purchase price of $2.75
- proportional adjustment of the number of shares of common stock into which one share of Series C preferred stock may be converted in the event of stock splits, stock dividends reclassifications and similar events
- a redemption feature at the option of the holder, including accumulated dividends, if certain liquidity events are not achieved within five years from issuance
- right to vote with common stock on all matters submitted to a vote of shareholders

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

Series B Preferred Stock

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

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

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

Series A Preferred Stock

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

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

Treasury Stock

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

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

Shareholder receivables

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

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

In fiscal 2007, the Company issued $1,753,000 of notes receivable to officers to purchase 2,150,000 shares of common stock by exercise of fully vested non-qualified stock options. The notes mature in March 2012 or earlier upon notice from the Company and bear interest at 7.65% payable annually in cash or stock. As the notes are repaid, and interest collected, interest received will be credited to compensation expense. For accounting purposes, the notes are considered non-recourse and therefore, the options are not deemed exercised until the note is paid. Accordingly, the common stock is not considered issued for accounting purposes until the Company has received payment of the notes.

All notes receivable that had been issued to directors and officers of the Company were repaid in full either in cash or by tendering shares subsequent to June 30, 2007.

NOTE G — STOCK OPTIONS AND WARRANTS

The Company grants stock options under its 2003 Stock Option and 2004 Equity Incentive Plans (the Plans). Under the terms of the Plans, the Company has reserved 9,000,000 shares for issuance to key employees, consultants and directors. The options generally vest and become exercisable ratably over five years although longer vesting periods have been used in certain circumstances. The options are contingent on the employees' continued employment and are subject to forfeiture if employment terminates for any reason. In the past, we have granted both incentive stock options and non-qualified stock options. The Plans also provide to certain employees accelerated vesting in the event of certain changes of control of the Company.

As a result of the adoption of SFAS 123(R) in fiscal 2007, the following amounts of stock-based compensation were recorded (in thousands):

ORION ENERGY SYSTEMS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

	Fiscal year ended March 31, 2007	Three months ended June 30, (unaudited) 2006	2007
Cost of revenue	$ 24	$ 3	$ 21
General and administrative	154	29	65
Sales and marketing	153	21	52
Research and development	32	5	8
	$ 363	$ 58	$ 146

In fiscal 2005 and 2006, in accordance with APB No. 25, the Company recognized stock-based compensation of none and $558,000.

The number of shares available for grant under the plans were as follows:

Available at March 31, 2004	1,077,200
Amendment to plan	2,000,000
Granted	(599,000)
Forfeited	27,000
Available at March 31, 2005	2,505,200
Granted	(735,000)
Forfeited	278,000
Available at March 31, 2006	2,048,200
Granted	(1,657,500)
Forfeited	280,000
Available at March 31, 2007	670,700
Granted (unaudited)	(50,000)
Forfeited (unaudited)	26,000
Available at June 30, 2007 (unaudited)	646,700

The Company granted options to purchase 1,657,500 shares of common stock during fiscal 2007 and 50,000 shares of common stock during the three months ended June 30, 2007 (unaudited), summarized as follows:

	Number of options granted	Exercise price	Fair value estimate per share	Intrinsic value
April 2006	40,000	$2.25- 2.50	$2.20	$ —
May 2006	40,000	2.50	2.20	—
June 2006	150,000	2.50	2.20	—
July 2006	27,000	2.50	2.20	—
August 2006	5,000	2.50	2.20	—
September 2006	2,000	2.75	2.20	—
October 2006	2,000	2.75	2.20	—
November 2006	35,000	2.75	2.20	—
December 2006	920,000	2.20	2.20	—
March 2007	436,500	2.20	4.15	851,000
April 2007 (unaudited)	50,000	2.20	4.15	98,000

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

ORION ENERGY SYSTEMS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

	March 31, 2005		March 31, 2006		March 31, 2007		June 30, 2006 (unaudited)		June 30, 2007 (unaudited)	
	Options	Weighted average exercise price	Options	Weighted average exercise price	Options	Weighted average exercise price	Options	Weighted average exercise price	Options	Weighted average exercise price
Outstanding, beginning of period	5,922,800	$ .89	6,412,108	$ 1.02	6,394,730	$ 1.06	6,394,730	$ 1.06	4,714,547	$ 1.56
Granted	599,000	2.24	735,000	1.87	1,657,500	2.26	230,000	2.50	50,000	2.20
Exercised	(82,692)	.82	(474,378)	.91	(3,057,683)	.84	(19,180)	0.69	(26,470)	1.03
Forfeited	(27,000)	1.16	(278,000)	2.09	(280,000)	2.25	—	—	(26,000)	2.11
Outstanding, end of period	6,412,108	$ 1.02	6,394,730	$ 1.06	4,714,547	$ 1.56	6,605,550	$ 1.10	4,712,077	$ 1.57
Weighted average fair value of options granted	$ 0.48		$ 1.54		$ 1.35		$ 1.27		$ 3.27	

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

	March 31, 2007					June 30, 2007 (unaudited)				
Price	Outstanding	Weighted average remaining contractual life (years)	Weighted average exercise price	Vested	Weighted average exercise price	Outstanding	Weighted average remaining contractual life (years)	Weighted average exercise price	Vested	Weighted average exercise price
$ .69	1,260,627	4.1	$ .69	1,260,627	$ .69	1,240,157	3.9	$ 0.69	1,240,157	$ .069
.75 - .94	657,420	4.7	.91	571,420	.93	657,420	4.5	0.91	575,420	0.93
1.24 - 1.50	512,000	6.4	1.45	352,800	1.45	508,000	6.1	1.45	351,200	1.45
2.20 - 2.25	1,993,500	9.1	2.22	308,800	2.25	2,015,500	8.8	2.22	306,800	2.25
2.50 - 2.75	291,000	9.3	2.53	73,866	2.57	291,000	9.0	2.53	57,200	2.51
	4,714,547	6.8	$ 1.56	2,567,513	$ 1.09	4,712,077	6.6	$ 1.57	2,530,777	$ 1.08
Aggregate Intrinsic Value	$12,207,000			$7,861,100		$12,169,000			$7,772,000	

The aggregate intrinsic value is calculated as the difference between the exercise price of the underlying stock options and the fair value of the Company's common stock at March 31, 2007.

A summary of the status of the Company's outstanding non-vested stock options as of March 31, 2007 and June 30, 2007 (unaudited), is as follows:

Non-vested at March 31, 2006	1,334,200
Granted	1,657,500
Vested	(579,266)
Forfeited	(265,400)
Non-vested at March 31, 2007	2,147,034
Granted (unaudited)	50,000
Vested (unaudited)	(5,334)
Forfeited (unaudited)	(10,400)
Non-vested at June 30, 2007 (unaudited)	2,181,300

Unrecognized compensation cost related to non-vested common stock-based compensation as of March 31, 2007 is as follows (in thousands):

Fiscal 2008	$ 684
Fiscal 2009	678
Fiscal 2010	576
Fiscal 2011	504
Thereafter	547
	$ 2,989
Remaining weighted average expected term	3.01yrs

As of June 30, 2007 (unaudited), compensation cost related to non-vested common stock-based compensation amounted to $3.0 million over a remaining weighted average expected term just under 3 years.

ORION ENERGY SYSTEMS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The Company has issued warrants to placement agents in connection with various stock offerings and services rendered. The warrants grant the holder the option to purchase common stock at specified prices for a specified period of time. Warrants issued in fiscal 2005, 2006 and 2007 were treated as offering costs and valued at $400,000, $30,000, and $18,000. Fiscal 2006 also included warrants valued at $6,000 that were expensed. These warrants were valued using the following assumptions:

		March 31,	
	2005	2006	2007
Dividend yield	0.00%	0.00%	0.00%
Weighted average risk-free interest rate	4.32%	4.35%	4.62%
Weighted average contractual term	5 years	5 years	5 years
Expected volatility	39%	50%	60%

Outstanding warrants are comprised of the following:

	March 31, 2005		March 31, 2006		March 31, 2007		June 30, 2006 (unaudited)		June 30, 2007 (unaudited)	
	Warrants	Weighted average exercise price	Warrants	Weighted average exercise price	Warrants	Weighted average exercise price	Warrants	Weighted average exercise price	Warrants	Weighted average exercise price
Outstanding, beginning of period	239,766	$ 1.98	1,064,314	$ 2.22	1,098,574	$ 2.24	1,098,574	$ 2.24	1,109,390	$ 2.24
Issued	824,548	2.29	45,260	2.47	19,580	2.41	—	—	—	—
Exercised	—	—	(9,000)	1.50	(7,966)	1.80	(666)	2.30	(155,000)	2.25
Cancelled	—	—	(2,000)	1.50	(798)	1.50	—	—	—	—
Outstanding, end of period	1,064,314	$ 2.22	1,098,574	$ 2.24	1,109,390	$ 2.24	1,097,908	$ 2.24	954,390	$ 2.24

A summary of outstanding warrants follows:

Exercise price	March 31, 2007	June 30, 2007 (unaudited)	Expiration
$1.50	79,236	79,236	Fiscal 2012
$2.25	221,480	66,480	Fiscal 2014
$2.30	763,914	763,914	Fiscal 2010
$2.50	37,260	37,260	Fiscal 2011
$2.60	7,500	7,500	Fiscal 2012
Total	1,109,390	954,390	

NOTE H — SUBSEQUENT EVENTS

In August 2007, the Company issued $10.6 million of convertible subordinated notes, bearing interest at 6% per annum, to an indirect affiliate of GE Energy Financial Services Inc., Clean Energy Technology Fund II, LP and affiliates of Capvest Venture Fund, LP. The subordinated notes (which we refer to as Convertible Notes) are convertible automatically into 2,360,802 shares of common stock if the Company completes a qualified public offering.

In July and August 2007, all director and shareholder notes and advances, along with accrued interest, were settled, either in cash or with shares. Total principal payments were $985,800 and shares tendered totaled 306,932. Concurrent with the above transaction, the Company issued 306,932 non-qualifying stock options with a fair value exercise price of $4.49. In accordance with SFAS 123(R) the Company will recognize stock-based compensation expense of $224,000 in fiscal 2008 and $127,000 in fiscal 2009.

Table of Contents

PROSPECTUS

Shares
Common Stock

Thomas Weisel Partners LLC
Canaccord Adams
Pacific Growth Equities, LLC

Table of Contents

PART II

INFORMATION NOT REQUIRED IN THE PROSPECTUS

Item 13. Other Expenses of Issuance and Distribution.

The following is a list of estimated expenses in connection with the issuance and distribution of the securities being registered, with the exception of underwriting discounts and commissions:

SEC registration fee	$ 3,070
NASD filing fee	10,550
Nasdaq Global Market listing fee	*
Printing costs	*
Legal fees and expenses	*
Accounting fees and expenses	*
Blue sky fees and expenses	*
Miscellaneous	*
Total	$ *

* To be completed by amendment

All of the above expenses except the SEC registration fee and NASD filing fee are estimates. All of the above expenses will be borne by us.

Item 14. Indemnification of Directors and Officers.

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

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

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

Wisconsin law further provides that it is the public policy of the State of Wisconsin to require or permit indemnification, allowance of expenses and insurance to the extent required or permitted under

Wisconsin law for any liability incurred in connection with a proceeding involving a federal or state statute, rule or regulation regulating the offer, sale or purchase of securities.

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

The Underwriting Agreement filed herewith as Exhibit 1.1 provides for indemnification of our directors, certain officers and controlling persons by the underwriters against certain civil liabilities, including liabilities under the Securities Act.

In addition, we intend to obtain directors' and officers' liability insurance that will insure against certain liabilities, including liabilities under the Securities Act, subject to applicable restrictions.

Item 15. Recent Sales of Unregistered Securities.

From January 1, 2004 through the date of this registration statement, we sold or granted the following securities that were not registered under the Securities Act. The following share numbers give effect to a 2-for-1 split of our common stock and preferred stock that was effected on April 1, 2006.

(a) Stock, Warrants and Convertible Subordinated Notes.

1. Between January 1, 2004 and February 2, 2005, we issued an aggregate of 2,234,400 shares of Series B preferred stock and warrants to purchase an aggregate of 746,802 shares of our common stock to certain Wisconsin residents. The aggregate consideration received by us was $4,968,000. In connection with the placement of these securities, we issued warrants to purchase 221,480 shares of our common stock to a placement agent in payment for its services.

2. Between May 26, 2005 and September 30, 2005, we issued an aggregate of 376,000 shares of Series B preferred stock to certain Wisconsin residents who were accredited investors. The aggregate consideration received by us was $940,000. In connection with the placement of these securities, we issued warrants to purchase 31,200 shares of our common stock to a placement agent in payment for its services.

3. Between January 10, 2006 and July 31, 2006, we issued an aggregate of 379,430 shares of Series B preferred stock to our existing shareholders. The aggregate consideration received by us was $960,498. In connection with the placement of these securities, we issued warrants to purchase 6,060 shares of our common stock to a placement agent in payment for its services.

4. Between July 31, 2006 and September 28, 2006, we issued an aggregate of 1,818,182 shares of Series C preferred stock to Clean Technology Fund II, LP and Capvest Venture Fund, LP. The aggregate consideration received by us was $5,000,000.

5. In 2006, we issued warrants to purchase an aggregate of 8,000 shares of our common stock to a consultant in consideration for services.

6. On March 1, 2007, we issued warrants to purchase an aggregate of 19,580 shares of our common stock to a consultant in consideration for services.

7. On August 3, 2007, we issued $10.6 million of convertible subordinated notes, bearing interest at 6% per annum, to an indirect affiliate of GE Energy Financial Services, Inc., Clean Technology Fund II, LP and affiliates of Capvest Venture Fund, LP. The subordinated notes will convert automatically upon closing of this

offering into 2,360,802 shares of our common stock if the initial public offering price is at least $11.23 per share.

We believe that the offers and sales of the securities referenced in (1) and (2), above, were exempt from registration under the Securities Act by virtue of Section 3(a)(11) of the Securities Act and Rule 147 promulgated thereunder. We were resident and doing business in Wisconsin at the time of the offering, and the offering was made only to Wisconsin residents.

We believe that the offer and sale of the securities referenced in (3), (4), (5), (6) and (7) above were exempt from registration under the Securities Act by virtue of Section 4(2) of the Securities Act and/or Regulation D promulgated thereunder as transactions not involving any public offering. All of the purchasers of unregistered securities for which we relied on Section 4(2) and/or Regulation D represented that they were accredited investors as defined under the Securities Act, except for up to 35 non-accredited investors. The purchasers in each case represented that they intended to acquire the securities for investment only and not with a view to the distribution thereof and that they either received adequate information about the registrant or had access, through employment or other relationships, to such information; appropriate legends were affixed to the stock certificates issued in such transactions; and offers and sales of these securities were made without general solicitation or advertising.

(b) Options.

1. In 2004, we granted to our directors and employees options to purchase an aggregate of 737,000 shares of our common stock at an exercise price of $2.25 per share. We received no consideration from these individuals in connection with the issuance of such options. As of June 30, 2007, we had issued a total of 75,000 shares of common stock upon the exercise of such options.

2. In 2005, we granted to our directors and employees options to purchase an aggregate of 627,000 shares of our common stock at exercise prices ranging from $0.75 to $2.25 per share. We received no consideration from these individuals in connection with the issuance of such options. As of June 30, 2007, we had issued a total of 40,000 shares of common stock upon the exercise of such options.

3. In 2006, we granted to our directors and employees options to purchase an aggregate of 1,211,000 shares of our common stock at exercise prices ranging from $2.20 to $2.75 per share. We received no consideration from these individuals in connection with the issuance of such options. As of June 30, 2007, we had issued a total of 12,000 shares of common stock upon the exercise of such options.

4. On March 1, 2007, we granted to certain of our employees options to purchase an aggregate of 361,500 shares of our common stock at an exercise price of $2.20 per share. We received no consideration from these individuals in connection with the issuance of such options.

5. On March 5, 2007, we granted to certain of our employees options to purchase an aggregate of 75,000 shares of our common stock at an exercise price of $2.20 per share. We received no consideration from these individuals in connection with the issuance of such options.

6. On April 1, 2007, we granted to certain of our employees options to purchase an aggregate of 20,000 shares of our common stock at an exercise price of $2.20 per share. We received no consideration from these individuals in connection with the issuance of such options.

7. On April 2, 2007, we granted to certain of our employees options to purchase an aggregate of 30,000 shares of our common stock at an exercise price of $2.20 per share. We received no consideration from these individuals in connection with the issuance of such options.

8. On July 27, 2007, we granted to certain of our employees options to purchase an aggregate of 389,432 shares of our common stock at an exercise price of $4.49 per share. We received no consideration from these individuals in connection with the issuance of such options.

9. On July 27, 2007, we granted to certain of our non-employee directors options to purchase an aggregate of 40,000 shares of our common stock at an exercise price of $4.49 per share. We received no consideration from these individuals in connection with the issuance of such options.

We believe that the offer and sale of the above-referenced securities were exempt from registration under the Securities Act by virtue of Section 4(2) and Rule 701 of the Securities Act as securities issued pursuant to written compensatory plans or arrangements.

(c) There were no underwritten offerings employed in connection with any of the transactions set forth in Item 15(a) or (b).

Item 16. Exhibits and Financial Statement Schedules.

(a) *Exhibits*.

The exhibits listed in the accompanying Exhibit Index are filed (except where otherwise indicated) as part of this Registration Statement.

(b) *Financial Statement Schedules.*

All other schedules are omitted since the required information is not present, or is not present in amounts sufficient to require submission of the schedule, or because the information required is included in the consolidated financial statements and notes thereto.

Item 17. Undertakings.

(a) The undersigned Registrant hereby undertakes to provide to the underwriters at the closing specified in the underwriting agreement, certificates in such denominations and registered in such names as required by the underwriters to permit prompt delivery to each purchaser.

(b) Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the Registrant pursuant to the foregoing provisions, or otherwise, the Registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the Registrant of expenses incurred or paid by a director, officer or controlling person of the Registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the Registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Act and will be governed by the final adjudication of such issue.

(c) The undersigned Registrant hereby undertakes that:

(1) For purposes of determining any liability under the Securities Act of 1933, the information omitted from the form of prospectus filed as part of this registration statement in reliance upon Rule 430A and contained in a form of prospectus filed by the Registrant pursuant to Rule 424(b)(1) or (4) or 497(h) under the Securities Act shall be deemed to be part of this registration statement as of the time it was declared effective.

(2) For the purpose of determining any liability under the Securities Act of 1933, each post-effective amendment that contains a form of prospectus shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the Registrant has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Plymouth, State of Wisconsin , on August 20, 2007.

ORION ENERGY SYSTEMS, INC.

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

Pursuant to the requirements of the Securities Act of 1933, this registration statement has been signed by the following persons in the capacities indicated on August 20, 2007. Each person whose signature appears below constitutes and appoints Neal R. Verfuerth and Daniel J. Waibel, and each of them individually, his or her true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution, for him or her and in his or her name, place and stead, in any and all capacities, to sign any and all amendments (including post-effective amendments) to this registration statement, and any additional registration statement to be filed pursuant to Rule 462(b) under the Securities Act of 1933, and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done in connection therewith, as fully to all intents and purposes as he or she might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or any of them, or their or his or her substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

Signature	Title
/s/ Neal R. Verfuerth Neal R. Verfuerth	President and Chief Executive Officer and Director (Principal Executive Officer)
/s/ Daniel J. Waibel Daniel J. Waibel	Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)
/s/ Thomas A. Quadracci Thomas A. Quadracci	Chairman of the Board
/s/ Michael J. Potts Michael J. Potts	Director and Executive Vice President
/s/ Diana Propper de Callejon Diana Propper de Callejon	Director
/s/ James R. Kackley James R. Kackley	Director
/s/ Eckhart G. Grohmann Eckhart G. Grohmann	Director
/s/ Patrick J. Trotter Patrick J. Trotter	Director

EXHIBIT INDEX

Number	Exhibit Title
1.1	Form of Underwriting Agreement.*
2.1	Form of Series C Senior Convertible Preferred Stock Purchase Agreement by and among Orion Energy Systems, Inc. and the signatories thereto.
2.2	Note Purchase Agreement between Orion Energy Systems, Inc. and the signatories thereto dated August 3, 2007.
3.1	Amended and Restated Articles of Incorporation of Orion Energy Systems, Inc.
3.2	Amendment to Amended and Restated Articles of Incorporation of Orion Energy Systems, Inc.
3.3	Form of Amended and Restated Articles of Incorporation of Orion Energy Systems, Inc. to be effective upon closing of this offering.
3.4	Amended and Restated Bylaws of Orion Energy Systems, Inc.
3.5	Form of Amended and Restated Bylaws of Orion Energy Systems, Inc. to be effective upon closing of this offering.
4.1	Amended and Restated Investors' Rights Agreement by and among Orion Energy Systems, Inc. and the signatories thereto, dated August 3, 2007.
4.2	Amended and Restated First Offer and Co-Sale Agreement among Orion Energy Systems, Inc. and the signatories thereto, dated August 3, 2007.
4.3	Form of Warrant to purchase Common Stock of Orion Energy Systems, Inc.
4.4	Form of Warrant to purchase Common Stock of Orion Energy Systems, Inc.
4.5	Credit and Security Agreement by and between Orion Energy Systems, Inc., Great Lakes Energy Technologies, LLC and Wells Fargo Bank, National Association, acting through its Wells Fargo Business Credit Operating Division, dated December 22, 2005, as amended January 26, 2006, June 30, 2006, March 29, 2007 and July 27, 2007.
4.6	Convertible Subordinated Promissory Note in favor of GE Capital Equity Investments, Inc. dated August 3, 2007.
4.7	Convertible Subordinated Promissory Note in favor of Clean Technology Fund II, L.P. dated August 3, 2007.
4.8	Convertible Subordinated Promissory Note in favor of Capvest Venture Fund, LP, dated August 3, 2007.
4.9	Convertible Subordinated Promissory Note in favor of Technology Transformation Venture Fund, LP, dated August 3, 2007.
5.1	Opinion of Foley & Lardner LLP.*

Table of Contents

Number	Exhibit Title
10.1	Employment Agreement by and between Bruce Wadman and Orion Energy Systems, Inc. dated October 1, 2005.
10.2	Employment Agreement by and between Neal Verfuerth and Orion Energy Systems, Inc. dated April 1, 2005.
10.3	Separation Agreement by and between Orion Energy Systems, Inc. and Bruce Wadman, effective July 5, 2007.*
10.4	Separation Agreement by and between Orion Energy Systems, Inc. and James Prange, effective July 18, 2007.*
10.5	Employment Agreement by and between John Scribante and Orion Energy Systems, Inc. dated June 2, 2006.
10.6	Orion Energy Systems, Inc. 2003 Stock Option Plan, as amended.
10.7	Form of Stock Option Agreement under the Orion Energy Systems, Inc. 2003 Stock Option Plan.
10.8	Amendment to Stock Option Agreement between Bruce Wadman and Orion Energy Systems, Inc. dated February 19, 2007.*
10.9	Orion Energy Systems, Inc. 2004 Stock and Incentive Awards Plan.
10.10	Form of Stock Option Agreement under the Orion Energy Systems, Inc. 2004 Equity Incentive Plan.
10.11	Form of Stock Option Agreement under the Orion Energy Systems, Inc. 2004 Stock and Incentive Awards Plan.
10.12	Form of Promissory Note and Collateral Pledge Agreement in favor of Orion Energy Systems, Inc. in connection with option exercises (all such notes were paid in full in July and August 2007).
10.13	Patent and Trademark Security Agreement by and between Orion Energy Systems, Inc. and Wells Fargo Bank, National Association, Acting Through its Wells Fargo Business Credit Operating Division, dated December 22, 2005.
10.14	Patent and Trademark Security Agreement by and between Great Lakes Energy Technologies, LLC and Wells Fargo Bank, National Association, Acting Through its Wells Fargo Business Credit Operating Division, dated December 22, 2005.
21.1	Subsidiaries of Orion Energy Systems, Inc.
23.1	Consent of Grant Thornton LLP.
23.2	Consent of Foley & Lardner LLP (contained in Exhibit 5.1 hereto).*
23.3	Consent of Wipfli LLP.
24.1	Power of Attorney (contained on signature page hereto).

* To be filed by amendment

Exhibit 2.1

ORION ENERGY SYSTEMS, LTD.

SERIES C SENIOR CONVERTIBLE PREFERRED

STOCK PURCHASE AGREEMENT

TABLE OF CONTENTS

			Page
1.	Purchase and Sale of Stock		1
	1.1	Sale and Issuance of Series C Preferred Stock	1
	1.2	Closing	1
	1.3	Use of Proceeds	1
2.	Representations and Warranties of the Company		2
	2.1	Organization, Good Standing and Qualification	2
	2.2	Existing Capitalization and Voting Rights of the Company	2
	2.3	Subsidiaries	3
	2.4	Authorization	3
	2.5	Valid Issuance of Preferred and Common Stock	3
	2.6	Governmental Consents	4
	2.7	Offering	4
	2.8	Litigation	4
	2.9	Patents and Trademarks	4
	2.10	Compliance with Other Instruments; No Conflicts	5
	2.11	Certain Contracts and Arrangements	6
	2.12	Related-Party Transactions	7
	2.13	Permits	7
	2.14	Environmental and Safety Laws	7
	2.15	Manufacturing, Marketing and Development Rights	7
	2.16	Registration Rights	8
	2.17	Corporate Documents	8
	2.18	Title to Property and Assets	8
	2.19	Financial Statements	8
	2.20	Changes	8
	2.21	Employee Benefit Plans	9
	2.22	Tax	9
	2.23	Insurance	10

			Page
	2.24	Minute Books	10
	2.25	Labor Agreements and Actions	10
	2.26	Significant Customers and Suppliers	11
	2.27	Inventory	11
	2.28	Accounts Receivable	11
	2.29	Product Warranty	11
	2.30	Disclosure	11
3.	Representations and Warranties of the Investors		12
	3.1	Authorization	12
	3.2	Purchase Entirely for Own Account	12
	3.3	Disclosure of Information	12
	3.4	Investment Experience	12
	3.5	Accredited Investor	13
	3.6	Restricted Securities	13
	3.7	Further Limitations on Disposition	13
	3.8	Legends	14
	3.9	Exculpation Among Investors	14
4.	Conditions of Investors' Obligations at Closing		14
	4.1	Closing Conditions	14
5.	Conditions of the Company's Obligations at the Closing		16
	5.1	Representations and Warranties	16
	5.2	Payment of Purchase Price	16
	5.3	Qualifications	16
	5.4	Consents, etc.	16
6.	Miscellaneous		16
	6.1	Survival of Warranties	16
	6.2	Successors and Assigns	16
	6.3	Governing Law	16
	6.4	Waiver of Jury Trial	16
	6.5	Titles and Subtitles	17

		Page
6.6	Notices	17
6.7	Finder's Fee	17
6.8	Indemnification	17
6.9	Expenses	18
6.10	Amendments and Waivers	18
6.11	Severability	18
6.12	Entire Agreement	18
6.13	Delays or Omissions	18
6.14	Counterparts	18

SCHEDULE A	Schedule of Investors
SCHEDULE B	Shareholders and Shares Held
SCHEDULE C	Officers and Employees Party to Proprietary Information Agreement
EXHIBIT A	Amended and Restated Articles of Incorporation
EXHIBIT B	Investors' Rights Agreement
EXHIBIT C	Offer and Co-Sale Agreement
EXHIBIT D	Proprietary Information Agreement
EXHIBIT E	Opinion of Foley & Lardner

ORION ENERGY SYSTEMS, LTD.

SERIES C SENIOR CONVERTIBLE PREFERRED
STOCK PURCHASE AGREEMENT

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

THE PARTIES HERETO HEREBY AGREE AS FOLLOWS:

1. Purchase and Sale of Stock.

1.1 Sale and Issuance of Series C Preferred Stock.

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

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

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

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

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

2. Representations and Warranties of the Company. The Company hereby represents and warrants to each Investor that, except as set forth on a Schedule of Exceptions (the "Schedule of Exceptions") furnished to each Investor, specifically identifying the relevant Section hereof, which exceptions shall be deemed to be representations and warranties as if made hereunder:

2.1 Organization, Good Standing and Qualification. The Company is a corporation duly organized, validly existing and in active status under the laws of the State of Wisconsin. Each of Great Lakes Energy Technologies, LLC and Orion Aviation, Inc. (collectively, the "Subsidiaries" and, together with the Company, the "Company Parties") is a limited liability company or corporation duly organized, validly existing and in good standing under the laws of Wisconsin. Each of the Company Parties has all requisite corporate power and authority to carry on its business as now conducted and as proposed to be conducted and to carry out the transactions contemplated by the Agreement and the Ancillary Agreements. Each of the Company Parties is duly qualified to transact business and is in good standing in each jurisdiction in which the failure to so qualify would have a material adverse effect on its assets, properties, financial condition, operating results, prospects or business as currently conducted and as proposed to be conducted by the Company Parties, taken as a whole (a "Material Adverse Effect").

2.2 Existing Capitalization and Voting Rights of the Company.

(a) The authorized capital of the Company consists, or will consist immediately prior to the Closing, of:

(i) Preferred Stock. 20,000,000 shares of Cumulative Preferred Stock, par value $0.01 per share (the "Preferred Stock"), of which (i) 500,000 shares are designated Series A Convertible 12% Cumulative Preferred Stock (the "Series A Preferred Stock"), of which 84,000 are issued and outstanding (64,000 of which are held by the Company in a fiduciary capacity), (ii) 4,000,000 shares are designated Series B Preferred Stock (the "Series B Preferred Stock"), of which 2,989,830 are issued and outstanding, and (iii) 2,000,000 shares are designated Series C Senior Convertible Preferred Stock (the "Series C Preferred Stock"), none of which are outstanding and 1,636,364 of which are to be sold pursuant to this Agreement. The rights, privileges and preferences of the Series A Preferred Stock, Series B Preferred Stock and Series C Preferred Stock are as stated in the Certificate.

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

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

(c) The outstanding shares of Common Stock and Preferred Stock are duly and validly authorized and issued, fully paid and nonassessable except to the extent provided in Section 180.0622 of the Wisconsin Statutes (hereinafter, "Nonassessable"),

and were issued in accordance with the registration or qualification provisions of the applicable federal and state securities laws of the United States and any relevant state securities laws, or pursuant to valid exemptions therefrom.

(d) Except for (A) the rights provided in Section 2.4 of that certain Investors' Rights Agreement in the form attached hereto as Exhibit B (the "Investors' Rights Agreement"), (B) an aggregate of 8,423,750 shares of Common Stock reserved for issuance upon the exercise of outstanding options granted or to be granted pursuant to the Company's 2003 Stock Option Plan and 2004 Equity Incentive Plan (the "Incentive Plans"), and (C) 1,099,110 shares of Common Stock reserved for issuance upon the exercise of outstanding warrants to purchase the Company's Common Stock, there are no outstanding options, warrants, rights (including conversion or preemptive rights) or agreements for the purchase or acquisition from the Company of any shares of its capital stock. The Company is not a party or subject to any agreement or understanding, and, to the Company's knowledge, there is no agreement or understanding between any persons and/or entities, which affects or relates to the voting or giving of written consents with respect to any security or by a director of the Company. No stock plan, stock purchase, stock option or other agreement or understanding between the Company and any holder of any securities or rights exercisable or convertible for securities provides for acceleration or other changes in the vesting provisions or other terms of such agreement or understanding as the result of the occurrence of any event, except as may be provided by the terms of the Incentive Plans.

2.3 Subsidiaries. The Company is the sole legal and beneficial owner of the entire issued share capital of each of the Subsidiaries. Other than the Subsidiaries, the Company does not own or control, directly or indirectly, any interest in any other corporation, association, or other business entity. The Company is not a participant in any joint venture, partnership or similar arrangement.

2.4 Authorization. All corporate action on the part of the Company, its officers, directors and shareholders necessary for the authorization, execution and delivery of this Agreement, the Investors' Rights Agreement, and that certain First Offer and Co-Sale Agreement in the form attached hereto as Exhibit C (the "First Offer and Co-Sale Agreement"), and together with the Investors' Rights Agreement, the "Ancillary Agreements"), the performance of all obligations of the Company hereunder and thereunder, and the authorization, issuance (or reservation for issuance), sale and delivery of the Shares being sold hereunder and the Conversion Shares has been taken or will be taken prior to or at the Closing, and this Agreement and the Ancillary Agreements constitute valid and legally binding obligations of the Company, enforceable in accordance with their respective terms, except (i) as limited by applicable bankruptcy, insolvency, reorganization, moratorium, and other laws of general application affecting enforcement of creditors' rights generally, (ii) as limited by laws relating to the availability of specific performance, injunctive relief, or other equitable remedies, and (iii) to the extent the indemnification provisions contained in the Investors' Rights Agreement may be limited by applicable federal or state securities laws.

2.5 Valid Issuance of Preferred and Common Stock. The Shares being purchased by the Investors hereunder, when issued, sold and delivered in accordance with the terms of this Agreement for the consideration expressed herein, will be duly and validly issued,

fully paid, and Nonassessable, and will be free of restrictions on transfer other than restrictions on transfer under this Agreement and the Ancillary Agreements and under applicable state and federal securities laws. The Conversion Shares have been duly and validly reserved for issuance and, upon issuance in accordance with the terms of the Certificate, will be duly and validly issued, fully paid, and Nonassessable and will be free of restrictions on transfer other than restrictions on transfer under this Agreement and the Ancillary Agreements and under applicable state and federal securities laws.

2.6 Governmental Consents. No consent, approval, order or authorization of, or registration, qualification, designation, declaration or filing with, any federal, state or local governmental authority on the part of the Company is required in connection with the execution, delivery and performance by the Company of this Agreement and the Ancillary Agreements or the offer, issuance and sale of the Shares and the Conversion Shares, or the consummation of the transactions contemplated by this Agreement, except (a) such filings as have been made prior to the date hereof, and (b) such other post-closing filings as may be required, each of which will be filed with the proper authority by the Company in a timely manner.

2.7 Offering. Subject in part to the truth and accuracy of each Investor's representations set forth in Section 3 of this Agreement, the offer, sale and issuance of the Shares as contemplated by this Agreement are exempt from the registration requirements of the Securities Act of 1933, as amended (the "Securities Act") and any applicable state securities laws. Neither the Company, nor any authorized agent acting on behalf of the Company, will take any action hereafter that would cause the loss of such exemptions.

2.8 Litigation. There is no action, suit, proceeding or investigation pending or, to the Company's knowledge, currently threatened in writing against any of the Company Parties that questions the validity of this Agreement or any Ancillary Agreement, or the right of the Company to enter into such agreements, or to consummate the transactions contemplated hereby or thereby, or that might have, either individually or in the aggregate, a Material Adverse Effect, nor is the Company aware that there is any basis for the foregoing. The foregoing includes, without limitation, actions, suits, proceedings or investigations pending or threatened in writing (or any basis therefor known to the Company) involving the prior employment of any of the employees of any of the Company Parties, their use in connection with each of the Company Parties' business of any information or techniques allegedly proprietary to any of their respective former employers, or their obligations under any agreements with prior employers. None of the Company Parties is a party or subject to the provisions of any order, writ, injunction, judgment or decree of any court or government agency or instrumentality. Except as set forth on the Schedule of Exceptions, there is no action, suit or proceeding by any of the Company Parties currently pending or that any of the Company Parties intends to initiate.

2.9 Patents and Trademarks. To the best of the Company's knowledge, each of the Company Parties has sufficient title and ownership, or sufficient rights to the use, of all patents, trademarks, service marks, trade names, domain names, copyrights, trade secrets, information, proprietary rights and processes necessary for its business as now conducted and as proposed to be conducted without, to the Company's knowledge, any conflict with, or violation or infringement of the rights of others, including, without limitation, any of the

Company Parties' present or former employees or the former or other employers of all such persons. The Schedule of Exceptions contains a complete list of patents and pending patent applications and registrations and applications for trademarks, copyrights and domain names of each of the Company Parties. Except as set forth on the Schedule of Exceptions, there are no outstanding options, licenses, agreements, claims, encumbrances or shared ownership of interests of any kind relating to anything referred to above in this Section 2.9, nor is any of the Company Parties bound by or a party to any options, licenses, agreements or warranties of any kind with respect to the patents, trademarks, service marks, trade names, domain names, copyrights, trade secrets, licenses, information, proprietary rights and/or processes of any other person or entity, except, in either case, for standard, generally commercially available, "off-the-shelf" third party products that are not and will not to any extent be part of any product, service or intellectual property offering of the Company. Except as set forth on the Schedule of Exceptions, none of the Company Parties has received any communications in writing alleging that a Company Party has violated, or by conducting its business as proposed, would violate any of the patents, trademarks, service marks, trade names, copyrights or trade secrets or other proprietary rights of any other person or entity and the Company is not aware of any potential basis for such an allegation or of any reason to believe that such an allegation may be forthcoming. The Company is not aware that any of its or either of the Subsidiaries' employees is obligated under any contract (including licenses, covenants or commitments of any nature) or other agreement, or subject to any judgment, decree or order of any court or administrative agency, that would interfere with the use of his or her best efforts to promote the interests of the Company and its Subsidiaries or that would conflict with the Company's and the Subsidiaries' business as now conducted and as proposed to be conducted. Neither the execution nor delivery of this Agreement, nor the carrying on of the Company's business by the employees of the Company, nor the conduct of the Company's business as proposed, will, to the Company's knowledge, conflict with or result in a breach of the terms, conditions or provisions of, or constitute a default under, any contract, covenant or instrument under which any of such employees is now obligated. The Company does not believe it is or will be necessary to use any inventions of any of its employees (or persons it currently intends to hire) made prior to their employment by the Company. The Company is not subject to any "open source" or "copyleft" obligations, or otherwise required (now or in the future) to make any public disclosure or general availability of source code either used or developed by, the Company.

2.10 Compliance with Other Instruments; No Conflicts. None of the Company Parties is in violation of any provision of its Articles of Incorporation or Bylaws or comparable governing documents, or in any material respect in violation or default of any instrument, judgment, order, writ, decree or contract to which it is a party or by which it is bound, or of any provision of any federal, state or local statute, rule or regulation applicable to any of the Company Parties. The execution, delivery and performance of this Agreement and the Ancillary Agreements, and the consummation of the transactions contemplated hereby and thereby will not result in any such violation or default or be in conflict with or constitute, with or without the passage of time and giving of notice, either a default under any such provision, instrument, judgment, order, writ, decree or contract or an event that results in the creation of any lien, charge or encumbrance upon any assets of any of the Company Parties or the suspension, revocation, impairment, forfeiture, or nonrenewal of any material permit, license, authorization, or approval applicable to any of the Company Parties, their business or operations or any of their assets or properties.

2.11 Certain Contracts and Arrangements. Except as set forth in this Agreement, the Ancillary Agreements or as set forth in the Schedule of Exceptions, none of the Company Parties is a party or subject to or bound by:

(a) any contract, agreement or understanding entered into in the ordinary course of business involving a potential commitment, obligation or payment by or to such Company Party in excess of $200,000;

(b) any (i) contract, agreement or understanding (other than contracts, agreements or understandings entered into in the ordinary course of business) or (ii) instrument, judgment, order, writ or decree; in each case involving a potential commitment, obligation or payment by or to such Company Party in excess of $100,000;

(c) any material license of any patent, copyright, trade secret or other proprietary right to or from such Company Party (other than the license to such Company Party of standard, generally commercially available, "off-the-shelf" third party products that are not and will not to any extent be part of any product, service or intellectual property offering of any of the Company Parties);

(d) provisions materially restricting the development, manufacture or distribution of such Company Parties' products or services;

(e) indemnification by such Company Party with respect to infringements of proprietary rights;

(f) any indenture, mortgage, promissory note, loan agreement, or guaranty;

(g) any employment contracts, noncompetition agreements, severance agreements or other agreements with present or former officers, directors, employees or shareholders of such Company Party or persons related to or affiliated with such persons;

(h) any stock redemption or purchase agreements or other agreements affecting or relating to the capital stock of such Company Party;

(i) any benefit plan relating to the employees of such Company Party, including pension, profit sharing, other deferred compensation plan or arrangement, bonus, retirement, health insurance, severance or stock option plans;

(j) any joint venture or partnership agreement;

(k) any manufacturer, development or supply agreement involving a potential commitment, obligation or payment by or to such Company Party in excess of $100,000; or

(l) any acquisition, merger or similar agreement.

All contracts, agreements, leases and instruments set forth on the Schedule of Exceptions are valid and are in full force and effect and constitute legal, valid and binding obligations of the Company and, to the knowledge of the Company, of the other parties, and are enforceable in accordance with their respective terms.

2.12 Related-Party Transactions. No employee, officer, director or shareholder of any of the Company Parties owning two percent (2%) or more of the total outstanding equity of any of the Company Parties (a "Related Party") or member of such Related Party's immediate family, or any corporation, partnership or other entity in which such Related Party is an officer, director or partner, or in which such Related Party has significant ownership interests or otherwise controls, is indebted to any of the Company Parties, nor is any of the Company Parties indebted (or committed to make loans or extend or guarantee credit) to any of them, other than (a) for payment of salary for services previously rendered in the ordinary course of business, (b) as reimbursement for reasonable expenses incurred on behalf of such Company Party in the ordinary course of business, (c) for other standard employee benefits made generally available to all employees (not including stock option agreements outstanding under any stock option plan approved by the Board of Directors of the Company), or (d) such other employee benefits as may be provided for in any written employment agreement or other written instrument. To the Company's knowledge, none of such persons has any direct or indirect ownership interest in any firm or corporation with which any of the Company Parties is affiliated or with which any of the Company Parties has a business relationship, or any firm or corporation that competes with any of the Company Parties, except that employees, officers, directors or shareholders of each of the Company Parties and members of such Related Party's immediate families may own stock in publicly traded companies that may compete with the Company Parties. No Related Party or member of their immediate family is directly or indirectly interested in any material contract with any of the Company Parties. The terms of any transaction with a Related Party (including, without limitation, transactions between the Company and each of the Subsidiaries) are on arms' length for any purpose, as reasonably determined based on professional advice, and have been approved by the Company or the Subsidiary, as the case may be, in accordance with applicable laws, rules and regulations. No terms of such transactions would reasonably be expected to result in a Material Adverse Effect.

2.13 Permits. Each of the Company Parties has all franchises, permits, licenses, and any similar authority necessary for the conduct of its business as now conducted and as proposed to be conducted, the lack of which could have a Material Adverse Effect. None of the Company Parties is in default in any material respect under any of such franchises, permits, licenses, or other similar authority.

2.14 Environmental and Safety Laws. None of the Company Parties is in violation of any applicable statute, law or regulation relating to the environment or occupational health and safety, which violation would have a Material Adverse Effect and no material expenditures are or, to the Company's knowledge, will be required in order to comply with any such existing statute, law or regulation.

2.15 Manufacturing, Marketing and Development Rights. The Company has not granted rights to manufacture, produce, assemble, license, market, or sell its

products to any other person and is not bound by any agreement that affects the Company's exclusive right to develop, manufacture, assemble, distribute, market or sell its products.

2.16 Registration Rights. Except as provided in the Investors' Rights Agreement, the Company has not granted or agreed to grant any registration rights, including piggyback rights, to any person or entity.

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

2.18 Title to Property and Assets. Each of the Company Parties owns its property and assets free and clear of all mortgages, liens, loans and encumbrances, except such encumbrances and liens that arise in the ordinary course of business and do not materially impair such Company Parties' ownership or use of such property or assets. With respect to the property and assets it leases, each of the Company Parties is in compliance with such leases and holds a valid leasehold interest free of any liens, claims or encumbrances.

2.19 Financial Statements. The Company has delivered to each Investor (a) its audited consolidated financial statements (balance sheet and income and cash flow statements, including notes thereto) at March 31, 2006 and for the fiscal year then ended, and (b) interim, unaudited financial statements as of June 30, 2006 (the "Financial Statements"). The Financial Statements have been prepared in accordance with United States generally accepted accounting principles ("GAAP") applied on a consistent basis throughout the periods indicated. The Financial Statements present the financial condition and operating results of the Company and the Subsidiaries on a consolidated basis as of the dates, and for the periods, indicated therein. Except as set forth in the Financial Statements, the Company has no material liabilities, contingent or otherwise, other than (i) liabilities incurred in the ordinary course of business subsequent to June 30, 2006 and (ii) obligations under contracts and commitments incurred in the ordinary course of business and not required under GAAP to be reflected in the Financial Statements, and which, individually or in the aggregate, are not material to the financial condition or operating results of the Company. The Company maintains a standard system of accounting established and administered in accordance with GAAP.

2.20 Changes. Since June 30, 2006, there has not been:

(a) any change in the assets, liabilities, financial condition or operating results of the Company from that reflected in the Financial Statements, except changes in the ordinary course of business that have not had a Material Adverse Effect;

(b) any damage, destruction or loss, whether or not covered by insurance, of any material asset of the Company;

(c) any waiver by any of the Company Parties of a valuable right or of a material debt owed to it;

(d) any satisfaction or discharge of any lien, claim or encumbrance or payment of any obligation by any of the Company Parties, except in the ordinary course of business and that has not had a Material Adverse Effect;

(e) any material change or amendment to a material contract;

(f) any material change in any compensation arrangement or agreement with any employee, officer or director;

(g) any sale, assignment or transfer of any patents, trademarks, copyrights, trade secrets or other intangible assets;

(h) any resignation or termination of employment of any key officer of the Company; and the Company, to its knowledge, does not know of the impending resignation or termination of employment of any such officer or key employee of the Company;

(i) receipt of notice that there has been a loss of, or material order cancellation by, any major customer of the Company;

(j) any mortgage, pledge, transfer of a security interest in, or lien, created by any of the Company Parties, with respect to any of its material properties or assets, except liens for taxes not yet due or payable and liens that arise in the ordinary course of business and do not materially impair such Company Parties' ownership or use of such property or assets;

(k) any loans or guarantees made by any of the Company Parties to or for the benefit of its employees, officers or directors, or any members of their immediate families, other than travel advances and other advances made in the ordinary course of its business;

(l) any declaration, setting aside or payment or other distribution in respect of any of the Company's capital stock, or any direct or indirect redemption, purchase or other acquisition of any of such stock by the Company, except to the extent specifically contemplated by this Agreement;

(m) to the Company's knowledge, any other event or condition of any character that would be reasonably likely to have a Material Adverse Effect; or

(n) any agreement or commitment by any of the Company Parties to do any of the things described in this Section 2.20.

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

2.22 Tax. None of the Company Parties is currently liable for any tax (whether income tax, capital gains tax, or otherwise), and any taxes which were due in the past (if at all) have been timely paid by the Company. Each of the Company Parties has accurately prepared and timely effected and filed all necessary filings (including income and payroll tax returns and filings that it is required to file) and reports (the "Tax Reports") with the appropriate tax authorities and has paid or made adequate provision for the payment of all amounts due pursuant to the Tax Reports as well as other taxes, assessments and governmental charges which have become due or payable. The Tax Reports are true and complete in all material respects and

accurately reflect all liability for taxes for the periods covered thereby. None of the Company Parties' tax returns have been audited by any taxing authority and none of the Company Parties has been advised that any of such Tax Reports have been or are being so audited. Each of the Company Parties has withheld or collected for each payment made to each of its employees, the amount of all taxes (including, but not limited to, federal income taxes, Federal Insurance Contribution Act taxes and Federal Unemployment Tax Act taxes) required to be withheld or collected therefrom and has timely paid the same to the proper tax receiving officers or authorized depositories. None of the Company Parties has notice that any tax return or report is under examination by any governmental entity.

2.23 Insurance. Each of the Company Parties has adequate insurance, with financially sound and reputable insurers, with respect to its properties, business and operations that are of a character customarily insured by entities engaged in the same or a similar business similarly situated, against loss or damage of the kinds customarily insured against by such entities, which insurance is of such types as are customarily carried under similar circumstances by such other entities.

2.24 Minute Books. The minute books of each of the Company Parties provided to the Investors contain a complete summary of all meetings of directors and shareholders since January 1, 2005 and reflect all transactions referred to in such minutes accurately in all material respects.

2.25 Labor Agreements and Actions. None of the Company Parties is bound by or subject to (and none of its assets or properties is bound by or subject to) any written or oral, express or implied, contract, commitment or arrangement with any labor union, and no labor union has requested or, to the Company's knowledge, has sought to represent any of the employees, representatives or agents of any of the Company Parties. There is no strike or other labor dispute involving any of the Company Parties pending, or to the Company's knowledge, threatened, that could have a Material Adverse Effect, nor is the Company aware of any labor organization activity involving the employees of any of the Company Parties. The Company is not aware that any officer or key employee, or that any group of key employees, intends to terminate their employment with any of the Company Parties, nor does the Company have a present intention to terminate the employment of any of the foregoing. The employment of each officer and employee of each of the Company Parties is terminable at the will of such Company Party. To the Company's knowledge, each of the Company Parties has complied in all material respects with all applicable federal, state and provincial equal employment opportunity and other laws related to employment. None of the Company Parties is subject to, and none of their employees benefit from, any collective bargaining agreement by way of any applicable employment laws and regulations and extension orders. All employees of the Company whose employment responsibility requires access to confidential or proprietary information of the Company have executed and delivered Propriety Information and Intellectual Property Agreements in the form of Exhibit D ("Proprietary Information Agreements) and all of such agreements are in full force and effect. None of the employees of the Company is represented by any labor union, and there is no labor strike or other labor trouble pending with respect to the Company (including, without limitation any organizational drive) or, to the best of the Company's knowledge, threatened.

2.26 Significant Customers and Suppliers. Section 2.26 of the Schedule of Exceptions sets forth a list of (a) each customer that accounted for more than one percent (1%) of the consolidated revenues of the Company during the last full fiscal year or the interim period through June 30, 2006 and the amount of revenues accounted for by such customer during each such period and (b) each supplier that is the sole supplier of any significant product to the Company or a Subsidiary. No such customer or supplier has indicated within the past year that it will stop, or decrease the rate of, buying products or supplying products, as applicable, to the Company or any Subsidiary. No unfilled customer order or commitment obligating the Company or any Subsidiary to process, manufacture or deliver products or perform services will result in a loss to the Company or any Subsidiary upon completion of performance. No purchase order or commitment of the Company or any Subsidiary is in excess of normal requirements, nor are prices provided therein in excess of current market prices for the products or services to be provided thereunder.

2.27 Inventory. All inventory of the Company and the Subsidiaries, whether or not reflected on the Financial Statements, consists of a quality and quantity usable and saleable in the Ordinary Course of Business, except for obsolete items and items of below-standard quality, all of which have been written-off or written-down to net realizable value on the Financial Statements. All inventories not written-off have been priced at cost on a first-in, first out basis. The quantities of each type of inventory, whether raw materials, work-in-process or finished goods, are not excessive in the present circumstances of the Company and the Subsidiaries.

2.28 Accounts Receivable. All accounts receivable of the Company and the Subsidiaries reflected on the Financial Statements are valid receivables subject to no setoffs or counterclaims and are current and collectible (within 90 days after the date on which it first became due and payable), net of the applicable reserve for bad debts on the Financial Statements. All accounts receivable reflected in the financial or accounting records of the Company that have arisen since June 30, 2006 are valid receivables subject to no setoffs or counterclaims and are collectible (within 90 days after the date on which it first became due and payable), net of a reserve for bad debts in an amount proportionate to the reserve shown on the Financial Statements.

2.29 Product Warranty. No product manufactured, sold, leased, licensed or delivered by the Company or any Subsidiary is subject to any guaranty, warranty, right of return, right of credit or other indemnity other than (i) the applicable standard terms and conditions of sale or lease of the Company or the appropriate Subsidiary, which are set forth in Section 2.29 of the Schedule of Exceptions and (ii) manufacturers' warranties for which neither the Company nor any Subsidiary has any liability. Section 2.29 of the Disclosure Schedule sets forth the aggregate expenses incurred by the Company and the Subsidiaries in fulfilling their obligations under their guaranty, warranty, right of return and indemnity provisions during each of the fiscal years and the interim period covered by the Financial Statements; and the Company does not know of any reason why such expenses should significantly increase as a percentage of sales in the future.

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

Agreement, including all Exhibits and Schedules hereto, and the 2007 Operating Plan, dated March 6, 2006, furnished to the Investors in connection with the transactions contemplated by this Agreement, when read together, do not contain any untrue statement of a material fact or omit a material fact necessary in order to make the statements contained herein or therein, in the light of the circumstances under which they were made, not misleading. The Company knows of no information or fact which has or would have a Material Adverse Effect, which has not been disclosed in the Schedule of Exceptions. Each projection furnished in the Plan was prepared in good faith based on reasonable assumptions and respects the Company's best estimate of future results based on information available as of the date of the Plan.

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

3.1 Authorization. Such Investor has full power and authority to enter into this Agreement and the Ancillary Agreements, and each such agreement constitutes its valid and legally binding obligation, enforceable in accordance with its terms except (i) as limited by applicable bankruptcy, insolvency, reorganization, moratorium, and other laws of general application affecting enforcement of creditors' rights generally, (ii) as limited by laws relating to the availability of specific performance, injunctive relief, or other equitable remedies, and (iii) to the extent the indemnification provisions contained in the Investors' Rights Agreement may be limited by applicable federal, state or provincial securities laws.

3.2 Purchase Entirely for Own Account. This Agreement is made with such Investor in reliance upon such Investor's representation to the Company, which by such Investor's execution of this Agreement such Investor hereby confirms, that the Shares to be received by such Investor and the Conversion Shares (collectively, the "Securities") will be acquired for investment for such Investor's own account, not as a nominee or agent, and not with a view to the distribution of any part thereof, and that such Investor has no present intention of selling, granting any participation in, or otherwise distributing the same. By executing this Agreement, such Investor further represents that such Investor does not have any contract, undertaking, agreement or arrangement with any person to sell, transfer or grant participations to such person or to any third person, with respect to any of the Securities.

3.3 Disclosure of Information. Such Investor further represents that it has had an opportunity to ask questions and receive answers from the Company regarding the terms and conditions of the offering of the Shares and the business, properties, prospects and financial condition of the Company. The foregoing, however, does not limit or modify the representations and warranties of the Company in Section 2 of this Agreement or the right of the Investors to rely thereon.

3.4 Investment Experience. Such Investor is an investor in securities of companies in the development stage and acknowledges that it is able to fend for itself, can bear the economic risk of its investment, and has such knowledge and experience in financial or business matters that it is capable of evaluating the merits and risks of the investment in the Shares. If other than an individual, Investor also represents it has not been organized for the purpose of acquiring the Shares.

3.5 Accredited Investor. The Investor is an "accredited investor" within the meaning of SEC Rule 501 of Regulation D, as presently in effect and understands the meaning of that term.

3.6 Restricted Securities. Each Investor understands that the Securities have not been, and shall not be (except to the extent provided in the Investors' Rights Agreement, to the extent performed), registered under the Securities Act, by reason of a specific exemption from the registration provisions of the Securities Act which depends upon, among other things, the bona fide nature of the investment intent and the accuracy of the Investor's representations as expressed herein. Each Investor understands that the Securities are "restricted securities" under applicable U.S. federal and state securities laws and that, pursuant to these laws, the Investor must hold the Securities indefinitely unless they are registered with the SEC and qualified by state authorities, or an exemption from such registration and qualification requirements is available. Each Investor acknowledges that the Company has no obligation to register or qualify the Securities for resale except as set forth in the Investors' Rights Agreement. Each Investor further acknowledges that if an exemption from registration or qualification is available, it may be conditioned on various requirements including, but not limited to, the time and manner of sale, the holding period for the Securities, and on requirements relating to the Company which are outside of the Investor's control, and which the Company is under no obligation (except to the extent provided in the Investors' Rights Agreement) and may not be able to satisfy.

3.7 Further Limitations on Disposition. Without in any way limiting the representations set forth above, such Investor further agrees not to make any disposition of all or any portion of the Securities unless and until:

(a) There is then in effect a Registration Statement under the Act covering such proposed disposition and such disposition is made in accordance with such Registration Statement; or

(b) (i) Such Investor shall have notified the Company of the proposed disposition and (ii) if reasonably requested by the Company, such Investor shall have furnished the Company with an opinion of counsel, that such disposition will not require registration of such shares under the Act. It is agreed that the Company will not require opinions of counsel for transactions made pursuant to Rule 144 except in unusual circumstances.

(c) Notwithstanding the provisions of subsections (a) and (b) above, no such registration statement or opinion shall be necessary for a transfer by an Investor that is a partnership to a partner of such partnership or a retired partner of such partnership who retires after the date hereof, or to the estate of any such partner or retired partner or the transfer by gift, will or intestate succession of any partner to his or her spouse or to the siblings, lineal descendants or ancestors of such partner or his or her spouse in each case so long as the prospective transferee agrees in all such instances in writing to be subject to the terms hereof to the same extent as if he or she were an original Investor hereunder or to any other entity which controls, is controlled by or is under common control with such Investor

3.8 Legends. It is understood that the certificates evidencing the Securities may bear one or more of the following legends:

(a) "These securities have not been registered under the Securities Act of 1933, as amended. They may not be sold, offered for sale, pledged or hypothecated except pursuant to an effective registration statement in effect with respect to the securities under the Act or unless sold pursuant to Rule 144 of such Act or in compliance with Regulation S under the Act."

(b) Any legend set forth in the Ancillary Agreements.

(c) Any legend required by the Blue Sky laws of any state or the securities laws of any province to the extent such laws are applicable to the Securities represented by the certificate so legended.

3.9 Exculpation Among Investors. Each Investor acknowledges that it is not relying upon any person, firm or corporation, other than the Company and its officers and directors, in making its investment or decision to invest in the Company. Each Investor agrees that no Investor nor the respective controlling persons, officers, directors, partners, agents, or employees of any Investor shall be liable to any other Investor for any action heretofore or hereafter taken or omitted to be taken by any of them in connection with the purchase of the Securities.

4. Conditions of Investors' Obligations at Closing

4.1 Closing Conditions. The obligations of each Investor under Sections 1.1(c) and 1.2 of this Agreement are subject to the fulfillment on or before the Closing of each of the following conditions. The waiver of any condition hereunder shall be effective only if given in writing by the Investors purchasing a majority of the Series C Preferred Stock to be purchased at the Closing:

(a) Representations and Warranties. The representations and warranties of the Company contained in Section 2 shall be true on and as of the Closing with the same effect as if made on and as of such date (except where otherwise specifically provided in such representations).

(b) Performance. The Company shall have performed and complied with all agreements, obligations and conditions contained in this Agreement that are required to be performed or complied with by it on or before the Closing.

(c) Compliance Certificate. The President of the Company shall deliver to each Investor at the Closing a certificate stating that the conditions specified in this Section 4.1 have been fulfilled.

(d) Qualifications. All authorizations, approvals, or permits, if any, of any governmental authority or regulatory body of the United States or of any state that are required in connection with the lawful issuance and sale of the Securities being issued and

sold at the Closing pursuant to this Agreement shall be duly obtained and effective as of the Closing.

(e) Proceedings and Documents. All corporate and other proceedings in connection with the transactions contemplated at the Closing and all documents incident thereto shall be reasonably satisfactory in form and substance to the Investors, and they shall have received all such counterpart original and certified or other copies of such documents as they may reasonably request.

(f) Consents, etc. The Company shall have secured all permits, consents and authorizations that shall be necessary or required lawfully to consummate this Agreement and to issue the Shares.

(g) Secretary's Certificate. The Secretary of the Company shall deliver to each Investor at the Closing a certificate stating that the copies of the Certificate, Bylaws and Board of Director and shareholder resolutions relating to the sale of the Shares attached thereto are true and complete copies of such documents and resolutions.

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

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

(ii) A certificate, as of the most recent practicable date, as to the active corporate status of the Company issued by the Department of Financial Institutions of the State of Wisconsin.

(i) Proprietary Information Agreements. Each of the officers and employees of the Company listed on Schedule C hereto shall have entered into a Proprietary Information Agreement substantially in the form attached hereto as Exhibit D.

(j) Opinion of Company Counsel. Each Investor shall have received from Foley & Lardner LLP, counsel for the Company, an opinion, dated as of the Closing, in substantially the form attached hereto as Exhibit E.

(k) Investors' Rights Agreement. The Company and each other party thereto shall have entered into the Investors' Rights Agreement.

(l) First Offer and Co-Sale Agreement. The Company and each other party thereto shall each have entered into the First Offer and Co-Sale Agreement.

(m) Waiver of Preemptive Rights. The Company shall have delivered to the Investors a written waiver from each of the shareholders of the Company, if any, who has preemptive rights, by which such shareholder confirms that such shareholder waives any rights of preemption, over allotment or participation with respect to the issuance of the Shares.

5. Conditions of the Company's Obligations at the Closing. The obligations of the Company to each Investor under this Agreement are subject to the fulfillment on or before the Closing of each of the following conditions by that Investor:

5.1 Representations and Warranties. The representations and warranties of the Investors contained in Section 3 shall be true on and as of the Closing.

5.2 Payment of Purchase Price. The Investors shall have delivered the Series C Purchase Price pursuant to Section 1.2 hereof.

5.3 Qualifications. All authorizations, approvals, or permits, if any, of any governmental authority or regulatory body of the United States or of any state that are required in connection with the lawful issuance and sale of the Shares pursuant to this Agreement shall be duly obtained and effective as of the Closing.

5.4 Consents, etc. The Company shall have secured all permits, consents and authorizations that shall be necessary or required lawfully to consummate this Agreement and to issue the Shares.

6. Miscellaneous.

6.1 Survival of Warranties. The warranties, representations and covenants of the Company and Investors contained in or made pursuant to this Agreement shall survive the execution and delivery of this Agreement and the Closing and shall in no way be affected by any investigation of the subject matter thereof made by or on behalf of the Investors or the Company.

6.2 Successors and Assigns. Except as otherwise provided herein, the terms and conditions of this Agreement shall inure to the benefit of and be binding upon the respective successors and assigns of the parties (including transferees of any Securities). Nothing in this Agreement, express or implied, is intended to confer upon any party other than the parties hereto or their respective successors and assigns any rights, remedies, obligations, or liabilities under or by reason of this Agreement, except as expressly provided in this Agreement. None of the rights, privileges, or obligations set forth in, arising under, or created by this Agreement may be assigned or transferred without the prior consent in writing by holders of a majority of the Series C Preferred Stock purchased pursuant to this Agreement, with the exception of assignments and transfers by an Investor to any other entity or individual who controls, is controlled by or is under common control with such Investor or any entity that is managed by the same joint management company as such Investor or any entity that is the general partner or limited partner of such Investor.

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

6.4 Waiver of Jury Trial. TO THE EXTENT EACH MAY LEGALLY DO SO, EACH PARTY HERETO HEREBY EXPRESSLY WAIVES ANY RIGHT TO TRIAL BY JURY OF ANY CLAIM, DEMAND, ACTION, CAUSE OF ACTION, OR

PROCEEDING ARISING UNDER OR WITH RESPECT TO THIS AGREEMENT, OR IN ANY WAY CONNECTED WITH, OR RELATED TO, OR INCIDENTAL TO, THE DEALING OF THE PARTIES HERETO WITH RESPECT TO THIS AGREEMENT, OR THE TRANSACTIONS RELATED THERETO, IN EACH CASE WHETHER NOW EXISTING OR HEREAFTER ARISING, AND IRRESPECTIVE OF WHETHER SOUNDING IN CONTRACT, TORT, OR OTHERWISE. TO THE EXTENT EACH MAY LEGALLY DO SO, EACH PARTY HERETO HEREBY AGREES THAT ANY SUCH CLAIM, DEMAND, ACTION, OR PROCEEDING SHALL BE DECIDED BY A COURT TRIAL WITHOUT A JURY AND THAT EITHER PARTY HERETO MAY FILE AN ORIGINAL COUNTERPART OR A COPY OF THIS AGREEMENT WITH ANY COURT AS WRITTEN EVIDENCE OF THE CONSENT OF ANY OTHER PARTY HERETO TO THE WAIVER OF ITS RIGHT TO TRIAL BY JURY.

6.5 Titles and Subtitles. The titles and subtitles used in this Agreement are used for convenience only and are not to be considered in construing or interpreting this Agreement.

6.6 Notices. All notices and other communications given or made pursuant hereto shall be in writing and shall be deemed effectively given: (i) upon personal delivery to the party to be notified, (ii) when sent by confirmed electronic mail or facsimile if sent during normal business hours of the recipient; if not, then on the next business day, (iii) five (5) days after having been sent by registered or certified mail, return receipt requested, postage prepaid, or (iv) one (1) day after deposit with a nationally recognized overnight courier, specifying next day delivery, with written verification of receipt. All communications shall be sent to the respective parties at the addresses set forth on the signature pages attached hereto (or at such other addresses as shall be specified by notice given in accordance with this Section 6.6).

6.7 Finder’s Fee. Each party represents that it neither is nor will be obligated for any finders’ fee or commission in connection with this transaction. Each Investor agrees to indemnify and to hold harmless the Company from any liability for any commission or compensation in the nature of a finder’s fee (and the costs and expenses of defending against such liability or asserted liability) for which such Investor or any of its officers, partners, employees, or representatives is responsible. The Company agrees to indemnify and hold harmless each Investor from any liability for any commission or compensation in the nature of a finder’s fee (and the costs and expenses of defending against such liability or asserted liability) for which the Company or any of its officers, employees or representatives is responsible.

6.8 Indemnification. The Company agrees (i) to indemnify and hold harmless the Investors, their affiliates and their respective directors, officers, employees, agents and controlling persons (each, an “Indemnified Person”), from and against any losses, claims, demands, damages or liabilities of any kind (other than losses which arise solely out of market risk) (collectively, “Liabilities”) arising out of or related to this Agreement or the Ancillary Agreements, and/or the investment in the Company, and (ii) to reimburse each Indemnified Person for all reasonable expenses (including, but not limited to, reasonable fees and disbursements of counsel) incurred by such Indemnified Person in connection with investigating, preparing, responding to or defending any investigative, administrative, judicial or regulatory action or proceeding in any jurisdiction related to or arising out of such activities, services,

transactions or role, whether or not in connection with pending or threatened litigation to which any Indemnified Person is a party, in each case as such expenses are incurred or paid; provided, that the foregoing indemnification shall not, as to any Indemnified Person, apply to any such Liabilities or expenses to the extent that they are finally judicially determined to have resulted primarily from such Indemnified Person's gross negligence or willful misconduct.

6.9 Expenses. Each party shall pay its own costs and expenses incurred with respect to the negotiation, execution, delivery and performance of this Agreement; provided, that the Company shall, at the Closing, reimburse the reasonable and actual out-of-pocket legal, technical and other professional fees and expenses incurred by the Investors, up to a total amount of $65,000, in connection with the transactions contemplated hereby.

6.10 Amendments and Waivers. Any term of this Agreement may be amended and the observance of any term of this Agreement may be waived (either generally or in a particular instance and either retroactively or prospectively), only with the written consent of the Company and Investors purchasing or holding a majority of the Shares purchased or to be purchased hereunder. Any amendment or waiver effected in accordance with this section shall be binding upon each holder of any securities purchased under this Agreement at the time outstanding (including securities into which such securities are convertible), each future holder of all such securities, and the Company. Notwithstanding the foregoing, no investment amount initially set forth on Schedule A may be changed without the consent of such Investor.

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

6.12 Entire Agreement. This Agreement and the documents referred to herein constitute the entire agreement among the parties and no party shall be liable or bound to any other party in any manner by any warranties, representations, or covenants except as specifically set forth herein or therein.

6.13 Delays or Omissions. No delay or omission to exercise any right, power, or remedy accruing to any party upon any breach or default under this Agreement, shall be deemed a waiver of any other breach or default theretofore or thereafter occurring. Any waiver, permit, consent, or approval of any kind or character on the part of any party of any breach or default under this Agreement, or any waiver on the part of any party of any provisions or conditions of this Agreement, must be in writing and shall be effective only to the extent specifically set forth in such writing. All remedies, either under this Agreement or by law or otherwise afforded to any of the parties, shall be cumulative and not alternative.

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

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

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

COMPANY

ORION ENERGY SYSTEMS, LTD.

By: ______________________________________
Name: Neal R. Verfuerth
Title: President

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

With copies to:

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

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

INVESTOR:

By: ______________________________________
Name:
Title:

Address:

SIGNATURE PAGE TO SERIES C PREFERRED STOCK PURCHASE AGREEMENT FOR ORION ENERGY SYSTEMS, LTD.

Schedule A

Investors

Investor	**Shares**
______________	______
Total ______________	______

Schedule B

Shareholders and Shares Held

[See Attached]

Schedule C

Officers and Employees Party to Proprietary Information Agreement

Exhibit 2.2

Execution Copy

ORION ENERGY SYSTEMS, INC.

NOTE PURCHASE AGREEMENT

August 3, 2007

TABLE OF CONTENTS

		Page
1.	Purchase and Sale of Note	4
1.1	Sale and Issuance of Subordinated Convertible Promissory Notes	4
1.2	Closing	4
1.3	Use of Proceeds	4
2.	Representations and Warranties of the Company	5
2.1	Organization, Good Standing and Qualification	5
2.2	Existing Capitalization and Voting Rights of the Company	5
2.3	Subsidiaries	6
2.4	Authorization	6
2.5	Valid Issuance of Notes and Common Stock	7
2.6	Governmental Consents	7
2.7	Offering	7
2.8	Compliance with Law	7
2.9	Litigation	7
2.10	Patents and Trademarks	8
2.11	Compliance with Other Instruments; No Conflicts	9
2.12	Certain Contracts and Arrangements	9
2.13	Related-Party Transactions	10
2.14	Permits	11
2.15	Safety Laws	11
2.16	Environmental Matters	11
2.17	Manufacturing, Marketing and Development Rights	13
2.18	Registration Rights	13
2.19	Corporate Documents	13
2.20	Title to Property and Assets	13
2.21	Financial Statements	13
2.22	Changes	13
2.23	Employee Benefit Plans	15

		Page
2.24	Tax	15
2.25	Insurance	15
2.26	Minute Books	15
2.27	Labor Agreements and Actions	15
2.28	Significant Customers and Suppliers	16
2.29	Inventory	16
2.30	Accounts Receivable	16
2.31	Product Warranty	17
2.32	Indebtedness	17
2.33	Margin Regulations	17
2.34	Investment Company	17
2.35	Disclosure	17
3.	Representations and Warranties of the Investors	18
3.1	Authorization	18
3.2	Purchase Entirely for Own Account	18
3.3	Disclosure of Information	18
3.4	Investment Experience	18
3.5	Accredited Investor	18
3.6	Restricted Securities	18
3.7	Further Limitations on Disposition	19
3.8	Legends	19
3.9	Exculpation Among Investors	20
4.	Conditions of Investors' Obligations at Closing	20
4.1	Closing Conditions	20
5.	Conditions of the Company's Obligations at the Closing	22
5.1	Representations and Warranties	22
5.2	Payment of Purchase Price	22
5.3	Qualifications	22
5.4	Consents, etc.	22
5.5	Investors' Rights Agreement	22

		Page
5.6	First Offer and Co-Sale Agreement	22
5.7	Waiver of Series C Investors	22
5.8	Lock-up Agreements	22
6.	Miscellaneous	22
6.1	Survival of Warranties	22
6.2	Successors and Assigns	22
6.3	Governing Law	23
6.4	Exclusive Jurisdiction	23
6.5	Waiver of Jury Trial	23
6.6	Titles and Subtitles	23
6.7	Notices	23
6.8	Finder's Fee	24
6.9	Indemnification	24
6.10	Expenses	24
6.11	Amendments and Waivers	24
6.12	Severability	25
6.13	Entire Agreement	25
6.14	Delays or Omissions	25
6.15	Public Announcements	25
6.16	Counterparts	25

SCHEDULE 1 Investors
SCHEDULE 2 Key Employees

EXHIBIT A Form of Convertible Note
EXHIBIT B Form of Amended and Restated Investors' Rights Agreement
EXHIBIT C Form of Amended and Restated Offer and Co-Sale Agreement
EXHIBIT D Form of Proprietary Information Agreement
EXHIBIT E Form of Opinion of Foley & Lardner LLP
EXHIBIT F Form of Lock-up Agreement

Schedule of Exceptions

ORION ENERGY SYSTEMS, INC.

NOTE PURCHASE AGREEMENT

THIS NOTE PURCHASE AGREEMENT (the "Agreement") is made as of the 3rd day of August, 2007, by and among Orion Energy Systems, Inc., a Wisconsin corporation (the "Company"), and the investors identified on the attached Schedule 1 (the "Investors").

In consideration of the foregoing and the respective representations, warranties, covenants, agreements and conditions hereinafter set forth, the parties agree as follows.

1. Purchase and Sale of Note.

1.1 Sale and Issuance of Subordinated Convertible Promissory Notes.

(a) Prior to the Closing the Company shall authorize (i) the sale and issuance to each of the Investors of a Subordinated Convertible Promissory Note in the form attached hereto as Exhibit A (each a "Note" and together the "Notes") in the amount set forth for such Investor on Schedule 1 (the "Purchase Price") and (ii) the issuance of the shares of Common Stock to be issued upon conversion of the Notes (the "Conversion Shares") (together, the Notes and the Conversion Shares are referred to as the "Securities"). The Conversion Shares shall have the rights, preferences, privileges and restrictions set forth in the Company's Amended and Restated Articles of Incorporation dated July 31, 2006 (the "Articles of Incorporation").

(b) Subject to the terms and conditions of this Agreement, Investor agrees to purchase at the Closing, and the Company agrees to sell and issue to Investors at the Closing, the Notes for the Purchase Price.

1.2 Closing. The purchase and sale of the Notes (the "Closing") shall take place at the offices of Foley & Lardner LLP, 777 E. Wisconsin Avenue, Milwaukee, Wisconsin, at 10:00 A.M. (local time), on August 3, 2007, or at such other time and place as the Company and Investors agree upon orally or in writing (the "Closing Date"). At the Closing, the Company shall deliver to each Investor the duly executed Note that such Investor is purchasing against payment of the Purchase Price therefor by wire transfer to an account designated by Company prior to the Closing Date.

1.3 Use of Proceeds. The Company will use the proceeds from the sale of the Notes for general corporate purposes, including additional working capital to support the expansion of the Company's national account and electrical contractor customer relationships, manufacturing and distribution capabilities, research and development initiatives and sales and marketing force, and to enhance the Company's liquidity and reduce dependence on obtaining additional debt financing.

2. Representations and Warranties of the Company. The Company hereby represents and warrants to each Investor that, except as set forth on a Schedule of Exceptions (the "Schedule of Exceptions") furnished to the Investors, specifically identifying the relevant Section hereof, which exceptions shall be deemed to be representations and warranties as if made hereunder:

2.1 Organization, Good Standing and Qualification. The Company is a corporation duly organized, validly existing and in active status under the laws of the State of Wisconsin. Each of Great Lakes Energy Technologies, LLC, Clean Energy Solutions, LLC and Energy Capital Partners, LLC (collectively, the "Subsidiaries" and, together with the Company, the "Company Parties") is a limited liability company or corporation duly organized, validly existing and in good standing under the laws of Wisconsin. Each of the Company Parties has all requisite corporate power and authority to carry on its business as now conducted and as proposed to be conducted and to carry out the transactions contemplated by the Agreement and the Ancillary Agreements. Each of the Company Parties is duly qualified to transact business and is in good standing in each jurisdiction in which the failure to so qualify would have a material adverse effect on its assets, properties, financial condition, operating results, prospects or business as currently conducted and as proposed to be conducted by the Company Parties, taken as a whole (a "Material Adverse Effect").

2.2 Existing Capitalization and Voting Rights of the Company.

(a) The authorized capital of the Company consists, or will consist immediately prior to the Closing, of:

(i) Preferred Stock. 20,000,000 shares of Cumulative Preferred Stock, par value $0.01 per share (the "Preferred Stock"), of which (i) 4,000,000 shares are designated Series B Preferred Stock (the "Series B Preferred Stock"), of which 2,989,830 are issued and outstanding, and (ii) 2,000,000 shares are designated Series C Senior Convertible Preferred Stock (the "Series C Preferred Stock"), of which 1,818,182 are issued and outstanding. The rights, privileges and preferences of the Series B Preferred Stock and Series C Preferred Stock are as stated in the Articles of Incorporation.

(ii) Common Stock. 80,000,000 shares of Common Stock, no par value (the "Common Stock"), of which 12,086,237 shares are issued and outstanding.

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

(c) The outstanding shares of Common Stock and Preferred Stock are duly and validly authorized and issued, fully paid and nonassessable except to the extent provided in Section 180.0622 of the Wisconsin Statutes (hereinafter,

"Nonassessable"), and were issued in accordance with the registration or qualification provisions of the applicable federal and state securities laws of the United States and any relevant state securities laws, or pursuant to valid exemptions therefrom.

(d) Except for (i) the rights provided in Section 2.4 of that certain Amended and Restated Investors' Rights Agreement in the form attached hereto as Exhibit B (the "Investors' Rights Agreement"), (ii) an aggregate of 5,345,577 shares of Common Stock reserved for issuance upon the exercise of outstanding options granted or to be granted pursuant to the Company's 2003 Stock Option Plan and 2004 Equity Incentive Plan (the "Incentive Plans"), and (iii) 794,390 shares of Common Stock reserved for issuance upon the exercise of outstanding warrants to purchase the Company's Common Stock, there are no outstanding options, warrants, rights (including conversion or preemptive rights) or agreements for the purchase or acquisition from the Company of any shares of its capital stock. The Company is not a party or subject to any agreement or understanding, and, to the Company's knowledge, there is no agreement or understanding between any persons and/or entities, which affects or relates to the voting or giving of written consents with respect to any security or by a director of the Company. No stock plan, stock purchase, stock option or other agreement or understanding between the Company and any holder of any securities or rights exercisable or convertible for securities provides for acceleration or other changes in the vesting provisions or other terms of such agreement or understanding as the result of the occurrence of any event, except as may be provided by the terms of the Incentive Plans.

2.3 Subsidiaries. The Company is the sole legal and beneficial owner of the entire issued share capital of each of the Subsidiaries. Other than the Subsidiaries, the Company does not own or control, directly or indirectly, any interest in any other corporation, association, or other business entity. The Company is not a participant in any joint venture, partnership or similar arrangement.

2.4 Authorization. All corporate action on the part of the Company, its officers, directors and shareholders necessary for the authorization, execution and delivery of this Agreement, the Notes, the Investors' Rights Agreement, and that certain Amended and Restated First Offer and Co-Sale Agreement in the form attached hereto as Exhibit C (the "First Offer and Co-Sale Agreement") (together with the Investors' Rights Agreement, the "Ancillary Agreements"), the performance of all obligations of the Company hereunder and thereunder, and the authorization, issuance (or reservation for issuance), sale and delivery of the Securities being sold hereunder has been taken or will be taken prior to or at the Closing, and this Agreement, the Notes, and the Ancillary Agreements constitute valid and legally binding obligations of the Company, enforceable in accordance with their respective terms, except (a) as limited by applicable bankruptcy, insolvency, reorganization, moratorium, and other laws of general application affecting enforcement of creditors' rights generally, (b) as limited by laws relating to the availability of specific performance, injunctive relief, or other equitable remedies, and (c)

to the extent the indemnification provisions contained in the Investors' Rights Agreement may be limited by applicable federal or state securities laws.

2.5 Valid Issuance of Notes and Common Stock. The Securities being purchased by the Investor hereunder, when issued, sold and delivered in accordance with the terms of this Agreement for the consideration expressed herein, will be duly and validly issued, fully paid, and Nonassessable, and will be free of restrictions on transfer other than restrictions on transfer under this Agreement and the Ancillary Agreements and under applicable state and federal securities laws. The Conversion Shares have been duly and validly reserved for issuance and, upon issuance in accordance with the terms of the Notes, will be duly and validly issued, fully paid, and Nonassessable and will be free of restrictions on transfer other than restrictions on transfer under this Agreement and the Ancillary Agreements and under applicable state and federal securities laws.

2.6 Governmental Consents. No consent, approval, order or authorization of, or registration, qualification, designation, declaration or filing with, any federal, state or local governmental authority on the part of the Company is required in connection with the execution, delivery and performance by the Company of this Agreement, the Notes and the Ancillary Agreements or the offer, issuance and sale of the Securities, or the consummation of the transactions contemplated by this Agreement and the Notes, except (a) such filings as have been made prior to the date hereof, and (b) such other post-closing filings as may be required, each of which will be filed with the proper authority by the Company in a timely manner.

2.7 Offering. Subject in part to the truth and accuracy of Investor's representations set forth in Section 3 of this Agreement, the offer, sale and issuance of the Securities as contemplated by this Agreement, and the issuance of the Conversion Shares in accordance with the terms of the Notes, are exempt from the registration requirements of the Securities Act of 1933, as amended (the "Securities Act"), and any applicable state securities laws. Neither the Company, nor any authorized agent acting on behalf of the Company, will take any action hereafter that would cause the loss of such exemptions.

2.8 Compliance with Law. The Company is (and has been at all times during the past five (5) years) in compliance with all applicable statutes, laws and regulations. The Company has not been charged with and, to Company's knowledge, is not now under investigation with respect to, a violation of any applicable statutes, laws and regulations.

2.9 Litigation. There is no action, suit, proceeding or investigation pending or, to the Company's knowledge, currently threatened in writing against any of the Company Parties that questions the validity of this Agreement, the Notes or any Ancillary Agreement, or the right of the Company to enter into such agreements, or to consummate the transactions contemplated hereby or thereby, or that might have, either individually or in the aggregate, a Material Adverse Effect, nor is the Company aware that there is any basis for the foregoing. The foregoing includes, without limitation, actions, suits, proceedings or investigations pending or threatened in writing (or any basis therefor known to the Company) involving the prior employment of any

of the employees of any of the Company Parties, their use in connection with each of the Company Parties' business of any information or techniques allegedly proprietary to any of their respective former employers, or their obligations under any agreements with prior employers. None of the Company Parties is a party or subject to the provisions of any order, writ, injunction, judgment or decree of any court or government agency or instrumentality. Except as set forth on the Schedule of Exceptions, there is no action, suit or proceeding by any of the Company Parties currently pending or that any of the Company Parties intends to initiate.

2.10 Patents and Trademarks. To the best of the Company's knowledge, each of the Company Parties has sufficient title and ownership, or sufficient rights to the use, of all patents, trademarks, service marks, trade names, domain names, copyrights, trade secrets, information, proprietary rights and processes necessary for its business as now conducted and as proposed to be conducted without, to the Company's knowledge, any conflict with, or violation or infringement of the rights of others, including, without limitation, any of the Company Parties' present or former employees or the former or other employers of all such persons. The Schedule of Exceptions contains a complete list of patents and pending patent applications and registrations and applications for trademarks, copyrights and domain names of each of the Company Parties. Except as set forth on the Schedule of Exceptions, there are no outstanding options, licenses, agreements, claims, encumbrances or shared ownership of interests of any kind relating to anything referred to above in this Section 2.10, nor are any of the Company Parties bound by or a party to any options, licenses, agreements or warranties of any kind with respect to the patents, trademarks, service marks, trade names, domain names, copyrights, trade secrets, licenses, information, proprietary rights and/or processes of any other person or entity, except, in either case, for standard, generally commercially available, "off-the-shelf" third party products that are not and will not to any extent be part of any product, service or intellectual property offering of the Company. Except as set forth on the Schedule of Exceptions, none of the Company Parties has received any communications in writing alleging that a Company Party has violated, or by conducting its business as proposed, would violate any of the patents, trademarks, service marks, trade names, copyrights or trade secrets or other proprietary rights of any other person or entity, and the Company is not aware of any potential basis for such an allegation or of any reason to believe that such an allegation may be forthcoming. The Company is not aware that any of its or either of the Subsidiaries' employees is obligated under any contract (including licenses, covenants or commitments of any nature) or other agreement, or subject to any judgment, decree or order of any court or administrative agency, that would interfere with the use of his or her best efforts to promote the interests of the Company and its Subsidiaries or that would conflict with the Company's and the Subsidiaries' business as now conducted and as proposed to be conducted. Neither the execution nor delivery of this Agreement, nor the carrying on of the Company's business by the employees of the Company, nor the conduct of the Company's business as proposed, will, to the Company's knowledge, conflict with or result in a breach of the terms, conditions or provisions of, or constitute a default under, any contract, covenant or instrument under which any of such employees is now obligated. The Company does not believe it is or will be necessary to use any inventions of any of its employees (or persons it currently intends to hire) made prior to their employment by the Company. The

Company is not subject to any "open source" or "copyleft" obligations, or otherwise required (now or in the future) to make any public disclosure or general availability of source code either used or developed by, the Company.

2.11 Compliance with Other Instruments; No Conflicts. None of the Company Parties is in violation of any provision of its respective articles of incorporation or bylaws or comparable governing documents, or in any material respect in violation or default of any instrument, judgment, order, writ, decree or contract to which it is a party or by which it is bound, or of any provision of any federal, state or local statute, rule or regulation applicable to any of the Company Parties. The execution, delivery and performance of this Agreement and the Ancillary Agreements, and the consummation of the transactions contemplated hereby and thereby will not result in any such violation or default or be in conflict with or constitute, with or without the passage of time and giving of notice, either a default under any such provision, instrument, judgment, order, writ, decree or contract or an event that results in the creation of any lien, charge or encumbrance upon any assets of any of the Company Parties or the suspension, revocation, impairment, forfeiture, or nonrenewal of any material permit, license, authorization, or approval applicable to any of the Company Parties, their business or operations or any of their assets or properties.

2.12 Certain Contracts and Arrangements. Except as set forth in this Agreement, the Ancillary Agreements or as set forth in the Schedule of Exceptions, none of the Company Parties is a party or subject to or bound by:

(a) any contract, agreement or understanding entered into in the ordinary course of business involving a potential commitment, obligation or payment by or to such Company Party in excess of $200,000;

(b) any (i) contract, agreement or understanding (other than contracts, agreements or understandings entered into in the ordinary course of business) or (ii) instrument, judgment, order, writ or decree; in each case involving a potential commitment, obligation or payment by or to such Company Party in excess of $100,000;

(c) any material license of any patent, copyright, trade secret or other proprietary right to or from such Company Party (other than the license to such Company Party of standard, generally commercially available, "off-the-shelf" third party products that are not and will not to any extent be part of any product, service or intellectual property offering of any of the Company Parties);

(d) provisions materially restricting the development, manufacture or distribution of such Company Parties' products or services;

(e) indemnification by such Company Party with respect to infringements of proprietary rights;

(f) any indenture, mortgage, promissory note, loan agreement, or guaranty;

(g) any employment contracts, noncompetition agreements, severance agreements or other agreements with present or former officers, directors, employees or shareholders of such Company Party or persons related to or affiliated with such persons;

(h) any stock redemption or purchase agreements or other agreements affecting or relating to the capital stock of such Company Party;

(i) any benefit plan relating to the employees of such Company Party, including pension, profit sharing, other deferred compensation plan or arrangement, bonus, retirement, health insurance, severance or stock option plans;

(j) any joint venture or partnership agreement;

(k) any manufacturer, development or supply agreement involving a potential commitment, obligation or payment by or to such Company Party in excess of $100,000; or

(l) any acquisition, merger or similar agreement.

All contracts, agreements, leases and instruments set forth on the Schedule of Exceptions are valid and are in full force and effect and constitute legal, valid and binding obligations of the Company and, to the knowledge of the Company, of the other parties, and are enforceable in accordance with their respective terms.

2.13 Related-Party Transactions. No employee, officer, director or shareholder of any of the Company Parties owning two percent (2%) or more of the total outstanding equity of any of the Company Parties (a "Related Party") or member of such Related Party's immediate family, or any corporation, partnership or other entity in which such Related Party is an officer, director or partner, or in which such Related Party has significant ownership interests or otherwise controls, is indebted to any of the Company Parties, nor is any of the Company Parties indebted (or committed to make loans or extend or guarantee credit) to any of them, other than (a) for payment of salary for services previously rendered in the ordinary course of business, (b) as reimbursement for reasonable expenses incurred on behalf of such Company Party in the ordinary course of business, (c) for other standard employee benefits made generally available to all employees (not including stock option agreements outstanding under any stock option plan approved by the Board of Directors of the Company), or (d) such other employee benefits as may be provided for in any written employment agreement or other written instrument. To the Company's knowledge, none of such persons has any direct or indirect ownership interest in any firm or corporation with which any of the Company Parties is affiliated or with which any of the Company Parties has a business relationship, or any firm or corporation that competes with any of the Company Parties, except that employees, officers, directors or shareholders of each of the Company Parties and members of such Related Party's immediate families may own stock in publicly traded companies that may compete with the Company Parties. No Related Party or member of their immediate family is directly or indirectly interested in any material contract with

any of the Company Parties. The terms of any transaction with a Related Party (including, without limitation, transactions between the Company and each of the Subsidiaries) are on arms' length for any purpose, as reasonably determined based on professional advice, and have been approved by the Company or the Subsidiary, as the case may be, in accordance with applicable laws, rules and regulations. No terms of such transactions would reasonably be expected to result in a Material Adverse Effect.

2.14 Permits. Each of the Company Parties has all franchises, permits, licenses, and any similar authority necessary for the conduct of its business as now conducted and as proposed to be conducted, the lack of which could have a Material Adverse Effect. None of the Company Parties is in default in any material respect under any of such franchises, permits, licenses, or other similar authority.

2.15 Safety Laws. None of the Company Parties is in violation of any applicable statute, law or regulation relating to the occupational health and safety, which violation would have a Material Adverse Effect and no material expenditures are or, to the Company's knowledge, will be required in order to comply with any such existing statute, law or regulation.

2.16 Environmental Matters.

(a) The Company Parties have complied with all applicable Environmental Laws (as defined below), except for violations of Environmental Laws that, individually or in the aggregate, have not had and would not reasonably be expected to have a Material Adverse Effect. There is no pending or, to best of the Company's knowledge, threatened civil or criminal litigation, written notice of violation, formal administrative proceeding, or investigation, inquiry or information request by any federal, state or local court, arbitrational tribunal, administrative agency or commission or other governmental or regulatory authority or agency (each a "Governmental Entity") that would be reasonably expected to have a Material Adverse Effect, and no expenditures that would be reasonably expected to have a Material Adverse Effect are, or to the Company's knowledge will be, required to comply with any existing statute, law or regulation relating to any Environmental Law involving the Company Parties. For purposes of this Agreement, "Environmental Law" shall mean any federal, state or local law, statute, rule or regulation or the common law relating to the environment or occupational health and safety, including any statute, regulation, administrative decision or order pertaining to (i) treatment, storage, disposal, generation and transportation of industrial, toxic or hazardous materials or substances or solid or hazardous waste; (ii) air, water and noise pollution; (iii) groundwater and soil contamination; (iv) the release or threatened release into the environment of industrial, toxic or hazardous materials or substances, or solid or hazardous waste, including emissions, discharges, injections, spills, escapes or dumping of pollutants, contaminants or chemicals; (v) the protection of wild life, marine life and wetlands, including all endangered and threatened species; (vi) storage tanks, vessels, containers, abandoned or discarded barrels and other closed receptacles; (vii) health and safety of employees and other persons; and

(viii) manufacturing, processing, using, distributing, treating, storing, disposing, transporting or handling of materials regulated under any law as pollutants, contaminants, toxic or hazardous materials or substances or oil or petroleum products or solid or hazardous waste. As used above, the terms "release" and "environment" shall have the meaning set forth in the federal Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended ("CERCLA").

(b) There are no past or present Environmental Claims, actions, activities, circumstances, conditions, events or incidents, including the release, emission, discharge, presence or disposal of any Materials of Environmental Concern (as defined below), that would reasonably be expected to have a Material Adverse Effect. For purposes of this Agreement, (i) "Materials of Environmental Concern" shall mean chemicals; pollutants; contaminants; wastes; toxic or hazardous substances, materials and wastes; petroleum and petroleum products; asbestos and asbestos-containing materials; polychlorinated biphenyls; lead and lead-based paints and materials; and radon; and (ii) "Environmental Claim" shall mean any claim, action, cause of action, investigation or notice (written or oral) by any person or entity alleging actual or potential liability for investigatory, cleanup or governmental response costs, or natural resources or property damages, or personal injuries, attorney's fees or penalties arising from or relating to (A) the presence, or release into the environment, of any Materials of Environmental Concern, now or in the past, (B) circumstances forming the basis of any violation, or alleged violation, of any Environmental Law, or (C) the liability of any Company Party for any violation, or alleged violation, of any Environmental Law by any person or entity (whether contractual, by operation of law or otherwise).

(c) Except in accordance with applicable Environmental Law, and so as not to give rise to an Environmental Claim that would reasonably be expected to have a Material Adverse Effect, (i) Materials of Environmental Concern have not been generated, used, treated or stored on, transported to or from, or released on, at or from, any past or present facilities, properties or operations of any of the Company Parties and (ii) Materials of Environmental Concern have not been disposed of on any past or present facilities, properties or operations of any of the Company Parties.

(d) Except as set forth in the Schedule of Exceptions, none of the Company Parties is a party to or bound by any court order, administrative order, consent order or other agreement between any such Company Party and any Governmental Entity entered into in connection with any legal obligation or liability arising under any Environmental Law that would reasonably be expected to have a Material Adverse Effect.

(e) Set forth in the Schedule of Exceptions is a list of all documents known to the Company (whether in hard copy or electronic form) that contain any environmental reports, investigations and audits relating to premises currently or

previously owned or operated by the Company Parties (whether conducted by or on behalf of such Company Parties or a third party, and whether done at the initiative of such Company Parties or directed by a Governmental Entity or other third party) which were issued or conducted during the past five years and which any of the Company Parties has possession of or access to. A complete and accurate copy of each such document has been provided to or made available to the Purchasers.

2.17 Manufacturing, Marketing and Development Rights. The Company has not granted rights to manufacture, produce, assemble, license, market, or sell its products to any other person and is not bound by any agreement that affects the Company's exclusive right to develop, manufacture, assemble, distribute, market or sell its products.

2.18 Registration Rights. Except as provided in the Investors' Rights Agreement, the Company has not granted or agreed to grant any registration rights, including piggyback rights, to any person or entity.

2.19 Corporate Documents. The Articles of Incorporation and bylaws of the Company are in the form previously provided to counsel for each Investor.

2.20 Title to Property and Assets. Each of the Company Parties owns its property and assets free and clear of all mortgages, liens, loans and encumbrances, except such encumbrances and liens that arise in the ordinary course of business and do not materially impair such Company Parties' ownership or use of such property or assets. With respect to the property and assets it leases, each of the Company Parties is in compliance with such leases and holds a valid leasehold interest free of any liens, claims or encumbrances.

2.21 Financial Statements. The Company has delivered to each Investor (a) its audited consolidated financial statements (balance sheet and income and cash flow statements, including notes thereto) at March 31, 2007 and 2006 and for the fiscal years then ended, and (b) interim, unaudited financial statements as of May 31, 2007 (the "Financial Statements"). The Financial Statements have been prepared in accordance with United States generally accepted accounting principles ("GAAP") applied on a consistent basis throughout the periods indicated. The Financial Statements fairly present the financial condition and operating results of the Company and the Subsidiaries on a consolidated basis as of the dates, and for the periods, indicated therein. Except as set forth in the Financial Statements, the Company has no material liabilities, contingent or otherwise, other than (i) liabilities incurred in the ordinary course of business subsequent to March 31, 2007 and (ii) obligations under contracts and commitments incurred in the ordinary course of business and not required under GAAP to be reflected in the Financial Statements, and which, individually or in the aggregate, are not material to the financial condition or operating results of the Company. The Company maintains a standard system of accounting established and administered in accordance with GAAP.

2.22 Changes. Since March 31, 2007, there has not been:

(a) any change in the assets, liabilities, financial condition or operating results of the Company from that reflected in the Financial Statements, except changes in the ordinary course of business that have not had a Material Adverse Effect;

(b) any damage, destruction or loss, whether or not covered by insurance, of any material asset of the Company Parties;

(c) any waiver by any of the Company Parties of a valuable right or of a material debt owed to it;

(d) any satisfaction or discharge of any lien, claim or encumbrance or payment of any obligation by any of the Company Parties, except in the ordinary course of business and that has not had a Material Adverse Effect;

(e) any material change or amendment to a material contract;

(f) any material change in any compensation arrangement or agreement with any employee, officer or director;

(g) any sale, assignment or transfer of any patents, trademarks, copyrights, trade secrets or other intangible assets;

(h) any resignation or termination of employment of any key officer of the Company; and the Company, to its knowledge, does not know of the impending resignation or termination of employment of any such officer or key employee of the Company;

(i) receipt of notice that there has been a loss of, or material order cancellation by, any major customer of the Company;

(j) any mortgage, pledge, transfer of a security interest in, or lien, created by any of the Company Parties, with respect to any of its material properties or assets, except liens for taxes not yet due or payable and liens that arise in the ordinary course of business and do not materially impair such Company Parties' ownership or use of such property or assets;

(k) any loans or guarantees made by any of the Company Parties to or for the benefit of its employees, officers or directors, or any members of their immediate families, other than travel advances and other advances made in the ordinary course of its business;

(l) any declaration, setting aside or payment or other distribution in respect of any of the Company's capital stock, or any direct or indirect redemption, purchase or other acquisition of any of such stock by the Company, except to the extent specifically contemplated by this Agreement;

(m) to the Company's knowledge, any other event or condition of any character that would be reasonably likely to have a Material Adverse Effect; or

(n) any agreement or commitment by any of the Company Parties to do any of the things described in this Section 2.22.

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

2.24 Tax. None of the Company Parties is currently liable for any tax (whether income tax, capital gains tax, or otherwise), and any taxes which were due in the past (if at all) have been timely paid by the Company. Each of the Company Parties has accurately prepared and timely effected and filed all necessary filings (including income and payroll tax returns and filings that it is required to file) and reports (the "Tax Reports") with the appropriate tax authorities and has paid or made adequate provision for the payment of all amounts due pursuant to the Tax Reports as well as other taxes, assessments and governmental charges which have become due or payable. The Tax Reports are true and complete in all material respects and accurately reflect all liability for taxes for the periods covered thereby. None of the Company Parties' tax returns have been audited by any taxing authority and none of the Company Parties has been advised that any of such Tax Reports have been or are being so audited. Each of the Company Parties has withheld or collected for each payment made to each of its employees, the amount of all taxes (including, but not limited to, federal income taxes, Federal Insurance Contribution Act taxes and Federal Unemployment Tax Act taxes) required to be withheld or collected therefrom and has timely paid the same to the proper tax receiving officers or authorized depositories. None of the Company Parties has notice that any tax return or report is under examination by any governmental entity.

2.25 Insurance. Each of the Company Parties has adequate insurance, with financially sound and reputable insurers, with respect to its properties, business and operations that are of a character customarily insured by entities engaged in the same or a similar business similarly situated, against loss or damage of the kinds customarily insured against by such entities, which insurance is of such types as are customarily carried under similar circumstances by such other entities.

2.26 Minute Books. The minute books of each of the Company Parties provided to the Investors contain a complete summary of all meetings of directors and shareholders since January 1, 2005 and reflect all transactions referred to in such minutes accurately in all material respects.

2.27 Labor Agreements and Actions. None of the Company Parties is bound by or subject to (and none of its assets or properties is bound by or subject to) any written or oral, express or implied, contract, commitment or arrangement with any labor union, and no labor union has requested or, to the Company's knowledge, has sought to represent any of the employees, representatives or agents of any of the Company Parties. There is no strike or other labor dispute involving any of the Company Parties pending, or to the Company's knowledge, threatened, that could have a Material Adverse Effect,

nor is the Company aware of any labor organization activity involving the employees of any of the Company Parties. The Company is not aware that any officer or key employee, or that any group of key employees, intends to terminate their employment with any of the Company Parties, nor does the Company have a present intention to terminate the employment of any of the foregoing. The employment of each officer and employee of each of the Company Parties is terminable at the will of such Company Party. To the Company's knowledge, each of the Company Parties has complied in all material respects with all applicable federal, state and provincial equal employment opportunity and other laws related to employment. None of the Company Parties is subject to, and none of their employees benefit from, any collective bargaining agreement by way of any applicable employment laws and regulations and extension orders. All employees of the Company whose employment responsibility requires access to confidential or proprietary information of the Company have executed and delivered Propriety Information and Intellectual Property Agreements in the form of Exhibit D ("Proprietary Information Agreements") and all of such agreements are in full force and effect. None of the employees of the Company is represented by any labor union, and there is no labor strike or other labor trouble pending with respect to the Company (including, without limitation any organizational drive) or, to the best of the Company's knowledge, threatened.

2.28 Significant Customers and Suppliers. Section 2.28 of the Schedule of Exceptions sets forth a list of (a) each customer that accounted for more than one percent (1%) of the consolidated revenues of the Company during the last full fiscal year or the interim period through May 31, 2007 and the amount of revenues accounted for by such customer during each such period and (b) each supplier that is the sole supplier of any significant product to the Company or a Subsidiary. No such customer or supplier has indicated within the past year that it will stop, or decrease the rate of, buying products or supplying products, as applicable, to the Company or any Subsidiary. No unfilled customer order or commitment obligating the Company or any Subsidiary to process, manufacture or deliver products or perform services will result in a loss to the Company or any Subsidiary upon completion of performance. No purchase order or commitment of the Company or any Subsidiary is in excess of normal requirements, nor are prices provided therein in excess of current market prices for the products or services to be provided thereunder.

2.29 Inventory. All inventory of the Company and the Subsidiaries, whether or not reflected on the Financial Statements, consists of a quality and quantity usable and saleable in the ordinary course of business, except for obsolete items and items of below-standard quality, all of which have been written-off or written-down to net realizable value on the Financial Statements. All inventories not written-off have been priced at cost on a first-in, first out basis. The quantities of each type of inventory, whether raw materials, work-in-process or finished goods, are not excessive in the present circumstances of the Company and the Subsidiaries.

2.30 Accounts Receivable. All accounts receivable of the Company and the Subsidiaries reflected on the Financial Statements are valid receivables subject to no setoffs or counterclaims and are current and collectible (within ninety (90) days after the

date on which it first became due and payable), net of the applicable reserve for bad debts on the Financial Statements. All accounts receivable reflected in the financial or accounting records of the Company that have arisen since March 31, 2007 are valid receivables subject to no setoffs or counterclaims and are collectible (within ninety (90) days after the date on which it first became due and payable), net of a reserve for bad debts in an amount proportionate to the reserve shown on the Financial Statements.

2.31 Product Warranty. No product manufactured, sold, leased, licensed or delivered by the Company or any Subsidiary is subject to any guaranty, warranty, right of return, right of credit or other indemnity other than (a) the applicable standard terms and conditions of sale or lease of the Company or the appropriate Subsidiary, which are set forth in Section 2.31 of the Schedule of Exceptions and (b) manufacturers' warranties for which neither the Company nor any Subsidiary has any liability. Section 2.31 of the Schedule of Exceptions sets forth the aggregate expenses incurred by the Company and the Subsidiaries in fulfilling their obligations under their guaranty, warranty, right of return and indemnity provisions during each of the fiscal years and the interim period covered by the Financial Statements; and the Company does not know of any reason why such expenses should significantly increase as a percentage of sales in the future.

2.32 Indebtedness. The Company has no Indebtedness other than the Notes and Senior Indebtedness. The Company has provided to the Investors true and complete copies of all documents related to any indebtedness of the Company.

2.33 Margin Regulations. No part of the proceeds from the sale of the Notes will be used, directly or indirectly, for the purpose of buying or carrying any margin stock within the meaning of Regulation U of the Board of Governors of the Federal Reserve System (12 CFR 221), or for the purpose of buying or carrying or trading in any securities under such circumstances as to involve the Company in a violation of Regulation X of said Board (12 CFR 224) or to involve any broker or dealer in a violation of Regulation T of said Board (12 CFR 220).

2.34 Investment Company. The Company is not subject to regulation under the Investment Company Act of 1940, as amended.

2.35 Disclosure. The Company has provided each Investor with all information that such Investor has requested for deciding whether to purchase the Note. This Agreement, including all Exhibits and Schedules hereto, and together with the written plans, projections, and estimates provided to the Investors in connection with the transactions contemplated by this Agreement (the "Additional Materials"), when read together, do not contain any untrue statement of a material fact or omit a material fact necessary in order to make the statements contained herein or therein, in the light of the circumstances under which they were made, not misleading. The Company knows of no information or fact which has or would have a Material Adverse Effect, which has not been disclosed in the Schedule of Exceptions. Each projection furnished in the Additional Materials was prepared in good faith based on reasonable assumptions and reflects the Company's best estimate of future results based on information available as of the date of such Additional Materials.

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

3.1 Authorization. Such Investor has requisite corporate or partnership power and authority to enter into this Agreement and the Ancillary Agreements, and each such agreement constitutes its valid and legally binding obligation, enforceable in accordance with its terms except (a) as limited by applicable bankruptcy, insolvency, reorganization, moratorium, and other laws of general application affecting enforcement of creditors' rights generally, (b) as limited by laws relating to the availability of specific performance, injunctive relief, or other equitable remedies, and (c) to the extent the indemnification provisions contained in the Investors' Rights Agreement may be limited by applicable federal, state or provincial securities laws.

3.2 Purchase Entirely for Own Account. This Agreement is made with such Investor in reliance upon Investor's representation to the Company, which by such Investor's execution of this Agreement such Investor hereby confirms, that the Securities will be acquired for investment for Investor's own account, not as a nominee or agent, and not with a view to the distribution of any part thereof, and that such Investor has no present intention of selling, granting any participation in, or otherwise distributing the same. By executing this Agreement, such Investor further represents that such Investor does not have any contract, undertaking, agreement or arrangement with any person to sell, transfer or grant participations to such person or to any third person, with respect to any of the Securities.

3.3 Disclosure of Information. Such Investor further represents that it has had an opportunity to ask questions and receive answers from the Company regarding the terms and conditions of the offering of the Securities and the business, properties, prospects and financial condition of the Company. The foregoing, however, does not limit or modify the representations and warranties of the Company in Section 2 of this Agreement or the right of the Investor to rely thereon.

3.4 Investment Experience. Such Investor is an investor in securities of companies in the development stage and acknowledges that it is able to fend for itself, can bear the economic risk of its investment, and has such knowledge and experience in financial or business matters that it is capable of evaluating the merits and risks of the investment in the Securities. If other than an individual, Investor also represents it has not been organized for the purpose of acquiring the Securities.

3.5 Accredited Investor. The Investor is an "accredited investor" within the meaning of Securities and Exchange Commission ("SEC") Rule 501 of Regulation D, as presently in effect and understands the meaning of that term.

3.6 Restricted Securities. Each Investor understands that the Securities have not been, and shall not be (except to the extent provided in the Investors' Rights Agreement), registered under the Securities Act, by reason of a specific exemption from the registration provisions of the Securities Act which depends upon, among other things, the bona fide nature of the investment intent and the accuracy of the Investor's

representations as expressed herein. Each Investor understands that the Securities are "restricted securities" under applicable U.S. federal and state securities laws and that, pursuant to these laws, the Investor must hold the Securities indefinitely unless they are registered with the SEC and qualified by state authorities, or an exemption from such registration and qualification requirements is available. Each Investor acknowledges that the Company has no obligation to register or qualify the Securities for resale except as set forth in the Investors' Rights Agreement. Each Investor further acknowledges that if an exemption from registration or qualification is available, it may be conditioned on various requirements including, but not limited to, the time and manner of sale, the holding period for the Securities, and on requirements relating to the Company which are outside of the Investor's control, and which the Company is under no obligation (except to the extent provided in the Investors' Rights Agreement) and may not be able to satisfy.

3.7 Further Limitations on Disposition. Without in any way limiting the representations set forth above, such Investor further agrees not to make any disposition of all or any portion of the Securities to any person or entity other than to an affiliate of such Investor unless and until:

(a) There is then in effect a Registration Statement under the Act covering such proposed disposition and such disposition is made in accordance with such Registration Statement; or

(b) Such Investor shall have (i) notified the Company of the proposed disposition and (ii) if reasonably requested by the Company, such Investor shall have furnished the Company with an opinion of counsel, that such disposition will not require registration of such shares under the Act. It is agreed that the Company will not require opinions of counsel for transactions made pursuant to Rule 144 except in unusual circumstances.

(c) Notwithstanding the provisions of subsections (a) and (b) above, no such registration statement or opinion shall be necessary for a transfer by an Investor that is a partnership to a partner of such partnership or a retired partner of such partnership who retires after the date hereof, or to the estate of any such partner or retired partner or the transfer by gift, will or intestate succession of any partner to his or her spouse or to the siblings, lineal descendants or ancestors of such partner or his or her spouse in each case so long as the prospective transferee agrees in all such instances in writing to be subject to the terms hereof to the same extent as if he or she were an original Investor hereunder or to any other entity which controls, is controlled by or is under common control with such Investor.

3.8 Legends. It is understood that the certificates evidencing the Securities may bear one (1) or more of the following legends:

(a) "These securities have not been registered under the Securities Act of 1933, as amended. They may not be sold, offered for sale, pledged or hypothecated except pursuant to an effective registration statement in effect with

respect to the securities under the Act or unless sold pursuant to Rule 144 of such Act or pursuant to any other exemption under such Act."

(b) Any legend set forth in the Ancillary Agreements.

(c) Any legend required by the Blue Sky laws of any state or the securities laws of any province to the extent such laws are applicable to the Securities represented by the certificate so legended.

3.9 Exculpation Among Investors. Each Investor acknowledges that it is not relying upon any person, firm or corporation, other than the Company and its officers and directors, in making its investment or decision to invest in the Company. Each Investor agrees that no Investor nor the respective controlling persons, officers, directors, partners, agents, or employees of any Investor shall be liable to any other Investor for any action heretofore or hereafter taken or omitted to be taken by any of them in connection with the purchase of the Securities.

4. Conditions of Investors' Obligations at Closing.

4.1 Closing Conditions. The obligations of each Investor under Sections 1.1(b) and 1.2 of this Agreement are subject to the fulfillment on or before the Closing of each of the following conditions. The waiver of any condition hereunder shall be effective only if given in writing by the Investors purchasing a majority of the Notes:

(a) Representations and Warranties. The representations and warranties of the Company contained in Section 2 shall be true on and as of the Closing with the same effect as if made on and as of such date (except where otherwise specifically provided in such representations).

(b) Performance. The Company shall have performed and complied with all agreements, obligations and conditions contained in this Agreement that are required to be performed or complied with by it on or before the Closing.

(c) Compliance Certificate. The President of the Company shall deliver to Investor at the Closing a certificate stating that the conditions specified in this Section 4.1 have been fulfilled.

(d) Qualifications. All authorizations, approvals, or permits, if any, of any governmental authority or regulatory body of the United States or of any state that are required in connection with the lawful issuance and sale of the Securities being issued and sold at the Closing pursuant to this Agreement shall be duly obtained and effective as of the Closing.

(e) Proceedings and Documents. All corporate and other proceedings in connection with the transactions contemplated at the Closing and all documents incident thereto shall be reasonably satisfactory in form and substance to the Investors, and they shall have received all such counterpart original and certified or other copies of such documents as they may reasonably request.

(f) Consents, etc. The Company shall have secured all permits, consents and authorizations that shall be necessary or required lawfully to consummate this Agreement and to issue the Securities, including without limitation any consent that may be required by any of the Company's lenders in connection with the payment of interest as required by the Notes.

(g) Secretary's Certificate. The Secretary of the Company shall deliver to each Investor at the Closing a certificate stating that the copies of the Articles of Incorporation, bylaws and Board of Director resolutions relating to the sale of the Securities attached thereto are true and complete copies of such documents and resolutions.

(h) Certificates and Documents. The Company shall have delivered to the Investors:

(i) The Articles of Incorporation;

(ii) Consent of the Company's lenders to the sale of the Notes and the payments of interest provided thereunder; and

(iii) A certificate, as of the most recent practicable date, as to the active corporate status of the Company Parties issued by the Department of Financial Institutions of the State of Wisconsin.

(i) Proprietary Information Agreements. Each of the officers and employees of the Company listed on Schedule 2 hereto shall have entered into a Proprietary Information Agreement substantially in the form attached hereto as Exhibit D.

(j) Opinion of Company Counsel. Investor shall have received from Foley & Lardner LLP, counsel for the Company, an opinion, dated as of the Closing, in substantially the form attached hereto as Exhibit E.

(k) Investors' Rights Agreement. The Company and each other party thereto shall have entered into the Investors' Rights Agreement.

(l) First Offer and Co-Sale Agreement. The Company and each other party thereto shall each have entered into the First Offer and Co-Sale Agreement.

(m) Waiver of Preemptive Rights. The Company shall have delivered to the Investors a written waiver from each of the shareholders of the Company, if any, who has preemptive rights, by which such shareholder confirms that such shareholder waives any rights of preemption, over allotment or participation with respect to the issuance of the Securities.

5. Conditions of the Company's Obligations at the Closing. The obligations of the Company to each Investor under this Agreement are subject to the fulfillment on or before the Closing of each of the following conditions by that Investor:

5.1 Representations and Warranties. The representations and warranties of the Investors contained in Section 3 shall be true on and as of the Closing.

5.2 Payment of Purchase Price. The Investors shall have delivered the Purchase Price pursuant to Section 1.2 hereof.

5.3 Qualifications. All authorizations, approvals, or permits, if any, of any governmental authority or regulatory body of the United States or of any state that are required in connection with the lawful issuance and sale of the Securities pursuant to this Agreement shall be duly obtained and effective as of the Closing.

5.4 Consents, etc. The Company shall have secured all permits, consents and authorizations that shall be necessary or required lawfully to consummate this Agreement and to issue the Securities.

5.5 Investors' Rights Agreement. The Investors shall have entered into the Investors' Rights Agreement.

5.6 First Offer and Co-Sale Agreement. The Investors and each other party thereto (other than the Company) shall each have entered into the First Offer and Co-Sale Agreement.

5.7 Waiver of Series C Investors. Clean Technology Fund II, LP ("ECP"), Capvest Venture Fund, LP, and Technology Transformation Fund II, LP (the "Series C Investors") shall have delivered to the Company a consent and waiver, in a form reasonably satisfactory to the parties, by which the Series C Investors waive any rights arising under the Articles of Incorporation or any other agreement or instrument to which the Company and the Series C Investors are parties to object to or assert any rights with respect to the transactions contemplated by this Agreement.

5.8 Lock-up Agreements. Investors shall have delivered to the Company duly executed Lock-up Agreements in the form attached as Exhibit F .

6. Miscellaneous.

6.1 Survival of Warranties. The warranties, representations and covenants of the Company and Investors contained in or made pursuant to this Agreement shall survive the execution and delivery of this Agreement and the Closing and shall in no way be affected by any investigation of the subject matter thereof made by or on behalf of the Investors or the Company.

6.2 Successors and Assigns. Except as otherwise provided herein, the terms and conditions of this Agreement shall inure to the benefit of and be binding upon the respective successors and assigns of the parties (including transferees of any Securities).

Nothing in this Agreement, express or implied, is intended to confer upon any party other than the parties hereto or their respective successors and assigns any rights, remedies, obligations, or liabilities under or by reason of this Agreement, except as expressly provided in this Agreement. None of the rights, privileges, or obligations set forth in, arising under, or created by this Agreement may be assigned or transferred without the prior consent in writing by holders of a majority of the Notes purchased pursuant to this Agreement, with the exception of assignments and transfers by an Investor to any other entity or individual who controls, is controlled by or is under common control with such Investor or any entity that is managed by the same joint management company as such Investor or any entity that is the general partner or limited partner of such Investor.

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

6.4 Exclusive Jurisdiction. Each of the parties hereto (a) consents to submit itself exclusively to the personal jurisdiction of the United States District Court for the Southern District of New York in the event any dispute arises out of this Agreement, the Note, the Amended and Restated Investment Rights Agreement and/or the Amended and Restated First Offer and Co-Sale Agreement, (b) agrees that it will not attempt to deny or defeat such personal jurisdiction by motion or other request for leave from any such court, and (c) agrees that it will not bring any action relating to this Agreement in any court other than the United States District Court for the Southern District of New York.

6.5 Waiver of Jury Trial. TO THE EXTENT EACH MAY LEGALLY DO SO, EACH PARTY HERETO HEREBY EXPRESSLY WAIVES ANY RIGHT TO TRIAL BY JURY OF ANY CLAIM, DEMAND, ACTION, CAUSE OF ACTION, OR PROCEEDING ARISING UNDER OR WITH RESPECT TO THIS AGREEMENT, OR IN ANY WAY CONNECTED WITH, OR RELATED TO, OR INCIDENTAL TO, THE DEALING OF THE PARTIES HERETO WITH RESPECT TO THIS AGREEMENT, OR THE TRANSACTIONS RELATED THERETO, IN EACH CASE WHETHER NOW EXISTING OR HEREAFTER ARISING, AND IRRESPECTIVE OF WHETHER SOUNDING IN CONTRACT, TORT, OR OTHERWISE. TO THE EXTENT EACH MAY LEGALLY DO SO, EACH PARTY HERETO HEREBY AGREES THAT ANY SUCH CLAIM, DEMAND, ACTION, OR PROCEEDING SHALL BE DECIDED BY A COURT TRIAL WITHOUT A JURY AND THAT EITHER PARTY HERETO MAY FILE AN ORIGINAL COUNTERPART OR A COPY OF THIS AGREEMENT WITH ANY COURT AS WRITTEN EVIDENCE OF THE CONSENT OF ANY OTHER PARTY HERETO TO THE WAIVER OF ITS RIGHT TO TRIAL BY JURY.

6.6 Titles and Subtitles. The titles and subtitles used in this Agreement are used for convenience only and are not to be considered in construing or interpreting this Agreement.

6.7 Notices. All notices and other communications given or made pursuant hereto shall be in writing and shall be deemed effectively given: (a) upon personal delivery to the party to be notified; (b) when sent by confirmed electronic mail or

facsimile if sent during normal business hours of the recipient; if not, then on the next business day; (c) five (5) days after having been sent by registered or certified mail, return receipt requested, postage prepaid; or (d) one (1) day after deposit with a nationally recognized overnight courier, specifying next day delivery, with written verification of receipt. All communications shall be sent to the respective parties at the addresses set forth on the signature pages attached hereto (or at such other addresses as shall be specified by notice given in accordance with this Section 6.7).

6.8 Finder's Fee. Each party represents that it neither is nor will be obligated for any finders' fee or commission in connection with this transaction. Each Investor agrees to indemnify and to hold harmless the Company from any liability for any commission or compensation in the nature of a finder's fee (and the costs and expenses of defending against such liability or asserted liability) for which such Investor or any of its officers, partners, employees, or representatives is responsible. The Company agrees to indemnify and hold harmless each Investor from any liability for any commission or compensation in the nature of a finder's fee (and the costs and expenses of defending against such liability or asserted liability) for which the Company or any of its officers, employees or representatives is responsible.

6.9 Indemnification. The Company agrees (a) to indemnify and hold harmless the Investors, their affiliates and their respective directors, officers, employees, agents and controlling persons (each, an "Indemnified Person"), from and against any losses, claims, demands, damages or liabilities of any kind (other than losses which arise solely out of market risk) (collectively, "Liabilities") arising out of or related to this Agreement or the Ancillary Agreements, and/or the investment in the Company, and (b) to reimburse each Indemnified Person for all reasonable expenses (including, but not limited to, reasonable fees and disbursements of counsel) incurred by such Indemnified Person in connection with investigating, preparing, responding to or defending any investigative, administrative, judicial or regulatory action or proceeding in any jurisdiction related to or arising out of such activities, services, transactions or role, whether or not in connection with pending or threatened litigation to which any Indemnified Person is a party, in each case as such expenses are incurred or paid; provided, that the foregoing indemnification shall not, as to any Indemnified Person, apply to any such Liabilities or expenses to the extent that they are finally judicially determined to have resulted primarily from such Indemnified Person's gross negligence or willful misconduct.

6.10 Expenses. Each party shall pay its own costs and expenses incurred with respect to the negotiation, execution, delivery and performance of this Agreement; provided, that the Company shall, at the Closing, (a) reimburse the reasonable and actual out-of-pocket legal, technical and other professional fees and expenses incurred by GE Capital Equity Investments, Inc. ("GE") in connection with the transactions contemplated hereby, up to a total amount of $40,000, and (b) reimburse the reasonable and actual out-of-pocket legal, technical, and other professional fees and expenses incurred by ECP in connection with the transactions contemplated hereby, up to a total amount of $15,000.

6.11 Amendments and Waivers. Any term of this Agreement may be amended and the observance of any term of this Agreement may be waived (either generally or in a

particular instance and either retroactively or prospectively), only with the written consent of the Company and Investors purchasing or holding at least a majority of the total indebtedness represented by the Notes to be purchased or purchased hereunder. Any amendment or waiver effected in accordance with this section shall be binding upon each holder of any securities purchased under this Agreement at the time outstanding (including securities into which such securities are convertible), each future holder of all such securities, and the Company. Notwithstanding the foregoing, no investment amount initially set forth on Schedule A may be changed without the consent of such Investor.

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

6.13 Entire Agreement. This Agreement and the documents referred to herein constitute the entire agreement among the parties and no party shall be liable or bound to any other party in any manner by any warranties, representations, or covenants except as specifically set forth herein or therein.

6.14 Delays or Omissions. No delay or omission to exercise any right, power, or remedy accruing to any party upon any breach or default under this Agreement, shall be deemed a waiver of any other breach or default theretofore or thereafter occurring. Any waiver, permit, consent, or approval of any kind or character on the part of any party of any breach or default under this Agreement, or any waiver on the part of any party of any provisions or conditions of this Agreement, must be in writing and shall be effective only to the extent specifically set forth in such writing. All remedies, either under this Agreement or by law or otherwise afforded to any of the parties, shall be cumulative and not alternative.

6.15 Public Announcements. Except for statements made or press releases (a) required to be issued pursuant to the Securities Act of 1933 or the Securities Exchange Act of 1934, (b) required to be issued pursuant to any listing agreement with or the rules and regulations of any national securities exchange or automated quotation system on which the Company's capital stock is listed or quoted, or (c) otherwise required by law, no party shall issue any press release or otherwise make any public statements with respect to this Agreement or the transactions contemplated hereby without the prior written consent of the other parties. If the Company is required to make any disclosure under applicable law that refers to GE or any of its affiliates, the Company will provide prior written notice of such disclosure (together with the proposed text of such disclosure) to GE, and the disclosure made by the Company will reflect any comments provided to the Company by GE.

6.16 Counterparts. This Agreement may be executed in two (2) or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument. Facsimile signatures shall be binding as original.

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

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

COMPANY

ORION ENERGY SYSTEMS, INC.

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

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

With copies to:

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

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

SIGNATURE PAGE TO NOTE PURCHASE AGREEMENT FOR ORION ENERGY SYSTEMS, INC.

INVESTOR:

CLEAN TECHNOLOGY FUND II, LP

By: Expansion Capital Partners II, LP, its General Partner

By: Expansion Capital Partners II General Partner, LLC, its General Partner

By: /s/ Bernardo H. Llovera
Name: Bernardo H. Llovera
Title: Managing Member

Address: Expansion Capital Partners
90 Park Avenue, Suite 1700
New York, NY 10016

With copies to:

Covington & Burling LLP
1201 Pennsylvania Avenue NW
Washington, DC 20004
Fax: (202) 662-6291
Attention: Paul V. Rogers

INVESTOR:

GE CAPITAL EQUITY INVESTMENTS, INC.

By: /s/ Michael Donnelly
Name: Michael Donnelly
Title: Senior Vice President

Address: 201 Merritt 7
P.O. Box 5201
Norwalk, CT 06851
Fax:____________

With copies to:

King & Spalding LLP
1180 Peachtree Street
Atlanta, GA 30309
Fax: (404) 572-5133
Attention: William G. Roche

INVESTOR:

CAPVEST VENTURE FUND, LP

By: /s/ ______________________________

By: ______________________________
Name:
Title:

Address:

With copies to:

SIGNATURE PAGE TO NOTE PURCHASE AGREEMENT FOR ORION ENERGY SYSTEMS, INC.

INVESTOR:

TECHNOLOGY TRANSFORMATION VENTURE FUND, LP

By: /s/

By: ______________________
Name:
Title:

Address:

With copies to:

SIGNATURE PAGE TO NOTE PURCHASE AGREEMENT FOR ORION ENERGY SYSTEMS, INC.

SCHEDULE 1
INVESTORS

Investor	Note Amount
GE Capital Equity Investments, Inc.	$ 8,000,000
Clean Technology Fund II, L.P.	$ 2,500,000
CapVest Venture Fund, LP	$ 50,000
Technology Transformation Venture Fund, LP	$ 50,000
Total	**$ 10,600,000**

SCHEDULE 2
KEY EMPLOYEES

Neal Verfuerth
Mike Potts
Dan Waibel
Pat Verfuerth
John Scribante
Danny Czaja
Eric von Estorff

EXHIBIT A
FORM OF CONVERTIBLE NOTE

[See attached]

EXHIBIT B
FORM OF AMENDED AND RESTATED INVESTORS' RIGHTS AGREEMENT

[See attached]

EXHIBIT C
FORM OF AMENDED AND RESTATED OFFER AND CO-SALE AGREEMENT

[See attached]

EXHIBIT D
FORM OF PROPRIETARY INFORMATION AGREEMENT

[See attached]

EXHIBIT E
OPINION OF FOLEY & LARDNER LLP

[See attached]

EXHIBIT F
FORM OF LOCK-UP AGREEMENT

[See attached]

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Exhibit 3.1

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

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

Article 1

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

Article 2

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

Article 3

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

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

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

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

Section 3.2. Directors' Authority to Establish Series of Cumulative Preferred Stock. Subject to the rights, preferences, powers, privileges and restrictions, qualifications and limitations of the Series C Preferred Stock as set forth in Section 3.9 hereof, the Board of Directors is authorized to divide the Cumulative Preferred Stock into series and fix and determine the relative rights and preferences of each series. Each series shall be so designated by the Board of Directors as to distinguish the shares thereof from the shares of all other series. Except as otherwise set forth herein and as may be further subject to the rights, preferences, powers, privileges and restrictions, qualifications and limitations of the Series C Preferred Stock as set forth in Section 3.9 hereof, all shares of Cumulative Preferred Stock shall be identical except as to the following relative rights and preferences, as to which the Board of Directors may establish variations between different series not inconsistent with the provisions of these Articles:

(a) The rate of dividend;

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

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

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

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

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

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

3.3.3. The Cumulative Preferred Stock shall entitle the holder thereof to receive when and as declared at any time by the Board of Directors annual dividends on or before the last day of April of each year. Such dividends shall be contingent upon the Corporation having positive retained earnings from which to pay such dividend and the Corporation's lender(s) agreeing that such dividends may be paid. Dividends on Cumulative Preferred Stock shall be paid at the rate fixed or provided for in the resolution or resolutions adopted by the Board of Directors pursuant to which the issuance of such Cumulative Preferred Stock shall be authorized. The dividends on the Cumulative Preferred Stock shall be cumulative, so that if at any time the full amount of dividends accrued and in arrears on the Cumulative Preferred Stock shall not be paid, the deficiency shall be payable without interest before any dividends (other than dividends paid in Common Stock) or other distributions shall be paid or set apart on the Common Stock. Dividends on Cumulative Preferred Stock shall accrue on each share from the date on which such share is issued. Whenever all dividends accrued and in arrears on the Cumulative Preferred Stock shall have been declared and shall have been paid or set apart, the Board of Directors may declare dividends on Common Stock out of the remaining positive retained earnings of the Corporation or out of surplus applicable to the payment of such dividends. Any dividend paid upon the Cumulative Preferred Stock at the time when any accrued dividends for any prior period are delinquent shall be expressly declared and designated as a dividend in whole or partial payment of the accrued dividend for the earliest period for which dividends are then delinquent, and each shareholder to whom such payment is made shall be so advised. Except as provided in paragraphs 3.9.2(a) and 3.9.6 with respect to the Series C

Preferred Stock, the Corporation shall be under no obligation to pay dividends on Cumulative Preferred Stock unless first declared by the Board of Directors.

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

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

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

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

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

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

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

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

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

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

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

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

3.8.1. The Corporation shall have authority to issue four million (4,000,000) shares of Series B Convertible Cumulative Preferred Stock. Such stock shall be referred to as “Series B

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

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

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

3.9.1. Dividends.

(a) The holders of shares of Series C Preferred Stock shall be entitled to receive cumulative dividends out of any assets legally available therefor, prior and in preference to any declaration or payment of any dividend (payable other than in Common Stock or other securities and rights convertible into or entitling the holder thereof to receive, directly or indirectly, additional shares of Common Stock of the Corporation) on the Series B Preferred Stock, Series A Preferred Stock, the Common Stock or any other shares of capital stock of the Corporation at a rate of $0.165 per share (subject to appropriate adjustment for any stock splits, stock dividends, combinations and other similar recapitalizations) per annum on each outstanding share of Series C Preferred Stock (the "Series C Dividends") payable annually when, as and if declared by the Board of Directors. The Series C Dividends shall accrue (whether or not declared by the Board of Directors) and be cumulative as to any share of Series C Preferred Stock from the date on which such share is first issued and shall be payable in arrears, when and as declared by the Board of Directors or as otherwise provided herein. After payment of the Series C Dividends, any additional dividends shall be distributed among the holders of Series C Preferred Stock, Series B Preferred Stock, Series A Preferred Stock and Common Stock pro rata based on the number of shares of Common Stock then held by each holder (assuming conversion of all such Series A Preferred Stock, Series B Preferred

Stock and Series C Preferred Stock into Common Stock). Except as provided in paragraphs 3.9.2(a) and 3.9.6 with respect to the Series C Preferred Stock, the Corporation shall be under no obligation to pay such dividends unless first declared by the Board of Directors.

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

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

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

(b) Remaining Assets. Upon the completion of the distribution required by Section 3.9.2(a) above, the remaining assets of the Corporation available for distribution to shareholders shall be distributed among the holders of Series B Preferred Stock as set forth in Section 3.8.2 and Series A Preferred Stock as set forth in Section 3.7.3 and any remaining assets available for distribution to shareholders shall be distributed pro rata among the holders of Common Stock. Notwithstanding the foregoing, nothing herein shall be deemed to prohibit the holders of the Series C Preferred Stock from converting their shares of Series C Preferred Stock into shares of Common Stock prior to or simultaneously with such liquidity event in accordance with Section 3.9.4 hereof, in which case any holders so converting shall not be entitled to receive the distribution required by Section 3.9.2(a) above.

(c) Deemed Liquidation Events.

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

(A) a merger, consolidation or reorganization in which

(I) the Corporation is a constituent party or

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

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

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

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

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

(iii) In the event of a Deemed Liquidation Event pursuant to Subsection 3.9.2(c)(i)(B) above, if the Corporation does not effect a dissolution of the Corporation under the Business Corporation Law within 60 days after such Deemed Liquidation Event, then the Corporation shall use the consideration received by the Corporation for such Deemed Liquidation Event (net of any liabilities associated with the assets sold or technology licensed, as determined in good faith by the Board of Directors of the Corporation), to the extent legally available therefor (the

"Net Proceeds"), to repurchase, on the 90th day after such Deemed Liquidation Event (the "Liquidation Repurchase Date"), the Series C Preferred Stock, and to distribute the Net Proceeds in accordance with Sections 3.9.2(a) and 3.9.2(b) above.

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

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

3.9.3. Voting.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

3.9.4. Optional Conversion.

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

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

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

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

(c) Mechanics of Conversion.

(i) In order for a holder of Series C Preferred Stock to convert shares of Series C Preferred Stock into shares of Common Stock, such holder shall surrender the certificate or

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

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

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

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

action as may be necessary to reduce the authorized number of shares of Series C Preferred Stock accordingly.

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

(d) Adjustments to Conversion Price for Diluting Issues.

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

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

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

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

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

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

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

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

(IV) up to 2,048,200 shares of Common Stock (subject to appropriate adjustment in the event of any stock dividend, stock split, combination or other similar

recapitalization affecting such shares), issued or deemed issued to employees or directors of, or consultants to, the Corporation or any of its subsidiaries, whether issued before or after the Series C Original Issue Date (provided, that any Options for such shares that expire or terminate unexercised or any restricted stock repurchased by the Corporation at cost shall not be counted toward such maximum number unless and until such shares are regranted as new stock grants or as new Options);

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

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

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

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

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

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

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

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

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

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

(iv) Adjustment of Conversion Price Upon Issuance of Additional Shares of Common Stock. In the event the Corporation shall at any time after the Series C Original Issue Date issue Additional Shares of Common Stock (including Additional Shares of Common Stock

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

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

(A) Cash and Property: Such consideration shall:

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

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

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

(B) Options and Convertible Securities. The consideration per share received by the Corporation for Additional Shares of Common Stock deemed to have been issued pursuant to Subsection 3.9.4(d)(iii), relating to Options and Convertible Securities, shall be determined by dividing

(I) the total amount, if any, received or receivable by the Corporation as consideration for the issue of such Options or Convertible Securities, plus the minimum aggregate amount of additional consideration (as set

forth in the instruments relating thereto, without regard to any provision contained therein for a subsequent adjustment of such consideration) payable to the Corporation upon the exercise of such Options or the conversion or exchange of such Convertible Securities, or in the case of Options for Convertible Securities, the exercise of such Options for Convertible Securities and the conversion or exchange of such Convertible Securities, by

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

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

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

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

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

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

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

(h) Adjustment for Merger or Reorganization, etc. Subject to the provisions of Subsection 3.9.2(c), if there shall occur any reorganization, recapitalization, reclassification, consolidation or merger involving the Corporation in which the Common Stock (but not the Series C Preferred Stock,) is converted into or exchanged for securities, cash or other property (other than a transaction covered by paragraphs (e), (f) or (g) of this Section 3.9.4), then, following any such reorganization, recapitalization, reclassification, consolidation or merger, each share of Series C Preferred Stock shall be convertible into the kind and amount of securities, cash or other property which a holder of the number of shares of Common Stock of the Corporation issuable upon conversion of one share of Series C Preferred Stock, immediately prior to such reorganization, recapitalization, reclassification, consolidation or merger would have been entitled to receive pursuant to such transaction; and, in such case, appropriate adjustment (as determined in good faith by the Board of Directors of the Corporation) shall be made in the application of the provisions in this Section 3.9.4 with respect to the rights and interests thereafter of the holders of the Series C Preferred Stock to the end that the provisions set forth in this Section 3.9.4 (including provisions with respect to changes in and other adjustments of the Series C Conversion Price) shall thereafter

be applicable, as nearly as reasonably may be, in relation to any securities or other property thereafter deliverable upon the conversion of the Series C Preferred Stock.

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

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

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

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

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

then, and in each such case, the Corporation will send or cause to be sent to the holders of the Series C Preferred Stock a notice specifying, as the case may be, (i) the record date for such dividend, distribution or right, and the amount and character of such dividend, distribution or right, or (ii) the effective date on which such reorganization, reclassification, consolidation, merger, transfer, dissolution, liquidation or winding-up is to take place, and the time, if any is to be fixed, as of which the holders of record of Common Stock (or such other stock or securities at the time issuable upon the conversion of the Series C Preferred Stock) shall be entitled to exchange their shares of Common Stock (or such other stock or securities) for securities or other property deliverable upon such reorganization, reclassification, consolidation, merger, transfer, dissolution, liquidation or winding-up, and the amount per share and character of such exchange applicable to the Series C Preferred Stock and the Common Stock. Such notice shall be sent at least 10 days prior to the record date or effective date for the event specified in such notice.

3.9.5. Mandatory Conversion.

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

(b) All holders of record of shares of Series C Preferred Stock shall be given written notice of the Mandatory Conversion Date and the place designated for mandatory conversion of all such shares of Series C Preferred Stock pursuant to this Section 3.9.5. Such notice need not be given in advance of the occurrence of the Mandatory Conversion Date. Such notice shall be sent by first class or registered mail, postage prepaid, or given by electronic communication in compliance with the provisions of the Business Corporation Law, to each record holder of Preferred Stock. Upon receipt of such notice, each holder of shares of Series C Preferred Stock shall surrender his or its certificate or certificates for all such shares to the Corporation at the place designated in such notice, and shall thereafter receive certificates for the number of shares of Common Stock to which such holder is entitled pursuant to this Section 3.9.5. On the Mandatory Conversion Date, all outstanding shares of Series C Preferred Stock shall be deemed to have been converted into shares of Common Stock, which shall be deemed to be outstanding of record, and all rights with respect to the Series C Preferred Stock so converted, including the rights, if any, to receive notices and vote (other than as a holder of Common Stock), will terminate, except only the rights of the holders thereof, upon surrender of their certificate or certificates therefor, to receive certificates for the number of shares of Common Stock into which such Series C Preferred Stock has been converted, and payment of any declared but unpaid dividends thereon. Upon any such conversion, no payment of any accumulated (whether or not declared) but unpaid dividends (including without limitation any declared Series C Dividends) on the Series C Preferred Stock shall be made. If so required by the Corporation, certificates surrendered for conversion shall be endorsed or accompanied by written instrument or instruments of transfer, in form satisfactory to the Corporation, duly executed by the registered holder or by his or its attorney duly authorized in writing. As soon as practicable after the Mandatory Conversion Date and the surrender of the certificate or certificates for Series C Preferred Stock, the Corporation shall cause to be issued and delivered to such holder, or on his or its written order, a certificate or certificates for the number of full shares of Common Stock issuable on such conversion in accordance with the provisions hereof

and cash as provided in Subsection 3.9.4(b) in respect of any fraction of a share of Common Stock otherwise issuable upon such conversion.

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

3.9.6. Repurchase.

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

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

(c) Repurchase Notice. Written notice of the mandatory repurchase (the "Repurchase Notice") shall be mailed, postage prepaid, to each holder of record of Series C Preferred Stock, at his or its post office address last shown on the records of the Corporation, or given by electronic communication in compliance with the provisions of the Business Corporation Law, not less than 30 days prior to each Repurchase Date. Each Repurchase Notice shall state:

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

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

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

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

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

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

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

(g) Other Repurchases or Acquisitions. Neither the Corporation nor any subsidiary shall repurchase or otherwise acquire any series of Series C Preferred Stock, except (i) as expressly authorized herein or (ii) with the written consent of the holders of at least a majority of the then outstanding shares of Series C Preferred Stock, voting as a single class and on an as-converted to Common Stock basis.

3.9.7. Waiver. Except as otherwise provided herein, any of the rights of the holders of the Series C Preferred Stock set forth herein may be waived by the affirmative consent or vote of

the holders of at least a majority of the shares of Series C Preferred Stock then outstanding, voting as a single class and on an as-converted to Common Stock basis.

Article 4

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

Article 5

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

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

/s/ Eric Von Estorff
Eric Von Estorff, Secretary

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

Exhibit 3.2

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

The undersigned officer of Orion Energy Systems, Ltd., a corporation organized and existing under the Wisconsin Business Corporation Law, Chapter 180 of the Wisconsin Statutes (the "Corporation"), hereby certifies, in accordance with all applicable provisions of the Wisconsin Business Corporation Law, as follows:

1. The name of the Corporation prior to any change effected by these Articles of Amendment is Orion Energy Systems, Ltd.

2. Article 1 of the Corporation's Amended and Restated Articles of Incorporation is hereby amended in its entirety to provide as follows:

Article 1

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

3. The foregoing amendment to the Corporation's Amended and Restated Articles of Incorporation was adopted by the Board of Directors in accordance with Section 180.1002 of the Wisconsin Business Corporation Law on July 27, 2007.

4. Executed on behalf of the Corporation and dated as of this 30 day of July, 2007.

/s/ Eric von Estorff
Eric von Estorff, Vice President

This document was drafted by, and after filing should be returned to, Attorney Raina Zanow,
Foley & Lardner LLP, 150 East Gilman Street, Madison, Wisconsin 53703

EXHIBIT 3.3

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

These Amended and Restated Articles of Incorporation supersede and take the place of the heretofore existing Articles of Incorporation and any amendments thereto.

ARTICLE I. NAME

The name of the Corporation is Orion Energy Systems, Inc.

ARTICLE II. PURPOSES

The Corporation is organized under the Wisconsin Business Corporation Law. The purposes for which this Corporation is organized are to engage in any lawful activity within the purposes for which corporations may be organized under the Wisconsin Business Corporation Law.

ARTICLE III. DURATION

The period of existence shall be perpetual.

ARTICLE IV. CAPITAL STOCK

The total number of shares of all classes of capital stock which the Corporation shall have authority to issue is two hundred thirty million (230,000,000) shares, consisting of: (i) two hundred million (200,000,000) shares of a class designated as "Common Stock," with no par value per share; and (ii) thirty million (30,000,000) shares of a class designated as "Preferred Stock," with a par value of one cent ($.0l) per share

Any and all such shares of Common Stock and all Preferred Stock may be issued for such consideration, not less than the par value thereof, as shall be fixed from time to time by the Board of Directors. Any and all of the shares so issued, the full consideration for which has been paid or delivered, shall be deemed fully paid capital stock and shall not be liable to any further call or assessment thereon, and the holders of such shares shall not be liable for any further payments.

The designation, relative rights, preferences and limitations of the shares of each class and the authority of the Board of Directors of the Corporation to establish and to designate series of the Preferred Stock and to fix the variations in the relative rights, preferences and limitations as between such series, shall be as set forth herein.

4.1 Common Stock.

(a) General. The designations, powers, preferences, rights, qualifications, limitations, restrictions and relative rights of the Common Stock are as set forth in this Section 4.1. Except as otherwise required by the Wisconsin Business Corporation Law, all shares of

Common Stock will be identical in all respects and will entitle the holders thereof to the same rights, preferences and powers, subject to the same qualifications, limitations and restrictions, as set forth herein. The dividend and liquidation rights of the holders of Common Stock are subject to and qualified by the rights of the holders of the Preferred Stock. Fractional shares of Common Stock may be issued.

(b) Voting Rights. Except as otherwise required by the Wisconsin Business Corporation Law and except as may be determined by the Board of Directors with respect to the Preferred Stock pursuant to Section 4.2 of this Article IV, only the holders of Common Stock shall be entitled to vote for the election of directors of the Corporation and for all other corporate purposes. With respect to all matters upon which shareholders are entitled to vote or to which shareholders are entitled to give consent, the holders of Common Stock will be entitled to one (1) vote for each share of Common Stock held by such holder. There will be no cumulative voting.

(c) Dividends. The holders of Common Stock will be entitled to receive such dividends as the Board of Directors of the Corporation may declare from time to time from funds legally available therefor and subject to any preferential dividend rights of the Preferred Stock as described in Section 4.2.

(d) Liquidation. In case of any voluntary or involuntary liquidation, dissolution or winding up of the Corporation, the holders of Common Stock shall be entitled to receive on a pro rata basis the proceeds of any remaining assets of the Corporation, subject to any preferential liquidation rights of the Preferred Stock.

(e) Preemptive Rights. Except as may be granted in a written agreement with the Corporation, the holders of Common Stock have no preemptive or preferential right to purchase or subscribe for, or otherwise acquire, any shares of Common Stock, Preferred Stock or any other class or series of capital stock of the Corporation.

4.2 Preferred Stock.

(a) Series and Variations Between Series. The Board of Directors of the Corporation is authorized, subject to limitations prescribed by the Wisconsin Business Corporation Law and the provisions of this Section 4.2, to provide for the issuance of the Preferred Stock in series, to establish or change the number of shares to be included in each such series and to fix the designation, relative rights, preferences and limitations of the shares of each such series. The authority of the Board of Directors of the Corporation with respect to each series shall include, but not be limited to, determination of the following:

(i) The number of shares constituting that series and the distinctive designations of that series;

(ii) The dividend rate or rates on the shares of that series and/or the method of determining such rate or rates and the timing of dividend payments on the shares of such series;

(iii) Whether and to what extent the shares of that series shall have voting rights;

(iv) Whether the shares of that series shall be convertible into shares of stock of any other series, and, if so, the terms and conditions of such conversion, including the price or prices and the rate or rates of conversion and the terms of adjustment thereof;

(v) Whether or not the shares of that series shall be redeemable, and, if so, the terms and conditions of such redemption, including the date or dates upon or after which they shall be redeemable and the amount per share payable in case of redemption, which amount may vary under different conditions and at different redemption dates;

(vi) The rights of the shares of that series in the event of any voluntary or involuntary liquidation, dissolution or winding up of the Corporation;

(vii) The obligation, if any, of the Corporation to retire shares of that series pursuant to a sinking fund; and

(viii) Any other relative rights, preferences and limitations of that series.

Subject to the designations, relative rights, preferences and limitations provided pursuant to this Section 4.1, each share of Preferred Stock shall be of equal rank with each other share of Preferred Stock.

ARTICLE V. REGISTERED AGENT

The address of the Corporation's initial registered office is 25 West Main Street, Madison, Wisconsin 53703, and the name of the registered agent at such address is CSC-Lawyers Incorporating Service Company.

ARTICLE VI. BOARD OF DIRECTORS

6.1 Board of Directors. The business and affairs of the Corporation shall be managed by or under the direction of a Board of Directors. The general powers, number and classification of directors shall be as set forth in Sections 1, 2 and 3 of Article III of the By-Laws of the Corporation (and as such sections shall exist from time to time). Notwithstanding any other provisions of these Amended and Restated Articles of Incorporation or the By-Laws of the Corporation (and notwithstanding the fact that a lesser affirmative vote may be specified by law), the affirmative vote of shareholders possessing at least seventy-five percent (75%) of the voting power of the then outstanding shares of all classes of stock of the Corporation generally possessing voting rights in elections of directors, considered for this purpose as one class, shall be required to amend, alter, change or repeal, or to adopt any provision inconsistent with, such Sections 1, 2 and 3 of Article III of the By-Laws, or any provision thereof; provided, however,

that the Board of Directors, by a resolution adopted by the Requisite Vote (as defined herein), may amend, alter, change or repeal, or adopt any provision inconsistent with, Sections 1, 2 and 3 of Article III of the By-Laws, or any provision thereof, without the vote of the shareholders. As used herein, the term "Requisite Vote" shall mean the affirmative vote of at least two-thirds of the directors then in office plus one director.

6.2 Election by Holders of Preferred Stock. Notwithstanding the foregoing or any provisions of the Corporation's By-Laws, whenever the holders of outstanding shares of one or more series of Preferred Stock are entitled to elect a director or directors of the Corporation separately as a series or together with one or more other series pursuant to a resolution of the Board of Directors providing for the establishment of such series, the election, term of office, removal and filling of vacancies in respect of such director or directors shall be governed by the resolution of the Board of Directors so providing for the establishment of such series and by applicable law, and such directors so elected shall not be divided into classes unless expressly provided by the terms of the applicable series.

6.3 Amendments to Article VI. Notwithstanding any other provisions of these Amended and Restated Articles of Incorporation (and notwithstanding the fact that a lesser affirmative vote may be specified by law), the affirmative vote of shareholders possessing at least seventy-five percent (75%) of the voting power of the then outstanding shares of all classes of stock of the Corporation generally possessing voting rights in elections of directors, considered for this purpose as one class, shall be required to amend, alter, change or repeal, or adopt any provision inconsistent with, the provisions of this Article VI.

Exhibit 3.4

AMENDED & RESTATED BYLAWS
OF
ORION ENERGY SYSTEMS, LTD.

Adopted September 25, 2003

TABLE OF CONTENTS

ARTICLE O	**VARIABLE REFERENCES**	1
Section 0.01	Date of Shareholders Meeting	1
Section 0.02	Notice of Shareholders Meeting	1
Section 0.03	Notice of Directors' Meeting	1
Section 0.04	Fiscal Year	1
ARTICLE 1	**IDENTIFICATION**	2
Section 1.01	Principal and Business Offices	2
Section 1.02	Registered Agent and Office	2
Section 1.03	Place of Keeping Corporate Records	2
ARTICLE 2	**SHAREHOLDERS**	2
Section 2.01	Annual Meeting	2
Section 2.02	Special Meetings	2
Section 2.03	Place of Meeting	3
Section 2.04	Notice of Meetings	3
Section 2.05	Waiver of Notice	3
Section 2.06	Fixing of Record Date	3
Section 2.07	Voting List	4
Section 2.08	Quorum and Voting Requirements	5
Section 2.09	Proxies	5
Section 2.10	Voting of Shares	5
Section 2.11	Voting of Shares by Certain Holders	5
	(a)Other Corporations	5
	(b)Legal Representatives and Fiduciaries	6
	(c)Pledgees	6
	(d)Minors	6
	(e)Incompetents and Spendthrifts	6
	(f)Joint Tenant/Survivorship Marital Property	6
Section 2.12	Action Without a Meeting	7

ARTICLE 3	**BOARD OF DIRECTORS**	7
Section 3.01	General Powers and Number	7
Section 3.02	Election	7
Section 3.03	Tenure and Qualifications	7
Section 3.04	Chairperson of the Board	7
Section 3.05	Regular Meetings	8
Section 3.06	Special Meetings	8
Section 3.07	Meetings by Electronic Means of Communication	8
Section 3.08	Notice of Meetings; Waiver of Notice	8
Section 3.09	Quorum Requirement	9
Section 3.10	Voting Requirement	9
Section 3.11	Conduct of Meetings	9
Section 3.12	Vacancies	9
Section 3.13	Compensation and Expenses	9
Section 3.14	Directors’ Assent	10
Section 3.15	Committees	10
Section 3.16	Action Without a Meeting	10
ARTICLE 4	**OFFICERS**	11
Section 4.01	Number and Titles	11
Section 4.02	Appointment and Term of Office	11
Section 4.03	Additional Officers, Agents, etc.	11
Section 4.04	Removal	11
Section 4.05	Resignations	12
Section 4.06	Vacancies	12
Section 4.07	Powers, Authority, and Duties	12
Section 4.08	The President	12
Section 4.09	The Executive Vice President	13
Section 4.10	The Vice Presidents	13
Section 4.11	The Secretary	13
Section 4.12	The Assistant Secretaries	14
Section 4.13	The Treasurer	14
Section 4.14	The Assistant Treasurers	15
ARTICLE 5	**CONTRACTS, LOANS, CHECKS, AND DEPOSITS**	15
Section 5.01	Contracts	15
Section 5.02	Loans	15
Section 5.03	Checks, Drafts, etc.	15
Section 5.04	Deposits	16
ARTICLE 6	**VOTING OF SECURITIES OWNED BY THE CORPORATION**	16
Section 6.01	Authority to Vote	16
Section 6.02	Proxy Authorization	16

ARTICLE 7	**CONTRACTS BETWEEN THE CORPORATION AND RELATED PERSONS**	16
ARTICLE 8	**CERTIFICATES FOR SHARES AND THEIR TRANSFER**	17
Section 8.01	Certificates for Shares	17
Section 8.02	Shares Without Certificates	17
Section 8.03	Facsimile Signatures	18
Section 8.04	Signature by Former Officer	18
Section 8.05	Consideration for Shares	18
Section 8.06	Transfer of Shares	18
Section 8.07	Restrictions on Transfer	18
Section 8.08	Lost, Destroyed, or Stolen Certificates	19
ARTICLE 9	**INSPECTION OF RECORDS BY SHAREHOLDERS**	19
Section 9.01	Inspection of Bylaws	19
Section 9.02	Inspection of Other Records	19
ARTICLE 10	**DISTRIBUTIONS AND SHARE ACQUISITIONS**	19
ARTICLE 11	**INDEMNIFICATION**	20
ARTICLE 12	**AMENDMENTS**	20
Section 12.01	By Shareholders	20
Section 12.02	By Directors	20
Section 12.03	Implied Amendments	20
ARTICLE 13	**SEAL**	21
ARTICLE 14	**FISCAL YEAR**	21
ARTICLE 15	**ADVISORY BOARD**	22

** Article 15 adopted on June 10, 2004 **

BYLAWS
OF
ORION ENERGY SYSTEMS, LTD.

ARTICLE 0
VARIABLE REFERENCES

Section 0.01. Date of Shareholders' Meeting. The annual shareholders' meeting (See Section 2.01) will be determined annually by the President or the board of directors, the board's decision controlling, on a date following the completion of the Corporation's audited financial statements for the preceding year and not later than the last day of the current fiscal year.
*

Section 0.02. Notice of Shareholders' Meeting. The required notice of shareholders' meetings (See Section 2.04) shall be not less than seven (7) days but no more than seventy (70) days before the meeting unless otherwise required by law.
*

Section 0.03. Notice of Directors' Meeting. The required notice of directors' meetings (See Section 3.07) shall be:
*

(a) not less than seventy-two (72) hours if by mail; and

(b) not less than twenty-four (24) hours if given orally or in person.

Section 0.04. Fiscal Year. The fiscal year of the Corporation shall end on March 31 (See Article 14).

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* These spaces are reserved for official notation of future amendments to these sections.

ARTICLE 1
IDENTIFICATION

Section l.01. Principal and Business Offices. The Corporation may have such principal and other business offices, either within or outside the state of Wisconsin, as the board of directors may designate or as the Corporation's business may require from time to time.

Section 1.02. Registered Agent and Office. The Corporation's registered agent may be changed from time to time by or under the authority of the board of directors. The address of the Corporation's registered office may be changed from time to time by or under the authority of the board of directors, or by the registered agent. The business office of the Corporation's registered agent shall be identical to the registered office. The Corporation's registered office may be, but need not be, identical with the Corporation's principal office in the state of Wisconsin.

Section 1.03. Place of Keeping Corporate Records. The records and documents required by law to be kept by the Corporation permanently shall be kept at the Corporation's principal office.

ARTICLE 2
SHAREHOLDERS

Section 2.01. Annual Meeting. The annual shareholders' meeting shall be held at the date and hour in each year set forth in Section 0.01, or at such other date and time within thirty (30) days before or after this date as may be fixed by or under the authority of the board of directors, for the purpose of electing directors and transacting such other business as may come before the meeting. If the day fixed for the annual meeting is a legal holiday in Wisconsin, the meeting shall be held on the next succeeding business day.

Section 2.02. Special Meetings. Special shareholders' meetings may be called (a) by the President, (b) by the board of directors or such other officer(s) as the board of directors may authorize from time to time, or (c) by the President or Secretary upon the written request of the holders of record of at least ten percent (10%) of all the votes entitled to be cast upon the matter(s) set forth as the purpose of the meeting in the written request. Upon delivery to the President or Secretary of a written request pursuant to (c), above, stating the purpose(s) of the requested meeting, dated and signed by the person(s) entitled to request such a meeting, it shall be the duty of the officer to whom the request is delivered to give, within thirty (30) days of such delivery, notice of the meeting to shareholders. Notice of any special meetings shall be given in the manner provided in Section 2.04 of these Bylaws. Only business within the purpose described in the special meeting notice shall be conducted at a special shareholders' meeting.

Section 2.03. Place of Meeting. The board of directors may designate any place, either within or outside the state of Wisconsin, as the place of meeting for any annual or special shareholders' meeting or any adjourned meeting. If no designation is made by the board of directors, the place of meeting shall be the Corporation's principal office.

Section 2.04. Notice of Meetings. The Corporation shall notify each shareholder who is entitled to vote at the meeting, and any other shareholder entitled to notice under Ch. 180, of the date, time, and place of each annual or special shareholders' meeting. In the case of special meetings, the notice shall also state the meeting's purpose. Notice shall be delivered not less than the number of days as provided for in Section 0.02 before the date of the meeting. Notice may be communicated either personally, by mail or by electronic transmission. For purposes of these Bylaws, notice by "electronic transmission" (as such term is defined in Chapter 180) shall be deemed to constitute written notice. Written notice pursuant to this Section 2.04 shall be deemed effective (a) when mailed, if mailed postage paid and addressed to the shareholder's address shown in the Corporation's current record of shareholders, or (b) when received, if personally delivered, or (c) when electronically transmitted to the shareholder in a manner authorized by the shareholder.

Section 2.05. Waiver of Notice. A shareholder may waive notice of any shareholders' meeting, before or after the date and time stated in the notice. The waiver must be in writing, contain the same information that would have been required in the notice (except that the time and place of the meeting need not be stated), be signed by the shareholder, and be delivered to the Corporation for inclusion in the corporate records. A shareholder's attendance at a meeting, in person or by proxy, waives objection to all of the following: (a) lack of notice or defective notice, 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.

Section 2.06. Fixing of Record Date. For the purpose of determining shareholders of any voting group entitled to notice of or to vote at any shareholders' meeting, shareholders entitled to demand a special meeting under Section 2.02 of these Bylaws, or shareholders entitled to receive payment of any distribution or dividend, or in order to make a determination of shareholders for any other proper purpose, the board of directors may fix a future date as the record date. The record date shall not be more than seventy (70) days before the date on which the particular action requiring this determination of shareholders is to be taken. If no record date is so fixed by the board, the record date shall be as follows:

(a) With respect to an annual shareholders' meeting or any special shareholders' meeting called by the board or any person specifically authorized by the board or these Bylaws to call a meeting, at the close

of business on the day before the first notice is delivered to shareholders;

(b) With respect to a special shareholders' meeting demanded by the shareholders, on the date the first shareholder signs the demand;

(c) With respect to actions taken in writing without a meeting (pursuant to Section 2.12 of these Bylaws), on the date the first shareholder signs a consent;

(d) With respect to determining shareholders entitled to a share dividend, on the date the board authorizes the share dividend;

(e) With respect to determining shareholders entitled to a distribution (other than a distribution involving a repurchase or reacquisition of shares), on the date the board authorizes the distribution;

(f) With respect to any other matter for which such a determination is required, as provided by law.

When a determination of the shareholders entitled to vote at any shareholders' meeting has been made as provided in this section, the determination shall apply to any adjournment of the meeting unless the board of directors fixes a new record date, which it must do if the meeting is adjourned to a date more than one hundred twenty (120) days after the date fixed for the original meeting.

Section 2.07. Voting List. After fixing a record date for a meeting, the Corporation shall prepare a list of the names of all of its shareholders who are entitled to notice of a shareholders' meeting. The list shall be arranged by class or series of shares, if any, and show the address of and number of shares held by each shareholder. The Corporation shall make the shareholders' list available for inspection by any shareholder, beginning two (2) business days after notice is given of the meeting for which the list was prepared and continuing to the meeting date, at the Corporation's principal office or at the place identified in the meeting notice in the city where the meeting will be held. A shareholder or his or her agent or attorney may, on written demand, inspect, and subject to any restrictions set forth in Ch. 180, copy the list, during regular business hours and at his or her expense, during the period that it is available for inspection. The Corporation shall make the shareholders' 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.

Section 2.08. Quorum and Voting Requirements. Shares entitled to vote as a separate voting group may take action on a matter at a meeting only if a quorum of those shares exists with respect to that matter. Except as otherwise provided by the Articles of Incorporation, these Bylaws, or any provision of Ch. 180, a majority of the votes entitled to be cast on the matter by the voting group shall constitute a quorum of that voting group for action on that matter. If a quorum exists, action on a matter (other than the election of directors under Section 3.02 of the Bylaws) by a voting group is approved if the votes cast within the voting group favoring the action exceed the votes cast within the voting group opposing the action, unless the Articles of Incorporation, these Bylaws, or any provision of Ch. 180 requires a greater number of affirmative votes. Once a share is represented for any purpose at a 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 record date is or must be set for that adjourned meeting. At the adjourned meeting at which a quorum is represented, any business may be transacted that might have been transacted at the meeting as originally noticed.

Section 2.09. Proxies. At all shareholders' meetings, a shareholder entitled to vote may vote in person or by proxy appointed in writing by the shareholder or by his or her duly authorized attorney-in-fact. A proxy appointment shall become effective when received by the Secretary or other officer or agent of the Corporation authorized to tabulate votes. Unless otherwise provided in the appointment form, a proxy appointment may be revoked at any time before it is voted, either by written notice filed with the Secretary or other officer or agent of the Corporation authorized to tabulate votes, or by oral notice given by the shareholder during the meeting. The presence of a shareholder who has filed his or her proxy appointment shall not of itself constitute a revocation. A proxy appointment shall be valid for eleven (11) months from the date of its execution, unless otherwise provided in the appointment form. The board of directors shall have the power and authority to make rules establishing presumptions as to the validity and sufficiency of proxy appointments.

Section 2.10. Voting of Shares. Each outstanding share shall be entitled to one vote upon each matter submitted to a vote at a shareholders' meeting, except as otherwise required by the Articles of Incorporation or by Ch. 180.

Section 2.11. Voting of Shares by Certain Holders.

(a) Other Corporations. Shares standing in another corporation's name may be voted either in person or by proxy, by the other corporation's President or any other officer appointed by the President. A proxy appointment executed by any principal officer of the other corporation or such an officer's assistant shall be conclusive evidence of the signer's authority to act, in the absence of express notice to this Corporation, given in writing to this Corporation's Secretary, or other officer or agent of this Corporation authorized to tabulate votes, of the designation of some other person by the other corporation's board of directors or bylaws.

(b) Legal Representatives and Fiduciaries. Shares held by a personal representative, administrator, executor, guardian, conservator, trustee in bankruptcy, receiver, or assignee for creditors, in a fiduciary capacity, may be voted by the fiduciary, either in person or by proxy, without transferring the shares into his or her name, provided that there is filed with the Secretary, before or at the time of the meeting, proper evidence of the fiduciary's incumbency and the number of shares held. Shares standing in a fiduciary's name may be voted by him or her, either in person or by proxy. A proxy appointment executed by a fiduciary shall be conclusive evidence of the fiduciary's authority to give the proxy appointment, in the absence of express notice to the Corporation, given in writing to the Secretary or other officer or agent of the Corporation authorized to tabulate votes, that this manner of voting is expressly prohibited or otherwise directed by the document creating the fiduciary relationship.

(c) Pledgees. A shareholder whose shares are pledged shall be entitled to vote the shares until they have been transferred into the pledgee's name, and thereafter the pledgee shall be entitled to vote the shares so transferred.

(d) Minors. Shares held by a minor may be voted by the minor in person or by proxy appointment, and no such vote shall be subject to disaffirmance or avoidance unless before the vote the Secretary or other officer or agent of the Corporation authorized to tabulate votes has received written notice or has actual knowledge that the shareholder is a minor.

(e) Incompetents and Spendthrifts. Shares held by an incompetent or spendthrift may be voted by the incompetent or spendthrift in person or by proxy appointment, and no such vote shall be subject to disaffirmance or avoidance unless before the vote the Secretary or other officer or agent of the Corporation authorized to tabulate votes has actual knowledge that the shareholder has been adjudicated an incompetent or spendthrift or actual knowledge that judicial proceedings for appointment of a guardian have been filed.

(f) Joint Tenants/Survivorship Marital Property. Shares designated as survivorship marital property or registered in the names of two (2) or more individuals who are named in the registration as joint tenants may be voted in person or by proxy signed by one or more of the individuals if either (1) no other individual or his or her legal representative is present and claims the right to participate in the voting of the shares or before the vote files with the Secretary or other officer or agent of the Corporation authorized to tabulate votes a contrary written voting authorization or direction or written denial of authority of the individual present or signing the proxy appointment proposed to be voted, or (2) all other individuals are deceased and the Secretary or other officer or agent of the Corporation authorized to tabulate votes has no actual knowledge that the survivor has been adjudicated not to be the successor to the interests of those deceased.

Section 2.12. Action Without a Meeting. Any action required or permitted by the Articles of Incorporation, these Bylaws, or any provision of Ch. 180 to be taken at a shareholders' meeting may be taken without a meeting if one or more written consents, setting

forth the action so taken, shall be signed by all shareholders entitled to vote on the subject matter of the action. Action taken pursuant to written consent shall be effective when a consent or consents, signed by all of the shareholders, is or are delivered to the Corporation for inclusion in the corporate records, unless some other effective date is specified in the consent. If the action to be taken requires that notice be given to nonvoting shareholders, the Corporation shall give the nonvoting shareholders written notice of the proposed action at least ten (10) days before the action is taken, which notice shall comply with the provisions of Ch. 180 and shall contain or be accompanied by the same material that would have been required to be sent to nonvoting shareholders in a notice of meeting at which the proposed action would have been submitted to the shareholders.

ARTICLE 3
BOARD OF DIRECTORS

Section 3.01. General Powers and Number. The Corporation's powers shall be exercised by or under the authority of, and its business and affairs shall be managed under the direction of, its board of directors, subject to any limitation set forth in the Articles of Incorporation. The number of directors shall be as determined from time to time by the board of directors but shall, at a minimum, consist of at least three (3) members.

Section 3.02. Election. Directors shall be elected by the shareholders at each annual shareholders' meeting. Each director is elected by a plurality of the votes cast by the shares entitled to vote in the election at a meeting at which a quorum is present. For purposes of this Section 3.02, "plurality" means that the individuals with the largest number of votes are elected as directors up to the maximum number of directors to be chosen at the meeting.

Section 3.03. Tenure and Qualifications. Each director shall hold office until the next annual shareholders' meeting and until his or her successor shall have been elected by the shareholders or until his or her prior death, resignation, or removal. A director may be removed from office by a vote of the shareholders taken at any shareholders' meeting called for that purpose, provided that a quorum is present. A director may resign at any time by delivering his or her written resignation that complies with the provisions of Ch. 180 to the board of directors, the chairperson of the board of directors, or the Corporation. Directors need not be residents of the state of Wisconsin or shareholders of the Corporation.

Section 3.04. Chairperson of the Board. There may be a chairperson of the board of directors, who has been elected by and from among the directors. He or she shall preside at all meetings of the shareholders and of the board of directors. He or she shall have such other powers and duties as may be prescribed by the board of directors.

Section 3.05. Regular Meetings. A regular meeting of the board of directors shall be held without other notice than this bylaw immediately after the annual shareholders' meeting. The place of the regular board of directors' meeting shall be the same as the place of

the shareholders' meeting that precedes it, or such other suitable place as may be announced at the shareholders' meeting. The board of directors may provide, by resolution, the time and place, either within or outside the state of Wisconsin, for the holding of additional regular meetings without other notice than such resolution.

Section 3.06. Special Meetings. Special meetings of the board of directors may be called by or at the request of the President or by any two (2) directors. The person or persons authorized to call special board of directors' meetings may fix any place, either within or outside the state of Wisconsin, as the place for holding any special board meeting called by them, and if no other place is fixed, the meeting place shall be the Corporation's principal office in the state of Wisconsin, but any meeting may be adjourned to reconvene at any place designated by vote of a majority of the directors in attendance at the meeting.

Section 3.07. Meetings by Electronic Means of Communication. To the extent provided in these Bylaws, the board of directors, or any committee of the board, may, in addition to conducting meetings in which each director participates in person, and notwithstanding any place set forth in the notice of the meeting or these Bylaws, conduct any regular or special meeting by the use of any electronic means of communication, provided (a) all participating directors may simultaneously hear each other during the meeting, such as by conference telephone, or (b) all communication during the meeting is immediately transmitted to each participating director, and each participating director is able to immediately send messages to all other participating directors. Before the commencement of any business at a meeting at which any directors do not participate in person, all participating directors shall be informed that a meeting is taking place at which official business may be transacted.

Section 3.08. Notice of Meetings; Waiver of Notice. Notice of each board of directors' meeting, except meetings pursuant to Section 3.05 of these Bylaws, shall be delivered to each director at his or her business address or at such other address as the director shall have designated in writing and filed with the Secretary. Notice may be communicated in written form, by telegraph, teletype, facsimile, other form of written communication, private carrier, or in any other manner provided by Ch. 180. Notice shall be given not less than the number of hours prior to the meeting as provided in Section 0.03. Written notice shall be deemed given at the earlier of the time it is received or at the time it is deposited with postage prepaid in the United States mail or delivered to the private carrier. A director may waive notice required under this section or by law at any time, whether before or after the time of the meeting. The waiver must be in writing, signed by the director, and retained in the corporate record book. The director's attendance at or participation in a meeting shall constitute a waiver of notice 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. Neither the business to be transacted at nor the purpose of any regular or special board of directors' meeting need be specified in the notice or waiver of notice of the meeting.

Section 3.09. Quorum Requirement. Except as otherwise provided by Ch. 180, the Articles of Incorporation, or these Bylaws, a majority of the number of directors as determined under Section 3.01 of these Bylaws shall constitute a quorum for the transaction of business at any board of directors' meeting. A majority of the number of directors appointed to serve on a committee as authorized in Section 3.15 of these Bylaws shall constitute a quorum for the transaction of business at any committee meeting. These provisions shall not, however, apply to the determination of a quorum for actions taken pursuant to Article 7 of these Bylaws or actions taken under emergency Bylaws or any other provisions of these Bylaws that fix different quorum requirements.

Section 3.10. Voting Requirement. The affirmative vote of the majority of the directors present at a meeting at which a quorum is present shall be the act of the board of directors or a committee of the board of directors. This provision shall not, however, apply to any action taken by the board of directors pursuant to Section 3.16, Article 7, or Article 11 of these Bylaws, or in the event the affirmative vote of a greater number of directors is required by Ch. 180, the Articles of Incorporation, or any other provision of these Bylaws.

Section 3.11. Conduct of Meetings. The chairperson of the board of directors, if any, and in his or her absence, the President, and in the absence of both of them, the Executive Vice President, and in their absence, any director chosen by the directors present, shall call board of directors' meetings to order and shall act as chairperson of the meeting. The Corporation's Secretary shall act as secretary of all board of directors' meetings, but in the Secretary's absence, the presiding officer may appoint any Assistant Secretary, director, or 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.

Section 3.12. Vacancies. Any vacancy occurring on the board of directors, including a vacancy created by an increase in the number of directors, may be filled by any of the following: (a) the shareholders; (b) the board of directors; or (c) if the directors remaining in office constitute fewer than a quorum of the board, by the affirmative vote of a majority of all directors remaining in office.

Section 3.13. Compensation and Expenses. The board of directors, irrespective of any personal interest of any of its members, may (a) establish reasonable compensation of all directors for services to the Corporation as directors or may delegate this authority to an appropriate committee, (b) provide for, or delegate authority to an appropriate committee to provide for, reasonable pensions, disability or death benefits, and other benefits or payments to directors and to their estates, families, dependents, or beneficiaries for prior services rendered to the Corporation by the directors, and (c) provide for reimbursement of reasonable expenses incurred in the performance of the directors' duties, including the expense of traveling to and from board meetings.

Section 3.14. Directors' Assent. A director of the Corporation who is present and is announced as present at a meeting of the board of directors or of a committee of the board of which he or she is a member, at which meeting action on any corporate matter is taken, shall be deemed to have assented to the action taken unless (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; or (b) the director dissents or abstains from the action taken and minutes of the meeting are prepared to show the director's dissent or abstention from the action taken; or (c) the director delivers written notice that complies with the provisions of Ch. 180 of his or her dissent or abstention to the presiding officer of the meeting before the meeting's adjournment or to the Corporation immediately after the adjournment. The right of dissent or abstention is not available to a director who votes in favor of the action taken.

Section 3.15. Committees. The board of directors may, by resolution passed by a majority of the whole board, create and appoint members to one or more committees from time to time as corporate needs dictate. The committees may make their own rules of procedure and shall meet where and as provided by such rules, or by resolution of the board of directors. A majority of the members of the committee shall constitute a quorum for the transaction of business. Each committee shall keep regular minutes of its meetings and report the same to the board of directors when required. Each committee shall consist of two (2) or more directors and shall, unless otherwise provided by the board of directors, serve at the pleasure of the board of directors. To the extent provided in the resolution as initially adopted and as thereafter supplemented or amended by further resolution adopted by a like vote, each committee may be authorized by the board of directors to perform specified functions, except that a committee may not (a) authorize distributions; (b) approve or propose to shareholders action requiring shareholder approval; (c) appoint the principal officers; (d) amend Articles of Incorporation, or amend, adopt, or repeal Bylaws; (e) approve a plan of merger not requiring shareholder approval; (f) authorize or approve reacquisition of shares except by a formula or method approved or prescribed by the board of directors; (g) 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 or a senior executive officer of the Corporation to do so within limits prescribed by the board of directors; or (h) fill vacancies on the board of directors or on committees created pursuant to this section, unless the board of directors, by resolution, provides that committee vacancies may be filled by a majority of the remaining committee members. 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 duties and authority.

Section 3.16. Action Without a Meeting. Any action required or permitted by the Articles of Incorporation, these Bylaws, or any provision of Ch. 180 to be taken by the board of directors at a board meeting may be taken without a meeting if one or more written consents, setting forth the action so taken, shall be signed by all of the directors entitled to vote on the subject matter of the action and retained in the corporate records. Action taken pursuant to

written consent shall be effective when the last director signs the consent or upon such other effective date as is specified in the consent.

ARTICLE 4
OFFICERS

Section 4.01. Number and Titles. The Corporation's principal officers shall be a President, an Executive Vice President, the number of Vice Presidents as determined from time to time by the board of directors, a Secretary, and a Treasurer, each of whom shall be appointed by the board. There may, in addition, be a chairperson or co-chairperson of the board, whenever the board shall see fit to cause such appointment. If there is more than one Vice President, the board may establish designations for the vice presidencies to identify their functions or their order. The same natural person may simultaneously hold more than one office.

Section 4.02. Appointment and Term of Office. The officers appointed by the board of directors shall be appointed annually by the board at the first meeting of the board of directors held after each annual meeting of the shareholders, or to the extent authorized in these Bylaws, by another duly appointed officer. If the appointment of an officer shall not be held at such meeting, such appointment shall be held as soon thereafter as is practicable. Each officer shall hold office until his or her successor shall have been duly appointed or until the officer's prior death, resignation, or removal.

Section 4.03. Additional Officers, Agents, etc. In addition to the officers referred to in Section 4.01 of these Bylaws, the Corporation may have such other officers, assistants to officers, acting officers, and agents as the board of directors may deem necessary and may appoint. Each such person shall act under his or her appointment for such period, have such authority, and perform such duties as may be provided in these Bylaws, or as the board may from time to time determine. The board of directors may delegate to any officer the power to appoint any subordinate officers, assistants to officers, acting officers, or agents. In the absence of any officer, or for any other reason the board of directors may deem sufficient, the board may delegate, for such time as the board may determine, any or all of an officer's powers and duties to any other officer or to any director.

Section 4.04. Removal. The board of directors may remove any officer or agent, but the removal shall be without prejudice to the contract rights, if any, of the person so removed. Appointment shall not of itself create contract rights. An officer may remove, with or without cause, any officer or assistant officer who was appointed by that officer.

Section 4.05. Resignations. Any officer may resign at any time by giving written notice to the Corporation, the board of directors, the President, or the Secretary. Any such resignation shall take effect when the notice of resignation is delivered, unless the notice specifies a later effective date and the Corporation accepts the later effective date. Unless

otherwise specified in the notice of resignation, the acceptance of the resignation shall not be necessary to make it effective.

Section 4.06. Vacancies. A vacancy in any office because of death, resignation, removal, disqualification, or other reason shall be filled in the manner prescribed for regular appointments to the office.

Section 4.07. Powers, Authority, and Duties. Officers of the Corporation shall have the powers and authority conferred and the duties prescribed by the board of directors or the officer who appointed them in addition to and to the extent not inconsistent with those specified in other sections of this Article 4.

Section 4.08. The President. The President shall be the principal executive officer of the Corporation and, subject to the direction and control of the board of directors, shall in general supervise and control all of the business and affairs of the Corporation. He or she shall, when present, and in the absence of a chairperson of the board, preside at all shareholders' and directors' meetings. The President's powers shall include the following:

(a) supervise and manage the Corporation's business;

(b) coordinate and supervise the work of its other officers, employees and agents ;

(c) employ, direct, fix the compensation of, and discipline its officers, employees and agents;

(d) authority to sign, execute, and deliver in the Corporation's name all instruments either when specifically authorized by the board of directors or when required or deemed necessary or advisable by the President in the ordinary conduct of the Corporation's normal business, except in cases where the signing and execution of the instruments shall be expressly delegated by these Bylaws or by the board to some other officer(s) or agent(s) of the Corporation or shall be required by law or otherwise to be signed or executed by some other officer or agent; and

(e) in general, perform all duties incident to the office of the President and such other duties as from time to time may be assigned to him or her by the board of directors.

Section 4.09. Executive Vice President. In the absence of the President, or in the event of his or her death, inability or refusal to act, or in the event for any reason it shall be impracticable for the President to act personally, the Executive Vice President shall perform the duties of the President and when so acting shall have all the powers and be subject to all the restrictions upon the President. The Executive Vice President 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 the Executive Vice President shall be conclusive evidence, as to third parties, of his or her authority to act in the President's place.

Section 4.10. The Vice Presidents. In the absence of the President and the Executive Vice President or in the event of both of their deaths or inability or refusal to act, or if for any reason it shall be impractical for both of the President and Executive Vice President to act personally, the Vice President (or if there is more than one Vice President, the Vice Presidents in the order designated by the board of directors, or in the absence of any designation, in the order of their appointment) 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. Each Vice President 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 director. 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 President's place.

Section 4.11. The Secretary. The Secretary shall:

(a) keep any minutes of the shareholders and of the board of directors and its committees in one or more books provided for that purpose;

(b) see that all notices are duly given in accordance with these Bylaws or as required by law;

(c) be custodian of the Corporation's corporate records and see that the books, reports, statements, certificates, and all other documents and records required by law are properly kept and filed;

(d) have charge, directly or through such transfer agent or agents and registrar or registrars as the board of directors may appoint, of the issue, transfer, and registration of certificates for shares in the Corporation and of the records thereof, such records to be kept in such manner as to show at any time the number of shares in the Corporation issued and outstanding, the manner in which and time when such shares were paid for, the names and addresses of the shareholders of record, the numbers and classes of shares held by each, and the time when each became a shareholder;

(e) exhibit at reasonable times upon the request of any director the records of the issue, transfer, and registration of the Corporation's share certificates, at the place where those records are kept, and have these records available at each shareholders' meeting; and

(f) in general, perform all duties incident to the office of secretary and such other duties as from time to time may be assigned to him or her by the board of directors or the President.

Section 4.12. The Assistant Secretaries. The Assistant Secretaries shall perform such duties as from time to time may be assigned to them individually or collectively by the board of directors, the President, or the Secretary. In the event of the Secretary's absence or disability, one or more of the Assistant Secretaries may perform such duties of the secretary as the Secretary, the President, or the board of directors may designate.

Section 4.13. The Treasurer. The Treasurer shall:

(a) have charge and custody of, and be responsible for, all of the Corporation's funds and securities; receive and give receipts for monies due and payable to the Corporation from any source whatsoever; deposit all such monies in the Corporation's name in such banks, financial institutions, trust companies, or other depositories as shall be selected in accordance with the provisions of Section 5.04 of these Bylaws; cause such funds to be disbursed by checks or drafts on the Corporation's authorized depositories, signed as the board of directors may require; and be responsible for the accuracy of the amounts of, and cause to be preserved proper vouchers for, all monies disbursed;

(b) have the right to require from time to time reports or statements giving such information as he or she may desire with respect to any and all of the Corporation's financial transactions from the officers, employees, or agents transacting the same;

(c) keep or cause to be kept, at the Corporation's principal office or such other office or offices as the board of directors shall from time to time designate, correct records of the Corporation's funds, business, and transactions, and exhibit those records to any director of the Corporation upon request at that office;

(d) deliver to the board of directors, the chairperson of the board, or the President whenever requested on account of the Corporation's financial condition and of all his or her transactions as treasurer, and as soon as possible after the close of each fiscal year, make or cause to be made and submit to the board a like report for that fiscal year;

(e) at each annual shareholders' meeting or the meeting held in lieu thereof, furnish copies of the Corporation's most current financial statement to the

shareholders and answer questions that may be raised regarding the statement; and

(f) in general, perform all duties incident to the office of treasurer and such other duties as from time to time may be assigned to him or her by the board of directors or the President.

If required by the board of directors, the Treasurer shall furnish a bond for the faithful discharge of his or her duties in such sum and with such surety or sureties as the board shall determine.

Section 4.14. The Assistant Treasurers. The Assistant Treasurers shall perform such duties as from time to time may be assigned to them, individually or collectively, by the board of directors, the President, or the Treasurer. In the event of the Treasurer's absence or disability, one or more of the Assistant Treasurers may perform such duties of the Treasurer as the Treasurer, the President, or the board of directors may designate.

ARTICLE 5
CONTRACTS, LOANS, CHECKS, AND DEPOSITS

Section 5.0l. Contracts. The board of directors may authorize any officer or officers, or agent or agents, to enter into any contract or execute or deliver any instrument in the Corporation's name and on its behalf. The 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 the Executive Vice President, and by the Secretary. When any instrument is so executed, no other party to the instrument or any third party shall be required to make any inquiry into the authority of the signing officer or officers, or agent or agents.

Section 5.02. Loans. No indebtedness for borrowed money shall be contracted on the Corporation's behalf 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. The authorization may be general or confined to specific instances.

Section 5.03. Checks, Drafts, etc. All checks, drafts, or other orders for the payment of money, or notes or other evidences of indebtedness issued in the Corporation's name, shall be signed by such officer or officers, or 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.

Section 5.04. Deposits. All funds of the Corporation not otherwise employed shall be deposited from time to time to the Corporation's credit in such banks, trust companies, or other depositories as may be selected by or under the authority of a resolution of the board of directors.

ARTICLE 6
VOTING OF SECURITIES OWNED BY THE CORPORATION

Section 6.01. Authority to Vote. Any shares or other securities issued by any other corporation and owned or controlled by the Corporation may be voted at any meeting of the issuing corporation's security holders by the President of this Corporation if he or she be present, or in his or her absence by the Executive Vice President or by any Vice President of the Corporation who may be present.

Section 6.02. Proxy Authorization. Whenever, in the judgment of the President, or in his or her absence, of the Executive Vice President or of any Vice President, it is desirable for the Corporation to execute a proxy appointment or written consent with respect to any shares or other securities issued by any other corporation and owned by the Corporation, the proxy appointment or consent shall be executed in the Corporation's name by the President, the Executive Vice President or one of the Vice Presidents of the Corporation, without necessity of any authorization by the board of directors, countersignature, or attestation by another officer. Any person or persons designated in this manner as the Corporation's proxy or proxies shall have full right, power, and authority to vote the shares or other securities issued by the other corporation and owned by the Corporation in the same manner as the shares or other securities might be voted by the Corporation.

ARTICLE 7
CONTRACTS BETWEEN THE CORPORATION AND RELATED PERSONS

Any contract or other transaction between the Corporation and one or more of its directors, or between the Corporation and any entity of which one or more of its directors are members or employees or in which one or more of its directors are interested, or between the Corporation and any corporation or association of which one or more of its directors are shareholders, members, directors, officers, or employees or in which one or more of its directors are interested, shall not be voidable by the Corporation solely because of the director's interest, whether direct or indirect, in the transaction if:

(a) the material facts of the transaction and the director's interest were disclosed or known to the board of directors or a committee of the board of directors, and a majority of disinterested members of the board of directors or committee authorized, approved, or specifically ratified the transaction; or

(b) the material facts of the transaction and the director's interest were disclosed or known to the shareholders entitled to vote, and a majority of the shares held by disinterested shareholders authorized, approved, or specifically ratified the transaction; or

(c) the transaction was fair to the Corporation.

For purposes of this Article 7, a majority of directors having no direct or indirect interest in the transaction shall constitute a quorum of the board or a committee of the board acting on the matter, and a majority of the shares entitled to vote on the matter, whether or not present, and other than those owned by or under the control of a director having a direct or indirect interest in the transaction, shall constitute a quorum of the shareholders for the purpose of acting on the matter.

ARTICLE 8
CERTIFICATES FOR SHARES AND THEIR TRANSFER

Section 8.01. Certificates for Shares. Certificates representing shares in the Corporation shall, at a minimum, state on their face all of the following: (a) the name of the issuing Corporation and that it is organized under the laws of the state of Wisconsin; (b) the name of the person to whom issued; and (c) the number and class of shares and the designation of the series, if any, that the certificate represents. The share certificates shall be signed by the president or any vice president and by the secretary or any assistant secretary or any other officer or officers designated by the board of directors. If the Corporation is authorized to issue different classes of shares or different series within a class, the certificate may contain 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. If the certificate does not include the above summary on the front or back of the certificate, it must contain a conspicuous statement that the Corporation will furnish the shareholder with the above-described summary information in writing, upon request and without charge. A record shall be kept of the name of the owner or owners of the shares represented by each certificate, the number of shares represented by each certificate, the date of each certificate, and in case of cancellation, the date of cancellation. Every certificate surrendered to the Corporation for exchange or transfer shall be cancelled, and no new certificate or certificates shall be issued in exchange for any existing certificates until the existing certificates shall have been so cancelled, except in cases provided for in Section 8.08 of these Bylaws.

Section 8.02. Shares Without Certificates. The board of directors may authorize the issuance of any shares of any of its classes or series without certificates. The authorization does not affect shares already represented by certificates until the certificates are surrendered to the Corporation. Within a reasonable time after the issuance or transfer of shares without certificates, the Corporation shall send the shareholder a written statement that includes (a) all of the information required on share certificates and (b) any transfer restrictions applicable to the shares.

Section 8.03. Facsimile Signatures. The share certificates may be signed manually or by facsimile.

Section 8.04. Signature by Former Officer. If an officer who has signed or whose facsimile signature has been placed upon any share certificate shall have ceased to be an officer before the certificate is issued, the Corporation may issue the certificate with the same effect as if he or she were an officer at the date of its issue.

Section 8.05. Consideration for Shares. The Corporation's shares may be issued for such consideration as shall be fixed from time to time by the board of directors. The consideration to be paid for shares may be paid in cash, promissory notes, tangible or intangible property, or services performed or contracts for services to be performed for the Corporation. When the Corporation receives payment of the consideration for which shares are to be issued, the shares shall be deemed fully paid and nonassessable by the Corporation. Before the Corporation issues shares, the board of directors shall determine that the consideration received or to be received for the shares is adequate. The board of directors' determination is conclusive as to the adequacy of consideration for the issuance of shares relative to whether the shares are validly issued, fully paid, and nonassessable.

Section 8.06. Transfer of Shares. Transfers of shares in the Corporation shall be made on the Corporation's books only by the registered shareholder, by his or her legal guardian, executor, or administrator, or by his or her attorney authorized by a power of attorney duly executed and filed with the Corporation's secretary or with a transfer agent appointed by the board of directors, and on surrender of the certificate or certificates for the shares. Where a share certificate 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 a loss as a result of the 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 the duty. The Corporation may require reasonable assurance that the endorsements are genuine and effective in compliance with such other regulations as may be prescribed by or under the board of directors' authority. The person in whose name shares stand on the Corporation's books shall, to the full extent permitted by law, be deemed the owner of the shares for all purposes.

Section 8.07. Restrictions on Transfer. Restrictions on transfer of the Corporation's shares shall be noted conspicuously on the front or back of the share certificate or contained in the information statement required by Section 8.02 of these Bylaws for shares without certificates.

Section 8.08. Lost, Destroyed, or Stolen Certificates. If an owner claims that his or her share certificate has been lost, destroyed, or wrongfully taken, a new certificate shall be issued in place of the original certificate if the owner (a) so requests before the Corporation has notice that the shares have been acquired by a bona fide purchaser; (b) files with the Corporation

a sufficient indemnity bond if required by the board of directors; and (c) satisfies such other reasonable requirements as may be prescribed by or under the authority of the board of directors.

ARTICLE 9
INSPECTION OF RECORDS BY SHAREHOLDERS

Section 9.01. Inspection of Bylaws. Any shareholder is entitled to inspect and copy the Corporation's Bylaws during regular business hours at the Corporation's principal office. The shareholder must give written notice in accordance with the provisions of Ch. 180 at least five (5) business days before the date of inspection.

Section 9.02. Inspection of Other Records. Any shareholder who holds at least five percent (5%) of the Corporation's outstanding shares or who has been a shareholder for at least six (6) months shall have the right to inspect and copy during regular business hours at a reasonable location specified by the Corporation any or all of the following records: (a) excerpts from any minutes or records the Corporation is required to keep as permanent records; (b) the Corporation's accounting records; or (c) the record of shareholders or, at the Corporation's discretion, a list of the Corporation's shareholders compiled no earlier than the date of the shareholder's demand. The shareholder's demand for inspection must be made in good faith and for a proper purpose and by delivery of written notice, given in accordance with the provisions of Ch. 180 at least five (5) business days before the date of inspection, stating the purpose of the inspection and the records directly related to that purpose desired to be inspected.

ARTICLE 10
DISTRIBUTIONS AND SHARE ACQUISITIONS

The board of directors may make distributions to its shareholders or purchase or acquire any of its shares provided (a) after the distribution, purchase, or acquisition the Corporation will be able to pay its obligations as they become due in the usual course of its business, and (b) the distribution, purchase, or acquisition will not cause the Corporation's assets to be less than its total liabilities plus the amount necessary to satisfy, upon distribution, the preferential rights of shareholders whose rights are superior to those receiving the distribution.

ARTICLE 11
INDEMNIFICATION

The Corporation shall, to the fullest extent authorized by Ch. 180, indemnify any director or officer of the Corporation against reasonable expenses and against liability incurred by a director or officer in a proceeding in which he or she was a party because he or she was a director or officer of the Corporation. These indemnification rights shall not be deemed to

exclude any other rights to which the director or officer may otherwise be entitled. The Corporation shall, to the fullest extent authorized by Ch. 180, indemnify any employee who is not a director or officer of the Corporation, to the extent the employee has been successful on the merits or otherwise in defense of a proceeding, for all expenses incurred in the proceeding if the employee was a party because he or she was an employee of the Corporation. The Corporation may, to the fullest extent authorized by Ch. 180, indemnify, reimburse, or advance expenses of directors or officers. If required to do so by law, the Corporation shall report the indemnification of or advance of expenses to directors or officers in writing to shareholders with or before the notice of the next shareholder's meeting.

ARTICLE 12
AMENDMENTS

Section 12.01. By Shareholders. The shareholders may amend or repeal these Bylaws or adopt new Bylaws at any annual or special shareholders' meeting at which a quorum is present.

Section 12.02. By Directors. The board of directors may amend or repeal these Bylaws or adopt new Bylaws; but no Bylaws adopted or amended by the shareholders shall be amended or repealed by the board if the Bylaws so adopted so provides.

Section 12.03. 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 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.

ARTICLE 13
SEAL

The Corporation shall not have a corporate seal, and all formal corporate documents shall carry the designation No Seal along with the signature of the Corporation's officer or officers.

ARTICLE 14
FISCAL YEAR

The fiscal year of the Corporation shall end on the date set forth in Section 0.04.

ARTICLE 15
ADVISORY BOARD

Section 15.01. Purpose. The Corporation may form an Advisory Board which shall provide advice and counsel to the Corporation with regard to all affairs concerning the Corporation and shall perform the other duties and responsibilities set forth in this Article 15.

(a) Attendance at Meetings; Availability to the Corporation. Each member of the Advisory Board shall attend the annual meeting of the Advisory Board (unless excused by the President for good reason), such meeting to be held on a date and at a allocation within or without the State of Wisconsin as may be determined by the board of directors. In addition to each member's obligation to attend the annual meeting, each member shall otherwise be individually available to the Corporation for consultation from time to time.

(b) Compensation and Reimbursement for Expenses. The members of the Advisory Board may be compensated with restricted shares of the Corporation's stock and/or options to purchase shares of the Corporation's stock, in an amount as may be determined by the President. The Corporation may provide for reimbursement of reasonable expenses incurred by the members of the Advisory Board, including the expense incurred in traveling to and from the annual meeting and other expenses incurred by the members in the course of fulfilling their consulting duties.

Section 15.02 Number. The number of members of the Advisory Board may be established from time to time by the President of the Corporation.

Section 15.03. Qualification and Removal.

(a) Qualification. Insofar as possible, members of the Advisory Board shall represent a broad range of views, interests, and abilities and abilities within the Corporation's industry sector. No officer, director or employee of the Corporation may serve as a member of the Advisory Board.

(b) Removal. A member of the Advisory Board may be removed with or without cause by the President or the board of directors at any time.

(c) Resignation. A member of the Advisory Board may resign at any time by filing a written resignation with the Secretary of the Corporation.

Section 15.04. Legal Duties; Management Authority. The members of the Advisory Board shall have no legal duties or responsibilities. The Advisory Board shall take no part in the control or management of the Corporation, nor shall the Advisory Board or any of its members have any power or authority to act for or on behalf of the Corporation or to bind the Corporation. Any advice or comment provided by the Advisory Board or any of its members shall be advisory only, and neither the Corporation, nor any of its directors, officers, employees or agents shall be required or otherwise be bound to act in accordance with any advice or comment of the Advisory Board or any of its members. Because the members of the Advisory Board have no legal duties or responsibilities, such members shall have no liability for any act or omission as members of the Advisory Board. Nevertheless, the Corporation shall indemnify to the fullest extent authorized by law any member of the Advisory Board who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative in nature, by reason of the fact that such member is or was a member of the Advisory Board, against expenses, including attorneys' fees, judgments, fines and amounts paid in connection with such action, suit or proceeding.

Exhibit 3.5

AMENDED AND RESTATED BYLAWS

OF

ORION ENERGY SYSTEMS, INC.
(a Wisconsin corporation)

Adopted ___/___/07

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, with the Secretary or Assistant Secretary, 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) sign with the President or a Vice President, certificates for shares of the corporation, the issuance of which shall have been authorized by resolution of the Board of Directors; (f) have general charge of the stock transfer books of the corporation; and (g) 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 depositaries 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 Secretaries may sign with the President or a Vice President certificates for shares of the corporation the issuance of which shall have been authorized by a resolution of the Board of Directors. 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 and by the Secretary or an Assistant Secretary. 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 and the Secretary or Assistant Secretary 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:

(a) "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.

(b) "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.

(c) "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.

(d) "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) l, 2, 3 or 4 of the Statute.

(e) "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.

(f) "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.

(g) "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.

(h) “Disinterested Quorum” shall mean a quorum of the Board of Directors who are not Parties to the subject Proceeding or any related Proceeding.

(i) “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.

(j) “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.

(k) “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.

(l) “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.

(a) 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).

(b) 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.

(c) 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.

(d) 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.

(a) 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.

(b) 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.

(a) 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.

(b) 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.

(c) 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.

Exhibit 4.1

<u>Execution Copy</u>

ORION ENERGY SYSTEMS, INC.

AMENDED AND RESTATED INVESTORS' RIGHTS AGREEMENT

August 3, 2007

TABLE OF CONTENTS

	Page
1. Registration Rights	1
1.1 Definitions	1
1.2 Request for Registration	3
1.3 Company Registration	4
1.4 Form S-3 Registration	6
1.5 Obligations of the Company	8
1.6 Information from Holder	9
1.7 Expenses of Registration	9
1.8 Delay of Registration	10
1.9 Indemnification	10
1.10 Reports Under the 1934 Act	13
1.11 Assignment of Registration Rights	13
1.12 Limitations on Subsequent Registration Rights	14
1.13 “Market Stand Off” Agreement	14
1.14 Termination of Registration Rights	15
2. Covenants of the Company	16
2.1 Information Rights	16
2.2 Inspection	17
2.3 Termination of Information and Inspection Covenants	17
2.4 Right of First Refusal	17
2.5 Proprietary Information and Inventions Agreements	19
2.6 Lock-Up of Future Securityholders	19
2.7 D&O Insurance	19
2.8 Board of Directors	19
2.9 Board Observer	19
2.10 Related Party Transactions	20
2.11 Approval Rights	20
2.12 Termination of Certain Covenants	21
3. Transfers of Registrable Securities	22
3.1 Transfer Notice	22
3.2 Non-Exercise of Rights	22
3.3 Limitations to Company Right of First Offer	22
4. Miscellaneous	23
4.1 Successors and Assigns	23
4.2 Governing Law	23
4.3 Counterparts	24
4.4 Titles and Subtitles	24
4.5 Notices	24
4.6 Expenses	24
4.7 Amendments and Waivers	24

	Page
4.8 Severability	24
4.9 Aggregation of Stock	25
4.10 Waiver of Jury Trial	25
4.11 Entire Agreement	25

AMENDED AND RESTATED INVESTORS' RIGHTS AGREEMENT

THIS AMENDED AND RESTATED INVESTORS' RIGHTS AGREEMENT (the "Agreement") is made as of the 3rd day of August, 2007, by and among Orion Energy Systems, Inc., a Wisconsin corporation (the "Company"), and the investors listed on the signature pages hereto, each of which is herein referred to as an "Investor." This Agreement shall supersede a certain Investors' Rights Agreement, dated as of July 31, 2006 and the Joinder thereto dated as of September 28, 2006 (collectively, the "Original Agreement"), and such Original Agreement shall be terminated and all rights and obligations pursuant thereto shall be of no further force and effect as of the date hereof.

RECITALS

WHEREAS, the Company and the Investors are parties to the Note Purchase Agreement, dated of even date herewith (the "Note Purchase Agreement");

WHEREAS, in order to induce the Investors to purchase the Convertible Subordinated Promissory Notes issued in connection with the Note Purchase Agreement (the "Notes"), the Investors and the Company hereby agree that this Agreement shall govern the rights of the Investors to cause the Company to register shares of Common Stock issued or issuable to them and certain other matters as set forth herein;

WHEREAS, the Company and certain of the Investors entered into the Original Agreement in connection with the purchase and sale of Series C Senior Convertible Preferred Stock (the "Series C Preferred Stock"), pursuant to Stock Purchase Agreements dated as of July 31, 2006 and September 28, 2006 (collectively, the "Series C Purchase Agreement"); and

WHEREAS, under Section 4.7 of the Original Agreement, the Agreement may be amended by the written consent of the Company and the holders of at least a majority of the Company's Registrable Securities;

NOW, THEREFORE, THE PARTIES HEREBY AGREE AS FOLLOWS:

1. Registration Rights. The Company covenants and agrees as follows:

1.1 Definitions. For purposes of this Agreement:

(a) The term "Act" means the Securities Act of 1933, as amended.

(b) The term "Delivery" shall have the meaning set forth in Section 4.5 below.

(c) The term "Form S-3" means such form under the Act as in effect on the date hereof or any registration form under the Act subsequently adopted by the SEC that permits inclusion or incorporation of substantial information by reference to other documents filed by the Company with the SEC.

(d) The term “Holder” means any person owning or having the right to acquire Registrable Securities or any assignee thereof in accordance with Section 1.11 hereof.

(e) The term “Independent Director” shall have the same meaning as set forth in the Company’s Amended and Restated Articles of Incorporation, as amended from time to time (the “Articles”).

(f) The term “Qualifying Public Offering” shall have the same meaning as set forth in the Articles.

(g) The term “1934 Act” means the Securities Exchange Act of 1934, as amended.

(h) The terms “register,” “registered,” and “registration” refer to a registration effected by preparing and filing a registration statement or similar document in compliance with the Act, and the declaration or ordering of effectiveness of such registration statement or document.

(i) The term “Registrable Securities” means the Common Stock issuable or issued upon conversion of (i) the Series C Preferred Stock and (ii) the Notes, and any Common Stock of the Company issued as (or issuable upon the conversion or exercise of any warrant, right or other security that is issued as) a dividend or other distribution with respect to, or in exchange for, or in replacement of, the shares referenced in (i) and (ii) above, excluding in all cases, however, any Registrable Securities sold by a person in a transaction in which his rights under this Section 1 are not assigned.

(j) The number of shares of “Registrable Securities” outstanding shall be determined by the number of shares of Common Stock outstanding that are, and the number of shares of Common Stock issuable pursuant to then exercisable or convertible securities or debt that are, Registrable Securities.

(k) The term “Requesting Holder” means a Holder of the class of Series C Preferred Stock or a Note, as the case may be, which makes a request for registration under Section 1.2(b) hereof.

(l) The term “Rule 144” shall mean Rule 144 under the Act.

(m) The term “Rule 144(k)” shall mean subsection (k) of Rule 144 under the Act.

(n) The term “SEC” shall mean the Securities and Exchange Commission.

(o) The term “Transfer” shall include any sale, assignment, encumbrance, hypothecation, pledge, conveyance in trust, gift, transfer by bequest, devise or descent, or other transfer or disposition of any kind, including, but not limited to, transfers pursuant to divorce or legal separation, transfers to receivers, levying creditors, trustees or

receivers in bankruptcy proceedings or general assignees for the benefit of creditors, whether voluntary, involuntarily or by operation of law, directly or indirectly, of any of the Registrable Securities.

1.2 Request for Registration.

(a) Subject to the conditions of this Section 1.2, if the Company shall receive at any time beginning six (6) months after the effective date of the first underwritten public offering by the Company pursuant to a registration statement filed with the SEC under the Act, a written request from the Holders (for purposes of this Section 1.2, the "Initiating Holders") that the Company file a registration statement under the Act covering the registration of Registrable Securities with an anticipated aggregate offering price of at least five million dollars ($5,000,000), then the Company shall, within twenty (20) days of the receipt thereof, give written notice of such request to all Holders, and subject to the limitations of this Section 1.2, use all commercially reasonable efforts to effect, as soon as practicable, the registration under the Act of all Registrable Securities that the Holders request to be registered in a written request received by the Company within twenty (20) days of the mailing of the Company's notice pursuant to this Section 1.2(a).

(b) If the Initiating Holders intend to distribute the Registrable Securities covered by their request by means of an underwriting, they shall so advise the Company as a part of their request made pursuant to this Section 1.2 and the Company shall include such information in the written notice referred to in Section 1.2(a). In such event the right of any Holder to include its Registrable Securities in such registration shall be conditioned upon such Holder's participation in such underwriting and the inclusion of such Holder's Registrable Securities in the underwriting (unless otherwise mutually agreed by a majority in interest of the Initiating Holders and such Holder) to the extent provided herein. All Holders proposing to distribute their securities through such underwriting shall enter into an underwriting agreement in customary form with the underwriter or underwriters selected for such underwriting by the Company (which underwriter or underwriters shall be reasonably acceptable to a majority in interest of the Initiating Holders). Notwithstanding any other provision of this Section 1.2, if the underwriter advises the Company that marketing factors require a limitation on the number of securities underwritten (including Registrable Securities), then the Company shall so advise all Holders of Registrable Securities that would otherwise be underwritten pursuant hereto, and the number of shares that may be included in the underwriting shall be allocated (i) first, to Requesting Holders of Registrable Securities who hold (or held) Series C Preferred Stock or the Notes, as the case may be, and which made the request for registration under this Section 1.2, pro rata according to the number of shares of Series C Preferred Stock or Common Stock issued or issuable upon conversion of the Notes held by each such Holder; (ii) second, to Holders of Registrable Securities who hold (or held) shares of the series of Series C Preferred Stock or Common Stock issued or issuable upon conversion of the Notes which did not make the request for registration under this Section 1.2, pro rata according to the number of shares of such equity securities held by such Holder; (iii) third, to the remaining Holders of Registrable Securities pro rata based on the number of Registrable Securities held by all such Holders; and (iv) fourth, to the Company. In no event shall any Registrable Securities be excluded from such underwriting

unless all other securities are first excluded. Any Registrable Securities excluded or withdrawn from such underwriting shall be withdrawn from the registration.

(c) Notwithstanding the foregoing, the Company shall not be required to effect a registration pursuant to this Section 1.2:

(i) in any particular jurisdiction in which the Company would be required to execute a general consent to service of process in effecting such registration, unless the Company is already subject to service in such jurisdiction and except as may be required under the Act;

(ii) after the Company has effected pursuant to this Section 1.2 (A) two (2) registrations requested by the Holders of the Series C Preferred Stock or the Common Stock issued upon the conversion thereof, and (B) two (2) registrations requested by GE Capital Equity Investments, Inc. ("GE"), and such registrations have been declared or ordered effective;

(iii) during the period starting with the date sixty (60) days prior to the Company's good faith estimate of the date of the filing of and ending on a date one hundred eighty (180) days following the effective date of a Company initiated registration subject to Section 1.3 below, provided that the Company is actively employing in good faith all commercially reasonable efforts to cause such registration statement to become effective;

(iv) if the Initiating Holders propose to dispose of Registrable Securities that may be registered on Form S-3 pursuant to Section 1.4 hereof; or

(v) if the Company furnishes to Holders requesting a registration statement pursuant to this Section 1.2 a certificate signed by the Company's Chief Executive Officer or Chairman of the Board stating that in the good faith judgment of the Board of Directors of the Company (the "Board"), it would be seriously detrimental to the Company and its shareholders for such registration statement to be effected at such time, in which event the Company shall have the right to defer such filing for a period of not more than one hundred twenty (120) days after receipt of the request of the Initiating Holders, provided that such right shall be exercised by the Company not more than once in any twelve (12) month period and provided further that the Company shall not register any securities for the account of itself or any other shareholder during such one hundred twenty (120) day period (other than a registration relating solely to the sale of securities of participants in a Company stock plan, a registration relating to a corporate reorganization or transaction under Rule 145 of the Act, a registration on any form that does not include substantially the same information as would be required to be included in a registration statement covering the sale of the Registrable Securities, or a registration in which the only Common Stock being registered is Common Stock issuable upon conversion of debt securities that are also being registered).

1.3 Company Registration.

(a) If, at any time beginning six (6) months after the effective date of this Agreement (such six (6) month period being referred to as the "Restricted Period"), the Company proposes to register (including for this purpose a registration effected by the Company for shareholders other than the Holders) any of its stock or other securities under the Act in connection with the public offering of such securities (other than a registration relating solely to the sale of securities of participants in a Company stock plan, a registration relating to a corporate reorganization or transaction under Rule 145 of the Act, a registration on any form that does not include substantially the same information as would be required to be included in a registration statement covering the sale of the Registrable Securities, or a registration in which the only Common Stock being registered is Common Stock issuable upon conversion of debt securities that are also being registered), the Company shall, at such time, promptly give each Holder written notice of such registration. Upon the written request of each Holder given within twenty (20) days after mailing of such notice by the Company in accordance with Section 4.5, the Company shall, subject to the provisions of Section 1.3(c), use all commercially reasonable efforts to cause to be registered under the Act all of the Registrable Securities that each such Holder requests to be registered. Notwithstanding the prohibition on exercising registration rights during the Restricted Period set forth in the first sentence of this Section 1.3(a), (i) CapVest Venture Fund, LP and Technology Transformation Venture Fund, LP may exercise such registration rights for up to one hundred twelve thousand one hundred nine (112,109) shares of their Registrable Securities; (ii) Clean Technology Fund II, LP may exercise such registration rights for up to one million nine thousand ninety one (1,009,091) shares of its Registrable Securities (the shares referenced in (i) and (ii) being referred to as the "Series C Threshold Amount"); and (iii) in the event that in any registration within the Restricted Period any senior management employee of the Company or director of the Company who is an employee of the Company and who is listed on Exhibit A, as long as such person is employed by the Company (the "Senior Management Employees" and "Director Employees") registers more than fifteen percent (15%), on a fully diluted basis, of the number of shares held by such Senior Management Employee or Director Employee (such figure being referred to herein as the "Threshold Senior Management Registrable Securities"), then all of the Investors shall be entitled to exercise such registration rights for all or any portion of their Registrable Securities.

(b) Right to Terminate Registration. The Company shall have the right to terminate or withdraw any registration initiated by it under this Section 1.3 prior to the effectiveness of such registration whether or not any Holder has elected to include securities in such registration. The expenses of such withdrawn registration shall be borne by the Company in accordance with Section 1.7 hereof.

(c) Underwriting Requirements. In connection with any offering involving an underwriting of shares of the Company's capital stock, the Company shall not be required under this Section 1.3 to include any of the Holders' securities in such underwriting unless they accept the terms of the underwriting as agreed upon between the Company and the underwriters selected by the Company (or by other persons entitled to select the underwriters) and enter into an underwriting agreement in customary form with such underwriters, and then only in such quantity as the underwriters determine in their sole discretion will not jeopardize the success of the offering by the Company. If the total amount of securities, including Registrable Securities, requested by shareholders to be included in such offering exceeds the amount of

securities sold other than by the Company that the underwriters determine in their sole discretion is compatible with the success of the offering, then the Company shall be required to include in the offering only that number of such securities, including Registrable Securities, that the underwriters determine in their sole discretion will not jeopardize the success of the offering. In no event shall any Registrable Securities be excluded from such offering unless all other shareholders' securities have been first excluded. In the event that the underwriters determine that less than all of the Registrable Securities requested to be registered after the expiration of Restricted Period can be included in such offering, then the Registrable Securities that are included in such offering shall be allocated (i) first, to Holders of Registrable Securities who hold (or held) Notes or Series C Preferred Stock, pro rata according to the number of Registrable Securities held by each such Holder; and (ii) second, to the remaining Holders of Registrable Securities pro rata based on the number of Registrable Securities held by all such Holders. In the event that the underwriters determine that less than all of the Registrable Securities requested to be registered before the expiration of the Restricted Period can be included in such offering, then the Registrable Securities that are included in such offering shall be allocated (i) first, to Holders of Registrable Securities who hold (or held) Series C Preferred Stock, pro rata according to the number of Registrable Securities held by each such Holder, up to the Series C Threshold Amount; and (ii) second, after the Senior Management Employees and Director Employees have each registered up to their Threshold Senior Management Registrable Securities, to all Holders of Registrable Securities, pro rata according to the number of Registrable Securities held by each such Holder of Registrable Securities held by all such Holders. Notwithstanding the foregoing, in no event shall (i) the amount of securities of the selling Holders included in the offering be reduced below thirty percent (30%) of the total amount of securities included in such offering, unless such offering is the Company's first firm commitment underwritten public offering of its Common Stock under the Act (the "Initial Offering"), in which case the selling Holders may be excluded if the underwriters make the determination described above and no other shareholder's securities are included in such offering. For purposes of the preceding sentence and for purposes of Section 1.2(b) concerning apportionment, for any selling shareholder that is a Holder of Registrable Securities and that is a venture capital fund, partnership or corporation, the affiliated venture capital funds, partners, retired partners and shareholders of such Holder, or the estates and family members of any such partners and retired partners and any trusts for the benefit of any of the foregoing persons shall be deemed to be a single "selling Holder," and any pro rata reduction with respect to such "selling Holder" shall be based upon the aggregate amount of Registrable Securities owned by all such related entities and individuals.

1.4 Form S-3 Registration. In case the Company shall receive from the Holders of twenty-five percent (25%) or more of the Registrable Securities then outstanding (for purposes of this Section 1.4, the "Initiating Holders") a written request or requests that the Company effect a registration on Form S-3 and any related qualification or compliance with respect to all or a part of the Registrable Securities owned by such Holder or Holders, the Company shall:

(a) promptly give written notice of the proposed registration, and any related qualification or compliance, to all other Holders; and

(b) use all commercially reasonable efforts to effect, as soon as practicable, such registration and all such qualifications and compliances as may be so requested and as would permit or facilitate the sale and distribution of all or such portion of such Holders' Registrable Securities as are specified in such request, together with all or such portion of the Registrable Securities of any other Holders joining in such request as are specified in a written request given within fifteen (15) days after receipt of such written notice from the Company, provided, however, that the Company shall not be obligated to effect any such registration, qualification or compliance, pursuant to this Section 1.4:

(i) if Form S-3 is not available for such offering by the Holders;

(ii) if the Company furnishes to Holders requesting a registration statement pursuant to this Section 1.4 a certificate signed by the Company's Chief Executive Officer or Chairman of the Board stating that in the good faith judgment of the Board of Directors of the Company, it would be seriously detrimental to the Company and its shareholders for such registration statement to be effected at such time, in which event the Company shall have the right to defer such filing for a period of not more than one hundred twenty (120) days after receipt of the request of the Initiating Holders, provided that such right shall be exercised by the Company not more than once in any twelve (12)-month period and provided further that the Company shall not register any securities for the account of itself or any other shareholder during such one hundred twenty (120) day period (other than a registration relating solely to the sale of securities of participants in a Company stock plan, a registration relating to a corporate reorganization or transaction under Rule 145 of the Act, a registration on any form that does not include substantially the same information as would be required to be included in a registration statement covering the sale of the Registrable Securities, or a registration in which the only Common Stock being registered is Common Stock issuable upon conversion of debt securities other than the Note that are also being registered); or

(iii) in any particular jurisdiction in which the Company would be required to qualify to do business or to execute a general consent to service of process in effecting such registration, qualification or compliance.

(c) If the Initiating Holders intend to distribute the Registrable Securities covered by their request by means of an underwriting, they shall so advise the Company as a part of their request made pursuant to this Section 1.4 and the Company shall include such information in the written notice referred to in Section 1.4(a). The provisions of Section 1.2(b) shall be applicable to such request (with the substitution of Section 1.4 for references to Section 1.2).

(d) Subject to the foregoing, the Company shall file a registration statement covering the Registrable Securities and other securities so requested to be registered as soon as practicable after receipt of the request or requests of the Initiating Holders. Registrations effected pursuant to this Section 1.4 shall not be counted as requests for registration effected pursuant to Section 1.2 and thus not subject to the limitations found in Section 1.2(c)(ii).

1.5 Obligations of the Company. Whenever required under this Section 1 to effect the registration of any Registrable Securities, the Company shall, as expeditiously as reasonably possible:

(a) prepare and file with the SEC a registration statement with respect to such Registrable Securities and use all commercially reasonable efforts to cause such registration statement to become effective, and, upon the request of the Holders of a majority of the Registrable Securities registered thereunder, keep such registration statement effective for a period of up to one hundred twenty (120) days or, if earlier, until the distribution contemplated in the Registration Statement has been completed; provided, however, that such 120 day period shall be extended for a period of time equal to the period of time that the Holders refrain from selling any securities included in such registration upon the request of the Company or the underwriters;

(b) prepare and file with the SEC such amendments and supplements to such registration statement and the prospectus used in connection with such registration statement as may be necessary to comply with the provisions of the Act with respect to the disposition of all securities covered by such registration statement;

(c) furnish to the Holders such number of copies of a prospectus, including a preliminary prospectus, in conformity with the requirements of the Act, and such other documents as they may reasonably request in order to facilitate the disposition of Registrable Securities owned by them;

(d) use all commercially reasonable efforts to register and qualify the securities covered by such registration statement under such other securities or Blue Sky laws of such jurisdictions as shall be reasonably requested by the Holders, provided that the Company shall not be required in connection therewith or as a condition thereto to qualify to do business or to file a general consent to service of process in any such states or jurisdictions;

(e) in the event of any underwritten public offering, enter into and perform its obligations under an underwriting agreement, in usual and customary form, with the managing underwriter of such offering; and furnish, at the request of any Holder requesting registration of Registrable Securities pursuant to this Section 1, on the date that such Registrable Securities are delivered to the underwriters for sale in connection with a registration pursuant to this Section 1, if such securities are being sold through underwriters, (i) an opinion, dated such date, of the counsel representing the Company for the purposes of such registration, in form and substance as is customarily given to underwriters in an underwritten public offering, addressed to the underwriters and (ii) a letter dated such date, from the independent certified public accountants of the Company, in form and substance as is customarily given by independent certified accountants to underwriters in an underwritten public offering, addressed to the underwriters;

(f) notify each Holder of Registrable Securities covered by such registration statement at any time when a prospectus relating thereto is required to be delivered under the Act of the happening of any event as a result of which the prospectus included in such

registration statement, as then in effect, includes an untrue statement of a material fact or omits to state a material fact required to be stated therein or necessary to make the statements therein not misleading in the light of the circumstances then existing, and the Company shall promptly either amend such prospectus or file a supplement, in compliance with state and federal securities laws, to correct such untrue statement of material fact or omission to state a material fact required to be stated therein or necessary to make the statements therein not misleading in the light of the circumstances then existing;

(g) cause all such Registrable Securities registered pursuant to this Section 1 to be listed on a national exchange or trading system and on each securities exchange and trading system on which similar securities issued by the Company are then listed;

(h) provide a transfer agent and registrar for all Registrable Securities registered pursuant hereunder and a CUSIP number for all such Registrable Securities, in each case not later than the effective date of such registration;

(i) notify each Holder promptly after the Company receives notice thereof, of the time when such registration statement has become effective or a supplement of such registration has been filed;

(j) advise each Holder promptly after the Company shall receive notice or obtain knowledge thereof, of the issuance of any stop order by the SEC suspending the effectiveness of such registration statement or the threatening of any proceeding for such purpose and promptly use all commercially reasonable efforts to prevent the issuance of any stop order should such be issued; and

(k) make generally available to its security holders, and to deliver to the Holders an earnings statement of the Company (that will satisfy the provisions of Section 11(a) of the Act) covering a period of twelve (12) months beginning after the effective date of the registration statement (as defined in Rule 158(c) under the Act) as soon as is reasonably practicable after the termination of such twelve (12) month period and upon the request of a Holder.

1.6 Information from Holder. It shall be a condition precedent to the obligations of the Company to take any action pursuant to this Section 1 with respect to the Registrable Securities of any selling Holder that such Holder shall furnish to the Company such information regarding itself, the Registrable Securities held by it, and the intended method of disposition of such securities as shall be reasonably required to effect the registration of such Holder’s Registrable Securities.

1.7 Expenses of Registration. All expenses other than underwriting discounts and commissions (which shall be borne by the selling Holders pro rata based on the number of Registrable Securities included in the registration) incurred in connection with registrations, filings or qualifications pursuant to Sections 1.2, 1.3 and 1.4, including (without limitation) all registration, filing and qualification fees, printers’ and accounting fees, fees and disbursements of counsel for the Company and the reasonable fees and disbursements of one counsel for the

selling Holders shall be borne by the Company. In the event the Holders of the Series C Preferred Stock elect to retain separate counsel to represent them in connection with registrations, filings or qualifications pursuant to Sections 1.2, 1.3 and 1.4, all expenses other than underwriting discounts and commissions (which shall be borne by the selling Holders of the Series C Preferred Stock pro rata based on the number of Registrable Securities included in the registration) incurred in connection with such registrations, filings or qualifications, including (without limitation) all registration, filing and qualification fees, printers' and accounting fees, fees and disbursements of counsel for the Company and the reasonable fees and disbursements of one counsel for all such selling Holders, shall be borne by the Company in an amount not to exceed $50,000 per offering. Notwithstanding the foregoing, the Company shall not be required to pay for any expenses of any registration proceeding begun pursuant to Section 1.2 or Section 1.4 if the registration request is subsequently withdrawn at the request of the Holders of a majority of the Registrable Securities to be registered (in which case all participating Holders shall bear such expenses pro rata based upon the number of Registrable Securities that were to be included in the withdrawn registration), unless, in the case of a registration requested under Section 1.2, the Holders of a majority of the Registrable Securities agree to forfeit their right to one demand registration pursuant to Section 1.2; provided, however, that if at the time of such withdrawal, the Holders have learned of a material adverse change in the condition, business or prospects of the Company from that known to the Holders at the time of their request and have withdrawn the request with reasonable promptness following disclosure by the Company of such material adverse change, then the Holders shall not be required to pay any of such expenses and shall retain their rights pursuant to Sections 1.2 and 1.4.

1.8 Delay of Registration. No Holder shall have any right to obtain or seek an injunction restraining or otherwise delaying any such registration as the result of any controversy that might arise with respect to the interpretation or implementation of this Section 1.

1.9 Indemnification. In the event any Registrable Securities are included in a registration statement under this Section 1:

(a) To the extent permitted by law, the Company will indemnify and hold harmless each Holder, the partners, officers, directors, partners, members and shareholders of each Holder, legal counsel and accountants for each Holder, any underwriter (as defined in the Act) for such Holder and each person, if any, who controls such Holder or underwriter within the meaning of the Act or the 1934 Act, against any losses, claims, damages or liabilities (joint or several) to which they may become subject under the Act, the 1934 Act, any other federal or state securities laws or any rule or regulation promulgated thereunder, insofar as such losses, claims, damages, or liabilities (or actions, proceedings or settlements in respect thereof) arise out of or are based upon any of the following statements, omissions or violations (collectively a "Violation"): (i) any untrue statement or alleged untrue statement of a material fact contained in such registration statement, including any preliminary prospectus or final prospectus contained therein or any amendments or supplements thereto, (ii) the omission or alleged omission to state in such registration statement a material fact required to be stated therein, or necessary to make the statements therein not misleading, or (iii) any violation or alleged violation by the Company of the Act, the 1934 Act, any other federal or state securities laws or any rule or regulation promulgated thereunder, and the Company will reimburse each such Holder, underwriter,

controlling person or other aforementioned person for any legal or other expenses reasonably incurred by them in connection with investigating or defending any such loss, claim, damage, liability or action, proceeding or settlement as such expenses are incurred; provided, however, that the indemnity agreement contained in this Section 1.9(a) shall not apply to amounts paid in settlement of any such loss, claim, damage, liability or action, proceeding or settlement if such settlement is effected without the consent of the Company (which consent shall not be unreasonably withheld or delayed), nor shall the Company be liable in any such case for any such loss, claim, damage, liability or action, proceeding or settlement to the extent that it arises out of or is based upon a Violation that occurs in reliance upon and in conformity with written information furnished expressly for use in connection with such registration by any such Holder, underwriter, controlling person or other aforementioned person; provided further, however, that the foregoing indemnity agreement with respect to any preliminary prospectus shall not inure to the benefit of any Holder or underwriter or other aforementioned person, or any person controlling such Holder or underwriter, from whom the person asserting any such losses, claims, damages or liabilities purchased shares in the offering, if a copy of the most current prospectus was not sent or given by or on behalf of such Holder or underwriter or other aforementioned person to such person, if required by law to have been so delivered, at or prior to the written confirmation of the sale of the shares to such person, and if the prospectus (as so amended or supplemented) would have cured the defect giving rise to such loss, claim, damage or liability and provided that the Company had made available such prospectus for delivery by such Holder or underwriter.

(b) To the extent permitted by law, each selling Holder will indemnify and hold harmless the Company, each of its directors, each of its officers who has signed the registration statement, each person, if any, who controls the Company within the meaning of the Act, legal counsel and accountants for the Company, any underwriter, any other Holder selling securities in such registration statement and any controlling person of any such underwriter or other Holder, against any losses, claims, damages or liabilities (joint or several) to which any of the foregoing persons may become subject, under the Act, the 1934 Act, any other federal or state securities laws or any rule or regulation promulgated thereunder, insofar as such losses, claims, damages or liabilities (or actions, proceedings or settlements in respect thereto) arise out of or are based upon any Violation, in each case to the extent (and only to the extent) that such Violation occurs in reliance upon and in conformity with written information furnished by such Holder expressly for use in connection with such registration; and each such Holder will reimburse any person intended to be indemnified pursuant to this Section 1.9(b) for any legal or other expenses reasonably incurred by such person in connection with investigating or defending any such loss, claim, damage, liability or action, proceeding or settlement as such expenses are incurred; provided, however, that the indemnity agreement contained in this Section 1.9(b) shall not apply to amounts paid in settlement of any such loss, claim, damage, liability or action, proceeding or settlement if such settlement is effected without the consent of the Holder (which consent shall not be unreasonably withheld), and provided that in no event shall any indemnity under this Section 1.9(b) exceed the net proceeds from the offering received by such Holder, except in the case of fraud or willful misconduct by such Holder.

(c) Promptly after receipt by an indemnified party under this Section 1.9 of notice of the commencement of any action, proceeding or settlement (including any

governmental action), such indemnified party will, if a claim in respect thereof is to be made against any indemnifying party under this Section 1.9, deliver to the indemnifying party a written notice of the commencement thereof and the indemnifying party shall have the right to participate in and, to the extent the indemnifying party so desires, jointly with any other indemnifying party similarly noticed, to assume the defense thereof with counsel mutually satisfactory to the parties; provided, however, that an indemnified party (together with all other indemnified parties that may be represented without conflict by one counsel) shall have the right to retain one separate counsel, with the fees and expenses to be paid by the indemnifying party, if representation of such indemnified party by the counsel retained by the indemnifying party would be inappropriate due to actual or potential differing interests between such indemnified party and any other party represented by such counsel in such proceeding. The failure to deliver written notice to the indemnifying party within a reasonable time of the commencement of any such action, if prejudicial to its ability to defend such action, shall relieve such indemnifying party of liability to the indemnified party under this Section 1.9 to the extent of such prejudice, but the omission to so deliver written notice to the indemnifying party will not relieve it of any liability that it may have to any indemnified party otherwise than under this Section 1.9.

(d) The foregoing indemnity agreements of the Company and the selling Holders are subject to the condition that, insofar as they relate to any loss, liability, claim, damage or expense referred to herein arising from any untrue statement or alleged untrue statement of a material fact contained in, or omission or alleged omission of a material fact from, a preliminary prospectus (or necessary to make the statements therein not misleading) that has been corrected in the form of prospectus included in the registration statement at the time it becomes effective, or any amendment or supplement thereto filed with the SEC pursuant to Rule 424(b) under the Securities Act (the "Final Prospectus"), such indemnity agreement shall not inure to the benefit of any Person if a copy of the Final Prospectus was furnished to the indemnified party and such indemnified party failed to deliver, at or before the confirmation of the sale of the shares registered in such offering, a copy of the Final Prospectus to the Person asserting the loss, liability, claim, or damage in any case in which such delivery was required by the Securities Act.

(e) If the indemnification provided for in this Section 1.9 is held by a court of competent jurisdiction to be unavailable to an indemnified party with respect to any loss, liability, claim, damage or expense referred to herein, then the indemnifying party, in lieu of indemnifying such indemnified party hereunder, shall contribute, subject to the limitations described in Sections 1.9(a) and 1.9(b), to the amount paid or payable by such indemnified party as a result of such loss, liability, claim, damage or expense in such proportion as is appropriate to reflect the relative fault of the indemnifying party on the one hand and the indemnified party on the other hand in connection with the statements or omissions that resulted in such loss, liability, claim, damage or expense, as well as any other relevant equitable considerations; provided, however, that no contribution by any Holder, when combined with any amounts paid by such Holder pursuant to Section 1.9(b), shall exceed the net proceeds from the offering received by such Holder, except in the case of willful misconduct or fraud by such Holder. The relative fault of the indemnifying party and the indemnified party shall be determined by reference to, among other things, whether the untrue or alleged untrue statement of a material fact or the omission or alleged omission to state a material fact relates to information furnished expressly for use in

connection with such registration by the indemnifying party or by the indemnified party and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such statement or omission; provided, however, that, in any such case, no Person guilty of fraudulent misrepresentation (within the meaning of section 11(f) of the Securities Act) will be entitled to contribution from any Person who was not guilty of such fraudulent misrepresentation.

(f) Notwithstanding the foregoing, to the extent that the provisions on indemnification and contribution contained in the underwriting agreement entered into in connection with the underwritten public offering are in conflict with the foregoing provisions, the provisions in the underwriting agreement shall control; provided that should the underwriting agreement not address an aspect of indemnification and contribution contained in this Section 1.9, that shall not constitute a conflict for purposes of this Section 1.9(f).

(g) The obligations of the Company and Holders under this Section 1.9 shall survive the completion of any offering of Registrable Securities in a registration statement under this Section 1 and otherwise.

1.10 Reports Under the 1934 Act. With a view to making available to the Holders the benefits of Rule 144 and any other rule or regulation of the SEC that may at any time permit a Holder to sell securities of the Company to the public without registration or pursuant to a registration on Form S-3, the Company agrees to:

(a) make and keep public information available, as those terms are understood and defined in Rule 144, at all times after the effective date of the Qualifying Public Offering;

(b) file with the SEC in a timely manner all reports and other documents required of the Company under the Act and the 1934 Act; and

(c) furnish to any Holder, so long as the Holder owns any Registrable Securities, forthwith upon request (i) a written statement by the Company that it has complied with the reporting requirements of Rule 144 (at any time after ninety (90) days after the effective date of the first registration statement filed by the Company), the Act and the 1934 Act (at any time after it has become subject to such reporting requirements), or that it qualifies as a registrant whose securities may be resold pursuant to Form S-3 (at any time after it so qualifies); (ii) a copy of the most recent annual or quarterly report of the Company and such other reports and documents so filed by the Company; and (iii) such other information as may be reasonably requested to avail any Holder of any rule or regulation of the SEC that permits the selling of any such securities without registration or pursuant to such form.

1.11 Assignment of Registration Rights. The rights to cause the Company to register Registrable Securities pursuant to this Section 1 may be assigned (but only with all related obligations) by a Holder to a transferee or assignee of such securities that (i) is a subsidiary, parent or other corporate affiliate of a Holder, or a partner, limited partner, retired partner or shareholder of a Holder; (ii) is a Holder's family member or trust for the benefit of an

individual Holder; or (iii) after such assignment or transfer, holds at least two hundred fifty thousand (250,000) shares of Registrable Securities (subject to appropriate adjustment for stock splits, stock dividends, combinations or the like), provided: (A) the Company is, within a reasonable time after such transfer, furnished with written notice of the name and address of such transferee or assignee and the securities with respect to which such registration rights are being assigned; (B) such transferee or assignee agrees in writing to be bound by and subject to the terms and conditions of this Agreement, including, without limitation, the provisions of Section 1.13 below; and (C) such assignment shall be effective only if immediately following such transfer the further disposition of such securities by the transferee or assignee is restricted under the Act.

1.12 Limitations on Subsequent Registration Rights. From and after the date of this Agreement, the Company shall not, without the prior written consent of the Holders of at least a majority of the Registrable Securities and the Holders of at least a majority of the shares of Common Stock issuable upon conversion of the Notes, enter into any agreement with any holder or prospective holder of any securities of the Company that would allow such holder or prospective holder (a) to include any of such securities in any registration filed under Section 1.2, Section 1.3 or Section 1.4 hereof, unless under the terms of such agreement, such holder or prospective holder may include such securities in any such registration only to the extent that the inclusion of such securities will not reduce the amount of the Registrable Securities of the Holders that are included, or (b) to demand registration of their securities.

1.13 "Market Stand Off" Agreement.

(a) Each holder of equity securities of the Company that is a party to this Agreement (a "Company Stockholder") hereby agrees that it will not, without the prior written consent of the managing underwriter, during the period commencing on the date of the final prospectus relating to the Initial Offering and ending on the date specified by the Company and the managing underwriter (such period not to exceed (a) one hundred eighty (l80) days (or such longer period as the underwriters or the Company shall require in order to facilitate compliance with NASD Rule 2711)) with respect to the Company's Initial Offering and (b) ninety (90) days with respect to a Company underwritten offering other than the Initial Offering, (i) lend, offer, pledge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant to purchase, or otherwise transfer or dispose of, directly or indirectly, any shares of Common Stock or any securities convertible into or exercisable or exchangeable for Common Stock held immediately prior to the effectiveness of the Registration Statement for such offering, or (ii) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of the Common Stock, whether any such transaction described in clause (i) or (ii) above is to be settled by delivery of Common Stock or other securities, in cash or otherwise. The foregoing provisions of this Section 1.13 shall not apply to the sale of any shares to an underwriter pursuant to an underwriting agreement. In addition, the provisions of this Section 1.13 shall only be applicable to the Company Stockholders if (X) all officers and directors of the Company serving in such positions as of the date hereof and any additional persons serving in any such positions on the date of the applicable offering enter into similar agreements, (Y) the Company obtains a similar covenant from the holders in interest of two percent (2%) or more of the outstanding securities of

the Company, and (Z) the Company uses all reasonable efforts to obtain a similar covenant from the holders in interest of one percent (1%) or more of the outstanding securities of the Company. The underwriters in connection with the Company's Initial Offering are intended third-party beneficiaries of this Section 1.13 and shall have the right, power and authority to enforce the provisions hereof as though they were a party hereto. Each Company Stockholder further agrees to execute such agreements as may be reasonably requested by the underwriters in the Company's Initial Offering that are consistent with this Section 1.13 or that are necessary to give further effect thereto. Any discretionary waiver or termination of the restrictions of any or all of such agreements or this Section 1.13 by the Company or the underwriters shall apply to all holders of capital stock of the Company subject to such agreements pro rata based on the number of shares subject to such agreements.

In order to enforce the foregoing covenant, the Company may impose stop transfer instructions with respect to the Registrable Securities of each Company Stockholder (and the shares or securities of every other person subject to the foregoing restriction) until the end of such period.

(b) Each Company Stockholder agrees that a legend reading substantially as follows shall be placed on all certificates representing all Registrable Securities of each Company Stockholder (and the shares or securities of every other person subject to the restriction contained in this Section 1.13):

THE SECURITIES REPRESENTED BY THIS CERTIFICATE ARE SUBJECT TO A LOCK-UP PERIOD OF UP TO 180 DAYS AFTER THE EFFECTIVE DATE OF THE ISSUER'S REGISTRATION STATEMENT FILED UNDER THE ACT, AS AMENDED, AS SET FORTH IN AN AGREEMENT BETWEEN THE COMPANY AND THE ORIGINAL HOLDER OF THESE SECURITIES, A COPY OF WHICH MAY BE OBTAINED AT THE ISSUER'S PRINCIPAL OFFICE. SUCH LOCK-UP PERIOD IS BINDING ON TRANSFEREES OF THESE SHARES.

1.14 Termination of Registration Rights. No Holder shall be entitled to exercise any right provided for in this Section 1 (i) after five (5) years following the consummation of the Qualifying Public Offering; (ii) as to any Holder, such earlier time after the Qualifying Public Offering at which such Holder can sell all shares held by it in compliance with Rule 144(k); or (iii) when the Company shall sell, convey, or dispose of all or substantially all of the Company's property or business or merge with or into or consolidate with any other corporation (other than a wholly-owned subsidiary corporation) or effect any other transaction or series of related transactions in which more than fifty percent (50%) of the voting power of the Company is disposed of, in each case in a transaction in which the Holders receive, or at such later time at which the Holders receive, cash, cash equivalents or Marketable Securities (as defined below) in consideration for the Registrable Securities held by them; provided that this Section 1.14 shall not cause the Holders' registration rights to terminate following a merger effected solely for the purpose of changing the domicile of the Company. For purposes of this Agreement, the term "Marketable Securities" means securities that are listed on a national

securities exchange or listed on the NASDAQ National Market System and either (i) freely tradeable by the Holders under applicable securities laws on such exchange or system, or (ii) with respect to which the Holder has received registration rights materially similar to those provided under Section 1 of this Agreement.

2. Covenants of the Company.

2.1 Information Rights. For so long as an Investor (together with its respective affiliates) continues to own at least ten percent (10%) of the Registrable Securities purchased pursuant to (i) the Series C Purchase Agreement, or (ii) the Note Purchase Agreement, the Company shall deliver to each Investor:

(a) as soon as practicable, but in any event within one hundred twenty (120) days after the end of each fiscal year of the Company, an income statement for such fiscal year, a balance sheet of the Company and statement of shareholders' equity as of the end of such year, and a statement of cash flows for such year, such year end financial reports to be in reasonable detail, prepared in accordance with generally accepted accounting principles ("GAAP"), and audited and certified by independent public accountants of nationally recognized standing selected by the Company;

(b) as soon as practicable, but in any event within forty-five (45) days after the end of each of the first three (3) quarters of each fiscal year of the Company, an unaudited income statement, statement of cash flows for such fiscal quarter and an unaudited balance sheet as of the end of such fiscal quarter;

(c) within forty-five (45) days of the end of each month an unaudited income statement, statement of cash flows and balance sheet for and as of the end of such month, in reasonable detail;

(d) as soon as practicable, but in any event no later than the fifteenth (15th) of March of each fiscal year, a budget and business plan for the next fiscal year, prepared on a monthly basis, and, as soon as prepared, any other budgets or revised budgets prepared by the Company;

(e) with respect to the financial statements called for in Sections 2.1(b) and 2.1(c), an instrument executed by the Chief Financial Officer or President of the Company certifying that such financials were prepared in accordance with GAAP consistently applied with prior practice for earlier periods (with the exception of footnotes that may be required by GAAP) and fairly present the financial condition of the Company and its results of operation for the period specified, subject to year-end audit adjustment;

(f) notices of default with respect to any obligation of the Company or its affiliates; and

(g) such other information relating to the financial condition, business or corporate affairs of the Company as the Investor may from time to time request, provided, however, that the Company shall not be obligated under this Section 2.1(g) or any other

subsection of Section 2.1 to provide information that it deems in good faith to be a trade secret or similar confidential information.

2.2 Inspection. The Company shall permit each Investor, at such Investor's expense, to visit and inspect the Company's properties, to examine its books of account and records and to discuss the Company's affairs, finances and accounts with its officers, all at such times during normal business hours as may be requested by the Investor with reasonable advance notice; provided, however, that the Company shall not be obligated pursuant to this Section 2.2 to provide access to any information that it reasonably considers to be a trade secret or similar confidential information.

2.3 Termination of Information and Inspection Covenants. The covenants set forth in Sections 2.1 and 2.2 shall terminate and be of no further force or effect upon the earlier to occur of (i) the consummation of a QIPO, (ii) when the Company first becomes subject to the periodic reporting requirements of Sections 12(g) or 15(d) of the 1934 Act, or (iii) the consummation of a Deemed Liquidation Event, as that term is defined in the Articles. Further, such covenants will terminate and be of no further force or effect with respect to any Holder of a Note if such Holder does not continue to hold an interest in the Note purchased by such Holder equal to at least thirty-three percent (33%) of the balance of such Note (or the Common Stock into which such Note may have been converted).

2.4 Right of First Refusal. Subject to the terms and conditions specified in this Section 2.4, the Company hereby grants to each Investor a right of first refusal to purchase all or any portion of its pro rata portion of future sales by the Company of its Shares (as hereinafter defined). An Investor shall include any general partners and affiliates of an Investor. Investors shall be entitled to apportion the right of first refusal hereby granted it among itself and its partners and affiliates in such proportions as it deems appropriate.

Each time the Company proposes to offer any shares of, or securities convertible into or exchangeable or exercisable for any shares of, its capital stock or debt instruments that are issued along with warrants to purchase any of the foregoing (collectively, "Shares"), the Company shall first make an offering to each Investor to purchase all or a portion of its pro rata portion of such Shares in accordance with the following provisions:

(a) The Company shall deliver a notice in accordance with Section 4.5 to the Investors stating (i) its bona fide intention to offer such Shares, (ii) the number of such Shares to be offered, and (iii) the price and terms upon which it proposes to offer such Shares.

(b) By written notification received by the Company within twenty (20) calendar days after the giving of Notice, each Investor may elect to purchase, at the price and on the terms specified in the Notice, up to that portion of such Shares that equals the proportion that the number of shares of Common Stock that are Registrable Securities issued and held by such Investor (assuming full conversion and exercise of all convertible and exercisable securities then outstanding) bears to the total number of shares of Common Stock of the Company then outstanding (assuming full conversion and exercise of all convertible and exercisable securities then outstanding). The Company shall promptly, in writing, inform each

Investor that elects to purchase all the shares available to it (a "Fully-Exercising Investor") of any other Investor's failure to do likewise. During the ten (10) day period commencing after such information is given, each Investor that is a Fully-Exercising Investor may elect to purchase that portion of the Shares for which the Investors were entitled to subscribe, but which were not subscribed for by the Investors, that is equal to the proportion that the number of shares of Registrable Securities issued and held by such Fully-Exercising Investor bears to the number of shares of Registrable Securities issued and held by all Investors that are Fully-Exercising Investors.

(c) If all Shares that Investors are entitled to obtain pursuant to Section 2.4(b) are not elected to be obtained as provided in Section 2.4(b) hereof, the Company may, during the ninety (90) day period following the expiration of the period provided in Section 2.4(b) hereof, offer the remaining unsubscribed portion of such Shares to any person or persons at a price not less than that, and upon terms no more favorable to the offeree than those, specified in the Notice. If the Company does not enter into an agreement for the sale of the Shares within such period, or if such agreement is not consummated within seventy-five (75) days of the execution thereof, the right provided hereunder shall be deemed to be revived and such Shares shall not be offered unless first reoffered to the Investors in accordance herewith.

(d) The right of first refusal in this Section 2.4 shall not be applicable to (i) up to two hundred seventeen thousand two hundred sixty eight (217,268) shares of Common Stock (or options therefor) (subject to adjustment for stock splits, stock dividends, recapitalizations and similar changes affecting the capital stock of the Company) to employees, directors, consultants and other service providers of this corporation for the primary purpose of soliciting or retaining their services pursuant to plans or agreements approved by a majority of the Independent Directors; (ii) the issuance of securities pursuant to a Qualifying Public Offering; (iii) the issuance of securities pursuant to the conversion or exercise of existing convertible or exercisable securities or securities, the issuance of which would not be subject to the right of first refusal set forth in Section 2.4 of this Agreement; (iv) the issuance of up to an aggregate of one hundred thousand (100,000) shares of Common Stock (or securities convertible into Common Stock) in connection with a bona fide business acquisition of or by the Company, whether by merger, consolidation, sale of assets, sale or exchange of stock or otherwise; (v) the issuance and sale of the Notes pursuant to the Note Purchase Agreement, as such agreement may be amended; (vi) up to fifty thousand (50,000) shares of equity securities per year (subject to adjustment for stock splits, stock dividends, recapitalizations and similar changes affecting the capital stock of the Company) issued to vendors, consultants or advisors or in connection with acquisitions, which grant, agreement or other arrangement has been approved by a majority of the Independent Directors; (vii) shares of Common Stock or warrants to purchase Common Stock issued pursuant to any strategic partnership, in each case approved by a majority of the Independent Directors; and (viii) any securities issued in connection with any stock split, stock dividend or recapitalization by the Company that affects all outstanding capital stock of the Company. In addition to the foregoing, the right of first refusal in this Section 2.4 shall not be applicable with respect to any Investor in any subsequent offering of Shares if (i) at the time of such offering, the Investor is not an "accredited investor," as that term is then defined in Rule 501(a) of the Act, and (ii) such offering of Shares is otherwise being offered only to accredited investors.

(e) The rights provided in this Section 2.4 may not be assigned or transferred by any Investor; provided, however, that (i) an Investor may assign or transfer such rights to any other entity which controls, is controlled by or is under common control with the Investor or any entity that is managed by the same joint management company of the Investor or any entity that is the general partner or limited partner of the Investors, and (ii) an Investor that is a venture capital fund may assign or transfer such rights to an affiliated venture capital fund.

2.5 Proprietary Information and Inventions Agreements. The Company has caused each of the persons listed on Schedule 2.5 attached hereto to execute and deliver a Proprietary Information and Intellectual Property Agreement (a "Proprietary Information Agreement") in form and substance reasonably satisfactory to the Investors. Company shall use commercially reasonable efforts to cause all officers, key management employees and employees involved in research and development activities who are not listed on Schedule 2.5 attached hereto to execute and deliver a Proprietary Information Agreement within thirty (30) days of the date of this Agreement, and shall require all future officers, key management employees and employees involved in research and development activities to execute and deliver a Proprietary Information Agreement.

2.6 Lock-Up of Future Securityholders. The Company shall ensure that all future holders of the Company's Series C Preferred Stock and Notes are subject to a Market Stand-Off substantially similar to that set forth in Section 1.13 hereof.

2.7 D&O Insurance. The Company has as of the date hereof, obtained from financially sound and reputable insurer(s) and maintains director and officer liability insurance in the amount of at least two million dollars ($2,000,000) per occurrence.

2.8 Board of Directors. The Board shall consist of not less than six (6) and not more than nine (9) members, at least a majority of whom shall be Independent Directors. Hiring and dismissal of officers shall be under the purview of the Board, and the Board shall have exclusive authority over all equity incentive grants and senior management compensation decisions; provided, however, that without the prior written consent of the parties holding a majority of the Series C Preferred Stock and the consent of parties holding a majority of shares of Common Stock issued or issuable upon conversion of the Notes, which consent shall not be unreasonably withheld, the Board will not materially increase the salary, bonuses, benefits or other compensation of the Company's management. For the avoidance of doubt, references to the Board in the previous sentence shall include the Compensation Committee of the Board (the "Compensation Committee"), to the extent appropriate and consistent with the charter of the Compensation Committee. The Board shall review and approve the Company's operating plan and budget annually as well as any material deviations from or amendments to such plans and budgets.

2.9 Board Observer.

(a) The Investors holding a majority of the Registrable Securities issued or issuable upon conversion of the Series C Preferred Stock shall be entitled to nominate one (1) Board observer (the "Board Observer") with full rights to observe and attend any and all

meetings and other proceedings of the Company's Board of Directors and to receive all notices and information provided to the members of the Board. All out-of-pocket expenses of the Board Observer resulting from his or her activities in such capacity shall be reimbursed by the Company. The right to appoint the Board Observer pursuant to this Section 2.9(a) shall be transferable to any transferee of the Investors holding shares of Series C Preferred Stock only to the extent that the transfer of such rights has been consented to by a majority of the Board, which consent shall not be unreasonably withheld.

(b) The Investors holding a majority of the Registrable Securities issued or issuable upon conversion of the Notes shall be entitled to nominate one (1) Board Observer with full rights to observe and attend any and all meetings and other proceedings of the Company's Board of Directors and to receive all notices and information provided to the members of the Board. All out-of-pocket expenses of the Board Observer resulting from his or her activities in such capacity shall be reimbursed by the Company. The right to appoint the Board Observer pursuant to this Section 2.9(b) shall be transferable to any transferee of the Investors holding a Note only to the extent that the transfer of such rights has been consented to by a majority of the Board, which consent shall not be unreasonably withheld. The Investors shall, to the extent practicable, appoint a Board Observer designated by GE Energy Financial Services, Inc.

2.10 Related Party Transactions. The Company will not enter into any transaction with any employee, officer, director or shareholder of the Company or any of its subsidiaries (a "Related Party") or member of such Related Party's immediate family, or any corporation, partnership or other entity in which such Related Party is an officer, director or partner, or in which such Related Party has significant ownership interests or otherwise controls, is indebted to the Company or any of its subsidiaries, other than on arms'-length basis as reasonably determined a majority of the Independent Directors.

2.11 Approval Rights. The approval of the Investors holding a majority of the shares of Common Stock issued or issuable upon conversion of the Notes shall be required to (whether effected as a merger, amendment or otherwise):

(a) commence or consent to any voluntary or involuntary bankruptcy, insolvency or creditors' proceeding;

(b) amend, alter or repeal any provision of the Articles of Incorporation or Bylaws of the Company other than in connection with a QIPO (as defined in the Notes) in a manner that adversely affects the rights or preferences of the holders of the Notes or the holders of the shares of Common Stock issued or issuable upon conversion of the Notes;

(c) recapitalize, create or authorize the creation of any additional class or series of shares of stock;

(d) increase or decrease (other than by redemption or conversion) the authorized number of shares of Preferred Stock of the Company, Common Stock or shares of any additional class or series of shares of stock;

(e) purchase or redeem, or set aside any sums for the purchase or redemption of, or pay any dividend or make any distribution on, any shares of stock ranking junior to the Notes, except for repurchases of Series C Preferred Stock in accordance with Section 3.9.6 of the Articles;

(f) authorize or issue any equity securities other than the following authorizations or issuances:

(i) Common Stock pursuant to the Company's stock purchase and stock option plans approved by a majority of the members of the Board of Directors who are not employees of the Company and were not employees of the Company during the twenty-four month period prior to the date of such approval (the "Independent Directors");

(ii) shares of Common Stock issued pursuant to the exercise of options, warrants or convertible securities outstanding on the date hereof or otherwise permitted in accordance with the terms of this Section 2.11(f);

(iii) shares of Common Stock or warrants to purchase Common Stock issued pursuant to any strategic partnership, in each case approved by a majority of the Independent Directors; and

(iv) an aggregate of 50,000 shares of new equity per year granted to vendors, consultants, advisors or in small acquisitions, which plans, partnership arrangements or grants have been approved by a majority of the Independent Directors;

(g) engage in any new line of business substantially outside of the business plan in the form approved by a majority of the Independent Directors or materially modifying such plan, unless approved in each case by a majority of the Independent Directors;

(h) merge with or into or consolidate, or permit any subsidiary to merge with or into or consolidate, with any other entity (other than a merger or consolidation solely between the Company and one or more subsidiaries or among subsidiaries);

(i) sell, lease, or otherwise dispose of all or substantially all of the Company's properties or assets; or

(j) commence any initial public offering that is not a QIPO.

Any modification or restructuring that would affect the Common Stock, whether effected as a merger, amendment or otherwise, shall require the approval of the Investors holding a majority of the shares of Common Stock issued or issuable upon conversion of the Notes.

2.12 Termination of Certain Covenants. The covenants set forth in Sections 2.4 through 2.11 shall terminate and be of no further force or effect (i) upon the consummation of a QIPO, or (ii) upon a QExit. The covenants set forth in Section 3 shall terminate and be of no further force or effect (i) upon the consummation of the Company's sale of its Common Stock or other securities pursuant to an Initial Offering, or (ii) upon a Deemed Liquidation Event.

3. Transfers of Registrable Securities.

3.1 Transfer Notice. If at any time an Investor desires to Transfer any Registrable Securities (a "Selling Investor"), the Selling Investor shall promptly give the Company written notice thereof (the "Transfer Notice"). The Transfer Notice shall include a description and the amount of the Registrable Securities that the Selling Investor desires to Transfer (for the purposes of this Section 3, the "Offered Shares"). In the event that the Transfer is being made pursuant to the provisions of Section 3.3, the Transfer Notice shall state under which specific subsection the Transfer is being made. If the Company so elects within ten (10) days following receipt of such notice, the Company shall have the right, on an exclusive basis, for a period of forty-five (45) days after receipt of such notice to negotiate with the Selling Investor with respect to a definitive agreement for the sale and purchase of all (and not less than all) of the Offered Shares. The Selling Investor and the Company shall negotiate in good faith the terms and conditions of any such agreement.

3.2 Non-Exercise of Rights. To the extent that the Company does not exercise its right to negotiate with the Selling Investor or the Company and the Selling Investor do not reach an agreement for the sale and purchase of the Offered Shares within the time periods specified in Section 3.1, the Selling Investor shall have a period of ninety (90) days from the expiration of such rights in which to sell the Offered Shares to a third-party transferee(s), on terms and conditions no less favorable to the Selling Investor than the terms proposed by the Company pursuant to Section 3.1 hereof (if applicable). The third-party transferee(s) shall acquire the Offered Shares free and clear of subsequent rights of first offer under this Agreement. In the event the Selling Investor does not sell the Offered Shares within the ninety (90) day period from the expiration of these rights, the Company's first offer rights shall continue to be applicable to any subsequent disposition of the Offered Shares by the Selling Investor until such rights lapse in accordance with the terms of this Agreement. Furthermore, the exercise or non-exercise of the rights of the Company under Section 3.1 to offer to purchase Registrable Securities from the Selling Investor shall not adversely affect its right to make subsequent purchases from the Selling Investor of Registrable Securities.

3.3 Limitations to Company Right of First Offer. Notwithstanding the provisions of Section 3.1 of this Agreement, the first offer right of the Company shall not apply to (a) in the case of a company, corporation or a partnership, to the Transfer of Equity Securities to any members, shareholders, partners or corporate affiliates thereof (each, an "Indirect Shareholder" of the Company) or to any entity controlled by, controlling or under common control with the transferor; (b) to the Transfer of Equity Securities to any spouse or member of an Investor's Immediate Family, or to a custodian, trustee (including a trustee of a voting trust), executor, or other fiduciary for the account of the Investor's or Indirect Shareholder's spouse or members of the Investor's immediate family, or to a trust for the Indirect Shareholder's own self, or a charitable remainder trust; (c) Transfers of Equity Securities by one or more individual Investors pursuant to which after such Transfer, (i) if Common Stock issued or issuable upon conversion of the Notes is proposed to be transferred by GE, GE will continue to collectively own at least one million (1,000,000) shares (including shares held by transferees pursuant to clauses (a) and (b) above) of such Common Stock (subject to adjustment for stock splits, stock dividends, recapitalizations and similar changes affecting the capital stock of the Company)

subsequent to such Transfer, (ii) if Series C Preferred Stock (or Common Stock issued upon the conversion thereof) and/or Common Stock issued or issuable upon conversion of the Notes is proposed to be transferred by Clean Technology Fund II, LP ("CTF"), CTF will continue to collectively own at least three hundred twelve thousand five hundred (312,500) shares (including shares held by transferees pursuant to clauses (a) and (b) above) of such Series C Preferred Stock (or Common Stock issued upon the conversion thereof) and/or Common Stock (subject to adjustment for stock splits, stock dividends, recapitalizations and similar changes affecting the capital stock of the Company) subsequent to such Transfer; (iii) if Series C Preferred Stock (or Common Stock issued upon the conversion thereof) and/or Common Stock issued or issuable upon conversion of the Notes is proposed to be transferred by CapVest Venture Fund, LP ("CapVest") or Technology Transformation Venture Fund, LP ("TTVF"), CapVest and TTVF will continue to collectively own at least twelve thousand five hundred (12,500) shares (including shares held by transferees pursuant to clauses (a) and (b) above) of such Series C Preferred Stock (or Common Stock issued upon the conversion thereof) and/or Common Stock (subject to adjustment for stock splits, stock dividends, recapitalizations and similar changes affecting the capital stock of the Company) subsequent to such Transfer; or (d) any sale of Registrable Securities to the public pursuant to a registration statement filed with, and declared effective by, the SEC under the Act; *provided, however*, that in the event of any transfer made pursuant to one of the exemptions provided by clauses (a) or (b), the Investor shall inform the Company in writing of such Transfer prior to effecting it and (ii) each such transferee or assignee, prior to the completion of the Transfer, shall have executed documents assuming the obligations of the Investor under this Agreement with respect to the transferred Registrable Securities. Except with respect to the Registrable Securities transferred under clauses (c) and (d) above (which Registrable Securities shall no longer be subject to the first offer rights of the Company), such transferred Registrable Securities shall remain "Registrable Securities" hereunder, and such pledgee, transferee or donee shall be treated as the "Investor" for purposes of this Agreement. For purposes of this Section 3.3, "Investor's immediate family" shall include any spouse, father, mother, sibling or lineal descendant of Holder, Holder's spouse or an Indirect Shareholder.

4. Miscellaneous.

4.1 Successors and Assigns. Except as otherwise provided herein, the terms and conditions of this Agreement shall inure to the benefit of and be binding upon the respective successors and assigns of the parties (including transferees of any shares of Registrable Securities). Nothing in this Agreement, express or implied, is intended to confer upon any party other than the parties hereto or their respective successors and assigns any rights, remedies, obligations or liabilities under or by reason of this Agreement, except as expressly provided in this Agreement.

4.2 Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of Wisconsin, as applied to contracts made and performed within the State of Wisconsin, without regard to principles of conflicts of law.

4.3 Counterparts. This Agreement may be executed in two or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

4.4 Titles and Subtitles. The titles and subtitles used in this Agreement are used for convenience only and are not to be considered in construing or interpreting this Agreement.

4.5 Notices. All notices and other communications given or made pursuant hereto shall be in writing and shall be deemed effectively given: (i) upon personal delivery to the party to be notified, (ii) when sent by confirmed electronic mail or facsimile if sent during normal business hours of the recipient; if not, then on the next business day, (iii) five (5) days after having been sent by registered or certified mail, return receipt requested, postage prepaid, or (iv) one (1) day after deposit with a nationally recognized overnight courier, specifying next day delivery, with written verification of receipt. The occurrence of the events set forth in subsections (i) through (iv) above shall constitute "Delivery" of notice. All communications shall be sent to the respective parties at the addresses set forth on the signature pages attached hereto (or at such other addresses as shall be specified by notice given in accordance with this Section 4.5).

4.6 Expenses. If any action at law or in equity is necessary to enforce or interpret the terms of this Agreement, the prevailing party shall be entitled to reasonable attorneys' fees, costs and necessary disbursements in addition to any other relief to which such party may be entitled.

4.7 Amendments and Waivers. Any term of this Agreement may be amended and the observance of any term of this Agreement may be waived (either generally or in a particular instance and either retroactively or prospectively) only with the written consent of the Company and the holders of a majority of the Registrable Securities and the holders of a majority in interest of the Notes (or the shares of Common Stock into which the Notes may be converted). Notwithstanding the foregoing, (i) in the event that such amendment or waiver adversely affects the obligations or rights of a holder of Registrable Securities under this Agreement in a manner not applicable to all holders of Registrable Securities, such amendment or waiver shall also require the written consent of such adversely affected holder or, if multiple holders are so adversely affected, all such holders, and (ii) no waiver of the rights provided in Section 2.4 of this Agreement as to any Investor may be given without the consent of such Investor. Any amendment or waiver effected in accordance with this paragraph shall be binding upon each holder of any Registrable Securities, each future holder of all such Registrable Securities, and the Company.

4.8 Severability. If one or more provisions of this Agreement are held to be unenforceable under applicable law, such provision(s) shall be excluded from this Agreement and the balance of the Agreement shall be interpreted as if such provision(s) were so excluded and shall be enforceable in accordance with its terms.

4.9 Aggregation of Stock. All shares of Registrable Securities held or acquired by affiliated entities (including affiliated venture capital funds) or persons shall be aggregated together for the purpose of determining the availability of any rights under this Agreement.

4.10 Waiver of Jury Trial. TO THE EXTENT EACH MAY LEGALLY DO SO, EACH PARTY HERETO HEREBY EXPRESSLY WAIVES ANY RIGHT TO TRIAL BY JURY OF ANY CLAIM, DEMAND, ACTION, CAUSE OF ACTION, OR PROCEEDING ARISING UNDER OR WITH RESPECT TO THIS AGREEMENT, OR IN ANY WAY CONNECTED WITH, OR RELATED TO, OR INCIDENTAL TO, THE DEALING OF THE PARTIES HERETO WITH RESPECT TO THIS AGREEMENT, OR THE TRANSACTIONS RELATED THERETO, IN EACH CASE WHETHER NOW EXISTING OR HEREAFTER ARISING, AND IRRESPECTIVE OF WHETHER SOUNDING IN CONTRACT, TORT, OR OTHERWISE. TO THE EXTENT EACH MAY LEGALLY DO SO, EACH PARTY HERETO HEREBY AGREES THAT ANY SUCH CLAIM, DEMAND, ACTION, OR PROCEEDING SHALL BE DECIDED BY A COURT TRIAL WITHOUT A JURY AND THAT EITHER PARTY HERETO MAY FILE AN ORIGINAL COUNTERPART OR A COPY OF THIS AGREEMENT WITH ANY COURT AS WRITTEN EVIDENCE OF THE CONSENT OF ANY OTHER PARTY HERETO TO THE WAIVER OF ITS RIGHT TO TRIAL BY JURY.

4.11 Entire Agreement. This Agreement contains the entire understanding of the parties hereto with respect to the subject matter hereof and supersedes any other prior agreements between the parties hereto with respect to the subject matter hereof, including the Original Agreement, which shall have no further force or effect. No party shall be liable or bound to any other in any manner by any representations, warranties, covenant and agreements except as specifically set forth herein.

{Remainder of Page Intentionally Left Blank – Signature Pages Immediately Follow}

IN WITNESS WHEREOF, the parties have executed this Amended and Restated Investors’ Rights Agreement as of the date first above written.

COMPANY

ORION ENERGY SYSTEMS, INC.

By: /s/ Neal Verfuerth

Name:

Title:

Address:

Signature Page to Orion Energy Systems, Inc.
Amended and Restated Investors’ Rights Agreement

INVESTORS:

CLEAN TECHNOLOGY FUND II, LP
By: Expansion Capital Partners II, LP, its General Partner

By: Expansion Capital Partners II — General Partner, LLC, its General Partner

By: /s/ Bernardo H. Llovera
Name: Bernardo H. Llovera
Title: Managing Member

Address: 90 Park Avenue, Suite 1700
New York, NY 10016

GE CAPITAL EQUITY INVESTMENTS, INC.

By: /s/ Michael Donnelly
Name:
Title:

Address :

CAPVEST VENTURE FUND, LP
By: ____________________

By: /s/
Name:
Title:

Address:

Signature Page to Orion Energy Systems, Inc.
Amended and Restated Investors' Rights Agreement

TECHNOLOGY TRANSFORMATION VENTURE FUND, LP

By: ____________________________

By: /s/
Name:
Title:

Address:

Signature Page to Orion Energy Systems, Inc.
Amended and Restated Investors' Rights Agreement

Exhibit A

Senior Management Employees and Director Employees

Neal Verfuerth
Mike Potts
Dan Waibel
Pat Verfuerth
Rick Olsen
John Scribante
Danny Czaja
Eric von Estorff
Erik Birkerts

Schedule 2.5

Neal Verfuerth
Mike Potts
Dan Waibel
Pat Verfuerth
Rick Olsen
John Scribante
Danny Czaja
Eric von Estorff
Erik Birkerts

Exhibit 4.2

EXECUTION COPY

AMENDED AND RESTATED FIRST OFFER AND CO-SALE AGREEMENT

This AMENDED AND RESTATED FIRST OFFER AND CO-SALE AGREEMENT (the "Agreement") is made as of the 3rd day of August, 2007, by and among Orion Energy Systems, Inc., a Wisconsin corporation (the "Company"), the officers and directors of the Company listed on Schedule A hereto (the "Shareholders"), Clean Technology Fund II, LP ("CTF"), CapVest Venture Fund, LP "(CapVest"), Technology Transformation Venture Fund, LP ("TTVF') and GE Capital Equity Investments, Inc. ("GE"). CTF, CapVest and TTVF are collectively referred to herein as the "Series C Investors" and the Series C Investors and GE are collectively referred to herein as the "Investors." The Investors, together with any transferee of (i) the Series C Senior Convertible Preferred Stock (the "Series C Preferred Stock"); (ii) the Convertible Subordinated Promissory Notes (the "Notes") issued pursuant to that certain Strategic Alliance and Note Purchase Agreement, dated as of the date hereof (the "Note Purchase Agreement"); or (iii) common stock issuable upon the conversion of either of the Series C Preferred Stock or the Notes that is subject to the terms of this Agreement, are also herein referred to as "Investors." This Agreement shall supersede a certain First Offer and Co-Sale Agreement, dated as of July 31, 2006 and the Joinder thereto dated as of September 28, 2006 (collectively, the "Original Agreement"), and such Original Agreement shall be terminated and all rights and obligations pursuant thereto shall be of no further force and effect as of the date hereof.

WITNESSETH:

WHEREAS, the Company and the Investors are parties to the Note Purchase Agreement pursuant to which the Investors are purchasing the Notes;

WHEREAS, the Company and the Shareholders wish to enter into this Agreement to provide inducement to the Investors to purchase the Notes;

WHEREAS, the Company, the Shareholders and the Series C Investors entered into the Original Agreement in connection with the purchase and sale of Series C Preferred Stock, pursuant to Stock Purchase Agreements dated as of July 31, 2006 and September 28, 2006 (collectively, the "Series C Purchase Agreement"); and

WHEREAS, under Section 10 of the Original Agreement, the Original Agreement may be amended by the written consent of the Company and the holders of a majority of the Company's Common Stock (assuming full conversion of all shares of Preferred Stock owned by all of the Series C Investors at the conversion rate effective on the date herewith);

NOW, THEREFORE, in consideration of the foregoing premises and certain other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto hereby agree as follows:

1. Definitions.

For purposes of this Agreement, the following terms have the meanings specified below:

(a) Common Stock. "Common Stock" means the Common Stock of the Company.

(b) Delivery. "Delivery" has the meaning set forth in Section 6 below.

(c) Equity Securities. "Equity Securities" means any securities now or hereafter owned or held by a Holder (or a transferee in accordance with Section 2.3 herein), or any securities evidencing an ownership interest in the Company, or any securities convertible into or exercisable for any shares of the foregoing.

(d) Holders. "Holders" means each of the Investors and Shareholders or persons who have acquired Equity Securities from any Investor or Shareholder or the transferees or assignees of an Investor or Shareholder in accordance with the provisions of Section 2.3 or Section 3 of this Agreement.

(e) Independent Director. "Independent Director" has the same meaning as set forth in the Company's Amended and Restated Articles of Incorporation dated as of July 31, 2006.

(f) Preferred Stock. "Preferred Stock" means the Preferred Stock of the Company.

(g) QIPO. "QIPO" means the closing of the sale of shares of Common Stock at a price to the public, on or before August 3, 2009, of at least $11.23 per share, and after such date, of at least $13.47 per share (subject to appropriate adjustment for stock splits, stock dividends, combinations and other similar recapitalizations affecting such shares), in a firm-commitment underwritten public offering pursuant to an effective registration statement under the Securities Act of 1933, as amended, resulting in at least $30,000,000 of net proceeds to the Company after deduction of underwriters' commissions and expenses payable by the Company.

(h) Transfer. "Transfer" shall include any sale, assignment, encumbrance, hypothecation, pledge, conveyance in trust, gift, transfer by bequest, devise or descent, or other transfer or disposition of any kind, including, but not limited to, transfers pursuant to divorce or legal separation, transfers to receivers, levying creditors, trustees or receivers in bankruptcy proceedings or general assignees for the benefit of creditors, whether voluntary, involuntarily or by operation of law, directly or indirectly, of any of the Equity Securities.

2. Agreements Among the Parties.

2.1 Investors' Rights of First Offer.

(a) If at any time a Shareholder desires to make a Transfer or series of related Transfers of Equity Securities (and thereby become an "Offering Holder"), then unless such Transfer is excluded under Section 2.3, the Offering Holder shall promptly give the Company and each Investor written notice thereof (the "Offer Notice"). The Offer Notice shall include a description and the amount of the Equity Securities that the Holder desires to Transfer (for the

purposes of this Section 2.1, the "Offered Shares"). If any Investors so elect within ten (10) days following receipt of such notice (each, an "Electing Investor"), the Electing Investors shall have the right, on an exclusive basis, for a period of forty-five (45) days after receipt of such notice to negotiate with the Offering Holder with respect to a definitive agreement for the sale and purchase of the Offered Shares. The Offering Holder and the Electing Investors shall negotiate in good faith the terms and conditions of any such agreement.

(b) Unless the Electing Investors agree otherwise, in the event that the Offering Holder and the Electing Investors agree to final terms and conditions for the Transfer of the Offered Shares, each Electing Investor shall be entitled to purchase all of its respective pro rata share of the Offered Shares pursuant to such Transfer. Each Electing Investor's pro rata share of the Offered Shares shall be a fraction of the Offered Shares, the numerator of which shall be the number of shares of Common Stock (including shares of Common Stock issuable upon conversion of Preferred Stock or the Notes) owned by such Electing Investor and denominator of which shall be the total number of shares of Common Stock (including shares of Common Stock issuable upon conversion of Preferred Stock or the Notes) held by all Electing Investors.

(c) In the event any Electing Investor elects not to purchase all of its pro rata share of the Offered Shares available pursuant to its option under Section 2.1(b), each Electing Investor that has elected to purchase all of its respective pro rata share of the Offered Shares (each, a "Fully Participating Investor") shall be entitled to purchase its respective pro rata share of all unsubscribed shares (including any shares that are unsubscribed due to any other Fully Participating Investor not exercising its option to purchase unsubscribed shares). For purposes of this Section 2.1(c), the numerator shall be the same as that used in Section 2.1(b) above and the denominator shall be the total number of shares of Common Stock (including shares of Common Stock issuable upon conversion of Preferred Stock or the Notes) owned by all Fully Participating Investors. Each Electing Investor shall be entitled to apportion Offered Shares to be purchased among its partners and affiliates (including in the case of a venture capital fund other venture capital funds affiliated with such fund), provided that such Electing Investor notifies the Offering Holder of such allocation.

(d) To the extent that none of the Investors exercise their right to negotiate with the Offering Holder or the Electing Investors and the Offering Holder do not reach an agreement for the sale and purchase of the Offered Shares within the time periods specified in Section 2.1(a), the Offering Holder shall have a period of ninety (90) days from the expiration of such rights in which to sell the Offered Shares to a third-party transferee(s), on terms and conditions no less favorable to the Offering Holder than the terms proposed by any of the Electing Investors pursuant to Section 2.1(a) hereof (if applicable). In the event the Offering Holder does not sell the Offered Shares within the ninety (90) day period from the expiration of these rights, the Investors' first offer rights shall continue to be applicable to any subsequent disposition of the Offered Shares by the Offering Holder until such rights lapse in accordance with the terms of this Agreement. Furthermore, the exercise or non-exercise of the rights of the Investors under this Section 2.1 to offer to purchase Equity Securities from the Offering Holder shall not adversely affect their rights to make subsequent purchases from the Offering Holder of Equity Securities or subsequently participate in sales of Equity Securities by a Selling Shareholder pursuant to Section 2.2 hereof. Any definitive agreement for the sale and purchase of the Offered Shares to a

third-party transferee(s) shall be subject to the Investors' right of co-sale pursuant to Section 2.2 hereof.

2.2 Rights of Co-Sale.

(a) In the event the Investors fail to exercise their rights under Section 2.1 or do not reach an agreement for the purchase and sale of the Offered Shares within the time periods specified in Section 2.1(a), and if at any time thereafter a Shareholder proposes to Transfer Equity Securities (and thereby become a "Selling Holder"), the Selling Holder shall promptly give the Company and each Investor written notice of the Selling Holder's intention to make the Transfer (for purposes of this Section 2.2, the "Transfer Notice"). The Transfer Notice shall include (i) a description of the Equity Securities to be transferred (for purposes of this Section 2.2, the "Offered Shares"), (ii) the name(s) and address(es) of the prospective transferee(s), (iii) the consideration, and (iv) the material terms and conditions upon which the proposed Transfer is to be made. The Transfer Notice shall certify that the Selling Holder has received a firm offer from the prospective transferee(s) and in good faith believes a binding agreement for the Transfer is obtainable on the terms set forth in the Transfer Notice. The Transfer Notice shall also include a copy of any written proposal, term sheet or letter of intent or other agreement relating to the proposed Transfer. In the event that the Transfer is being made pursuant to the provisions of Section 2.3, the Transfer Notice shall state under which specific subsection the Transfer is being made.

(b) Each Investor that notifies the Company and the Selling Holder in writing within five (5) days after Delivery of a Transfer Notice referred to in Section 2.2(a) that it wishes to exercise its rights of co-sale (a "Co-selling Investor") shall have the right to participate in such sale of Equity Securities on the same terms and conditions as specified in the Transfer Notice. Such Co-selling Investor's notice to the Company and the Selling Holder shall indicate the maximum number of shares of capital stock of the Company that the Co-selling Investor wishes to sell under his, her or its right to participate. To the extent one or more of the Investors exercise such right of participation in accordance with the terms and conditions set forth below, the number of shares of Equity Securities that the Selling Holder may sell in the Transfer shall be correspondingly reduced.

(c) Each Co-selling Investor may sell all or any part of that number of shares of capital stock of the Company equal to the product obtained by multiplying (i) the aggregate number of shares of Equity Securities covered by the Transfer Notice by (ii) a fraction, the numerator of which is the number of shares of Common Stock (including shares of Common Stock issuable upon conversion of Preferred Stock or the Notes) owned by the Co-selling Investor on the date of the Transfer Notice and the denominator of which is the total number of shares of Common Stock (including shares of Common Stock issuable upon conversion of Preferred Stock or the Notes) owned by the Selling Shareholder and all of the Co-selling Investors on the date of the Transfer Notice.

(d) Each Co-selling Investor shall effect its participation in the sale by promptly delivering to the Selling Holder for transfer to the prospective purchaser one or more certificates, properly endorsed for transfer to the purchaser, which represent:

(i) if the Offered Shares are shares of Series C Preferred Stock, the number of shares of Series C Preferred Stock of the Company that such Co-selling Investor elects to sell, or that number of shares of Common Stock equal to the as converted to Common Stock equivalent of that number of Offered Shares that the Selling Holder (together with any other Co-selling Investors) would be permitted to sell if the Co-selling Investor were not participating in the sale;

(ii) if the Offered Shares are shares of Preferred Stock other than shares of Series C Preferred Stock, that number of shares of Series C Preferred Stock or Common Stock equal to the as converted to Common Stock equivalent of that number of Offered Shares that the Selling Holder (together with any other Co-selling Investors) would be permitted to sell if the Co-selling Investor were not participating in the sale;

(iii) if the Offered Shares are shares of Common Stock, that number of shares of Common Stock, or such number of Equity Securities that are at such time convertible into the number of shares of Common Stock, that such Co-selling Investor elects to sell;

provided, however, that if the prospective third-party purchaser objects to the delivery of shares of capital stock of the Company in lieu of Common Stock, or the Co-Selling Investor desires to deliver Common Stock issuable upon the conversion of a Note, such Co-selling Investor shall convert such shares of capital stock of the Company or such Note into Common Stock and deliver Common Stock as provided in this Section 2.2. The Company agrees to make any such conversion concurrent with the actual transfer of such shares to the purchaser and contingent on such transfer.

(e) The stock certificate or certificates that the Co-selling Investor delivers to the Selling Shareholder pursuant to Section 2.2(d) shall be transferred to the prospective purchaser in consummation of the sale of the Equity Securities pursuant to the terms and conditions specified in the Transfer Notice, and the prospective purchaser shall concurrently therewith remit to such Co-selling Investor that portion of the sale proceeds to which such Co-selling Investor is entitled by reason of its participation in such sale. To the extent that any prospective purchaser or purchasers prohibits such assignment or otherwise refuses to purchase shares or other securities from a Co-selling Investor exercising its rights of co-sale hereunder, the Selling Holder shall not sell to such prospective purchaser or purchasers any Equity Securities unless and until, simultaneously with such sale, the Selling Holder shall purchase such shares or other securities from such Co-selling Investor for the same consideration and on the same terms and conditions as the proposed transfer described in the Transfer Notice. In the event that a Co-selling Investor elects to participate in a sale of Equity Securities pursuant to this Section 2.2, and notwithstanding such election any Selling Holder fails to comply with such election, such Selling Holder agrees to purchase the Equity Securities held by such Co-selling Investor in accordance with this Agreement provided such Co-selling Investor has otherwise complied with the provisions of this Section 2.2.

(f) To the extent that the Investors have not exercised their right to participate in the sale of the Offered Shares within the time periods specified in Section 2.2(b), the Selling Holder shall have a period of ninety (90) days from the expiration of such rights in which to sell the Offered Shares upon terms and conditions (including the purchase price) no more favorable than those specified in the Transfer Notice, to the third-party transferee(s) identified in the Transfer Notice. The third-party transferee(s) shall acquire the Offered Shares free and clear of subsequent rights of first offer and co-sale under this Agreement. In the event the Selling Holder does not consummate the sale or disposition of the Offered Shares within the ninety (90) day period from the expiration of these rights, the Investors' first offer and co-sale rights shall continue to be applicable to any subsequent disposition of the Offered Shares by the Selling Holder until such right lapses in accordance with the terms of this Agreement. Furthermore, the exercise or non-exercise of the rights of the Investors under this Section 2.2 to participate in sales of Equity Securities by the Selling Holder shall not adversely affect their rights to make subsequent offers to purchase from the Selling Holder of Equity Securities or subsequently participate in sales of Equity Securities by the Selling Shareholder.

2.3 Limitations to Rights of First Offer and Co-Sale.

(a) Notwithstanding the provisions of Section 2.1 and Section 2.2 of this Agreement, the first offer and co-sale rights of the Investors shall not apply (i) in the case of a company, corporation or a partnership, to the Transfer of Equity Securities to any members, shareholders or partners thereof (each, an "Indirect Shareholder" of the Company) or to any entity controlled by, controlling or under common control with the transferor; (ii) to the Transfer of Equity Securities to any spouse or member of a Holder's Immediate Family, or to a custodian, trustee (including a trustee of a voting trust), executor, or other fiduciary for the account of the Holder's or Indirect Shareholder's spouse or members of the Holder's immediate family, or to a trust for the Indirect Shareholder's own self, or a charitable remainder trust; or (iii) to a QIPO; *provided, however*, that in the event of any transfer made pursuant to one of the exemptions provided by clauses (i) or (ii), (I) the Holder shall inform the Investors and the Company in writing of such Transfer prior to effecting it, and (II) each such transferee or assignee, prior to the completion of the Transfer, shall have executed documents assuming the obligations of the Holder under this Agreement with respect to the transferred Equity Securities. Except with respect to the Equity Securities transferred under clause (iii) above (which Equity Securities shall no longer be subject to the first offer or co-sale rights of the of the Investors), such transferred Equity Securities shall remain "Equity Securities" hereunder, and such pledgee, transferee or donee shall be treated as the "Holder" for purposes of this Agreement. For purposes of this Section 2.3(a), "Holder's Immediate Family" shall include any spouse, father, mother, sibling or lineal descendant of Holder, Holder's spouse or an Indirect Shareholder.

(b) Notwithstanding the provisions of Section 2.1 of this Agreement, the rights of first offer of the Investors shall not apply to Transfers of Equity Securities of one or more individual Shareholders until the aggregate amount of such sales after the date hereof shall equal $1,000,000; provided, however, that the purchase of Equity Securities by the Company in connection with the termination of a Shareholder's employment with the Company shall not be a Transfer included in the $1,000,000 threshold.

(c) Notwithstanding the provisions of Section 2.2 of this Agreement, a majority in interest of the Common Stock issuable upon the conversion of the Series C Preferred Stock and a majority in interest of the Common Stock issuable upon the conversion of the Notes held by the Investors may waive in writing the co-sale rights with respect to a given Transfer. Moreover, the co-sale rights of the Investors shall not apply to (i) any Transfers of Equity Securities of one or more individual Shareholders until the aggregate amount of such Transfers after the date hereof shall equal $1,000,000, exclusive of any Transfers of Equity Securities within any fiscal year by individual Shareholders of up to twenty percent (20%) of the Equity Securities (including for such purpose any Equity Securities which are the subject of options or other rights to purchase) held by such Shareholder on the date hereof until such $1,000,000 limitation is achieved; and (ii) the purchase of Equity Securities by the Company in connection with the termination of a Shareholder's employment with the Company. Notwithstanding the foregoing, however, any proposed Transfer by Neal R. Verfeurth that would result in him owning less than sixty percent (60%) of the number of shares of the Company's Common Stock that he owned on the date hereof (excluding unexercised options), whether or not the $1,000,000 threshold has been achieved, shall be subject to the Investors' rights of co-sale set forth in Section 2.2.

2.4 Right of Stock Transfer. The parties hereto agree that no Holder shall Transfer Equity Securities to any competitor of the Company. If at any time a Holder proposes to Transfer Equity Securities, it shall notify the Company of the identity of such transferee no later than ten (10) business days prior to entering into a definitive agreement with respect to such Transfer. If a majority of the Independent Directors reasonably determines within such ten (10) business day period that the proposed transferee is a competitor of the Company and that such Transfer would not be in the best interest of the Company, the Board shall immediately notify the Holder of such determination and the Holder shall be prohibited from transferring any Equity Securities to such proposed transferee; *provided, however*, that the Board's consent to Transfer by an Investor shall not be unreasonably withheld.

Any sale, assignment, transfer, pledge, hypothecation or other encumbrance or disposition of Equity Securities not made in conformance with this Agreement or in violation of applicable law shall be null and void, shall not be recorded on the books of the Company and shall not be recognized by the Company.

3. Assignments and Transfers; No Third-Party Beneficiaries. This Agreement and the rights and obligations of the parties hereunder shall inure to the benefit of, and be binding upon, their respective successors, assigns and legal representatives, but shall not otherwise be for the benefit of any third party. The rights of the Investors hereunder are only assignable (a) to any other Investor; (b) to a partner, member or affiliate of such Investor (including affiliated venture capital funds of which such Investor is a partner or member); or (c) to an assignee or transferee who acquires (i) all of the Equity Securities held by a particular Investor, (ii) at least two hundred fifty thousand (250,000) shares of the Series C Preferred Stock (or shares of Common Stock into which such Series C Preferred Stock has been converted) purchased pursuant to the Series C Purchase Agreement (subject to adjustment for stock splits, stock dividends, recapitalizations and similar changes affecting the capital stock of the Company) from such Investor, or (iii) an interest in a Note convertible into at least two hundred fifty thousand (250,000) shares of Common Stock into which the Notes may have been converted or a portion of a Note convertible into at least two hundred fifty thousand (250,000) shares of Common Stock, purchased pursuant to the Note

(subject to adjustment for stock splits, stock dividends, recapitalizations and similar changes affecting the capital stock of the Company) from such Investor.

4. Legend. Each existing or replacement certificate for shares now owned or hereafter acquired by the Holders shall bear the following legend upon its face:

"THE SALE, PLEDGE, HYPOTHECATION, ASSIGNMENT OR TRANSFER OF THE SECURITIES REPRESENTED BY THIS CERTIFICATE IS SUBJECT TO THE TERMS AND CONDITIONS OF A CERTAIN FIRST OFFER AND CO-SALE AGREEMENT BY AND BETWEEN THE SHAREHOLDER, THE CORPORATION AND CERTAIN HOLDERS OF STOCK OF THE CORPORATION. COPIES OF SUCH AGREEMENT MAY BE OBTAINED UPON WRITTEN REQUEST TO THE SECRETARY OF THE CORPORATION."

5. Effect of Change in Company's Capital Structure. If, from time to time, the Company pays a stock dividend or effects a stock split or other change in the character or amount of any of the outstanding stock of the Company, then in such event any and all new, substituted or additional securities to which a Holder is entitled by reason of such Holder's ownership of Equity Securities shall be immediately subject to the rights and obligations set forth in this Agreement with the same force and effect as the stock subject to such rights immediately before such event.

6. Notices. All notices and other communications given or made pursuant hereto shall be in writing and shall be deemed effectively given: (i) upon personal delivery to the party to be notified; (ii) when sent by confirmed electronic mail or facsimile if sent during normal business hours of the recipient; if not, then on the next business day; (iii) five (5) days after having been sent by registered or certified mail, return receipt requested, postage prepaid; or (iv) one (1) business day after deposit with a nationally recognized overnight courier, specifying next day delivery, with written verification of receipt. The occurrence of the events set forth in subsections (i) through (iv) above shall constitute "Delivery" of notice. All communications shall be sent to the respective parties at the addresses set forth on the signature pages attached hereto (or at such other addresses as shall be specified by notice given in accordance with this Section 6).

7. Further Instruments and Actions. The parties hereto agree to execute such further instruments and to take such further action as may reasonably be necessary to carry out the intent of this Agreement. Each such party agrees to cooperate affirmatively with each other party, and to the extent reasonably requested by any such party, to enforce rights and obligations pursuant hereto.

8. Term. This Agreement shall terminate and be of no further force or effect upon (a) the consummation of the Company's sale of its Common Stock or other securities pursuant to an initial public offering under the Securities Act of 1933, or (b) the consummation of a Deemed Liquidation Event, as such term is defined in the Company's Amended and Restated Articles of Incorporation. This Agreement shall terminate with respect to any Shareholder upon the termination of such Shareholder as an officer or director of the Company.

9. Amendments and Waivers. Any term of this Agreement may be amended and the observance of any term of this Agreement may be waived (either generally or in a particular instance and either retroactively or prospectively) only with the written consent of the Company and the Investors holding at least a majority of the shares of Common Stock and a majority of the shares of Common Stock issuable upon conversion of the Notes (assuming full conversion at the then effective conversion rate of all shares of Preferred Stock or Notes owned by all of the Investors) held by all Investors. Notwithstanding the foregoing, in the event that such amendment or waiver adversely affects the obligations or rights of a Shareholder under this Agreement, such amendment or waiver shall also require the written consent of such adversely affected Shareholder or, if multiple Shareholders are so adversely affected, the holders of a majority in interest of such adversely affected Shareholders. Any amendment or waiver effected in accordance with this Section 9 shall be binding upon all Holders and their respective successors and assigns.

10. Governing Law. This Agreement shall be interpreted under the laws of the State of Wisconsin without reference to Wisconsin conflicts of law provisions.

11. Severability. If one or more provisions of this Agreement is held to be unenforceable under applicable law, such provision shall be excluded from this Agreement and the balance of the Agreement shall be interpreted as if such provision were so excluded and shall be enforceable in accordance with its terms.

12. Attorneys' Fees. In the event that any dispute among the parties to this Agreement should result in litigation, the prevailing party in such dispute shall be entitled to recover from the losing party all fees, costs and expenses of enforcing any right of such prevailing party under or with respect to this Agreement, including without limitation, such reasonable fees and expenses of attorneys and accountants, which shall include, without limitation, all fees, costs and expenses of appeals.

13. Counterparts. This Agreement may be executed in two or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

14. Waiver of Jury Trial. TO THE EXTENT EACH MAY LEGALLY DO SO, EACH PARTY HERETO HEREBY EXPRESSLY WAIVES ANY RIGHT TO TRIAL BY JURY OF ANY CLAIM, DEMAND, ACTION, CAUSE OF ACTION, OR PROCEEDING ARISING UNDER OR WITH RESPECT TO THIS AGREEMENT, OR IN ANY WAY CONNECTED WITH, OR RELATED TO, OR INCIDENTAL TO, THE DEALING OF THE PARTIES HERETO WITH RESPECT TO THIS AGREEMENT, OR THE TRANSACTIONS RELATED THERETO, IN EACH CASE WHETHER NOW EXISTING OR HEREAFTER ARISING, AND IRRESPECTIVE OF WHETHER SOUNDING IN CONTRACT, TORT, OR OTHERWISE. TO THE EXTENT EACH MAY LEGALLY DO SO, EACH PARTY HERETO HEREBY AGREES THAT ANY SUCH CLAIM, DEMAND, ACTION, OR PROCEEDING SHALL BE DECIDED BY A COURT TRIAL WITHOUT A JURY AND THAT ANY PARTY HERETO MAY FILE AN ORIGINAL COUNTERPART OR A COPY OF THIS AGREEMENT WITH ANY COURT AS WRITTEN EVIDENCE OF THE CONSENT OF ANY OTHER PARTY HERETO TO THE WAIVER OF ITS RIGHT TO TRIAL BY JURY.

15. Entire Agreement. This Agreement contains the entire understanding of the parties hereto with respect to the subject matter hereof and supersede any other prior agreements between the parties hereto with respect to the subject matter hereof, including the Original Agreement, which shall have no further force or effect. No party shall be liable or bound to any other in any manner by any representations, warranties, covenant and agreements except as specifically set forth herein.

{Remainder of Page Intentionally Left Blank – Signature Pages Immediately Follow}

IN WITNESS WHEREOF, the parties hereto have executed this Amended and Restated First Offer and Co-sale Agreement as of the date first written above.

COMPANY

ORION ENERGY SYSTEMS, INC.

By: /s/ Neal Verfuerth

Name:

Title:

Address: ____________________

Signature Page to Orion Energy Systems, Inc.
Amended and Restated First Offer and Co-Sale Agreement

INVESTORS:

CLEAN TECHNOLOGY FUND II, LP
By: Expansion Capital Partners II, LP, its General Partner

By: Expansion Capital Partners II — General Partner, LLC, its General Partner

By: /s/ Bernardo H. Llovera
Name: Bernardo H. Llovera
Title: Managing Member

Address: 90 Park Avenue, Suite 1700
New York, NY 10016

GE CAPITAL EQUITY INVESTMENTS, INC.

By: /s/ Michael Donnelly
Name:
Title:

Address: ______________________

CAPVEST VENTURE FUND, LP

By: ______________________

By: /s/
Name:
Title:

Address: ______________________

Signature Page to Orion Energy Systems, Inc.
Amended and Restated First Offer and Co-Sale Agreement

TECHNOLOGY TRANSFORMATION VENTURE FUND, LP

By: ____________________

By: /s/

Name:

Title:

Address:

Signature Page to Orion Energy Systems, Inc.
Amended and Restated First Offer and Co-Sale Agreement

SHAREHOLDERS:

/s/ Neal Verfuerth
Neal Verfuerth

Address:

/s/ Michael Potts
Michael Potts

Address:

/s/ Patricia Verfuerth
Patricia Verfuerth

Address:

/s/ Daniel Waibel
Daniel Waibel

Address:

/s/ John Scribante
John Scribante

Address:

[Signatures continued on next page]

/s/ Erik G. Birkerts
Erik G. Birkerts

Address:

/s/ Rick Olsen
Rick Olsen

Address:

/s/ Daniel Czaja
Daniel Czaja

Address:

/s/ Eric von Estorff
Eric von Estorff

Address:

/s/ Patrick Trotter
Patrick Trotter

Address:

[Signatures continued on next page]

/s/ Eckhart Grohmann
Eckhart Grohmann

Address:

/s/ Jim Kackley
Jim Kackley

Address:

/s/ Thomas A. Quadracci
Thomas A. Quadracci

Address:

/s/ Diana Propper de Callejon
Diana Propper de Callejon

Address:

/s/ Ronald Ernst
Ronald Ernst

Address:

[Signatures continued on next page]

Signature Page to Orion Energy Systems, Inc.
Amended and Restated First Offer and Co-Sale Agreement

/s/ Stephen Heins

Stephen Heins

Address: ______________________

____

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Signature Page to Orion Energy Systems, Inc.
Amended and Restated First Offer and Co-Sale Agreement

Schedule A

Shareholders

Officers

President and CEO	Neal Verfuerth
Executive Vice President	Michael Potts
Vice President, Operations	Patricia Verfuerth
CFO and Treasurer	Daniel Waibel
Senior Vice President, Business Development	John Scribante
Vice President, Strategic Initiatives	Erik G. Birkerts
Vice President, Technical Services	Rick Olsen
Vice President, National Accounts	Daniel Czaja
Vice President, General Counsel and Corporate Secretary	Eric von Estorff
Vice President, Manufacturing and Engineering	Ronald Ernst
Vice President, Communications	Stephen Heins

Directors

Neal Verfuerth
Michael Potts
Patrick Trotter
Eckhart Grohmann
Jim Kackley
Thomas A. Quadracci
Diana Propper de Callejon

EXHIBIT 4.3

WARRANT
To Purchase Common Stock

of

Orion Lighting, Ltd.

THIS CERTIFIES THAT, upon surrender of this Warrant at the office of the Warrant Agent hereinafter named, in the City of Plymouth, County of Sheboygan, State of Wisconsin, accompanied by payment as hereinafter provided, ______________________________ or assigns ("Holder") is entitled to purchase at any time prior to the expiration of the Warrant Exercise Period (as hereinafter defined), but not thereafter, ____________________ shares of common stock ("Common Stock"), of Orion Lighting, Ltd., a Wisconsin corporation ("Company"), as such Common Stock shall be constituted at the time of purchase, which shares have been duly authorized and set aside for issuance and will, upon such issuance, be fully paid and nonassessable, at the price of Three Dollars ($3.00) per share, subject to the terms and provisions set forth herein and in an agreement by and between the Company and Community Bank & Trust Co., Plymouth, Wisconsin ("Warrant Agent"), and not otherwise.

This Warrant shall be exercisable in whole at any time or in part from time to time (provided that not less than One Hundred (100) shares of Common Stock, or any integral multiple of such amount, shall be purchased upon any such partial exercise hereof), prior to December 31, 2007, provided that the Common Stock issuable upon the exercise of this Warrant is, at the time of exercise, registered or otherwise qualified for sale under the Securities Act and the securities or "blue sky" laws of the jurisdiction in which the exercise of this Warrant is proposed to be effected ("Warrant Exercise Period") Upon the expiration of the Warrant Exercise Period, this Warrant will expire and become void and of no value. No fractional shares will be issued upon the exercise hereof.

This Warrant shall be registered at the office of the Warrant Agent and is transferable only at said office by the registered Holder hereof or his duly authorized attorney upon surrender of this certificate, properly endorsed.

Upon any adjustment of the number of shares of Common Stock which may be purchased upon the exercise of this Warrant and/or the purchase price per share, then in each such case the Company shall give written notice thereof, as hereinbelow provided, which notice shall state the purchase price per share resulting from such adjustment and the increase or decrease, if any, in the number of shares of Common Stock purchasable at such price upon the exercise of this Warrant, setting forth in reasonable detail the method of calculation and the facts upon which such calculation is based.

THIS WARRANT MAY NOT BE TRANSFERRED OR EXERCISED UNLESS SAID WARRANT AND THE SHARES OF COMMON STOCK ISSUABLE UPON THE EXERCISE THEREOF ARE REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, AND APPLICABLE STATE SECURITIES LAWS, OR ARE EXEMPT FROM SUCH REGISTRATION, OR SUCH TRANSFER OR EXERCISE (AND THE ISSUANCE OF COMMON STOCK PURSUANT TO SUCH EXERCISE) IS EXEMPT

FROM REGISTRATION UNDER SUCH ACT AND SUCH LAWS. THE COMPANY WILL USE ITS BEST EFFORTS TO SO REGISTER OR QUALIFY THIS WARRANT, AND THE COMMON STOCK ISSUABLE UPON THE EXERCISE HEREOF, AND/OR TO SO REGISTER OR QUALIFY THE TRANSACTIONS PURSUANT TO WHICH SUCH SECURITIES ARE ISSUED OR TRANSFERRED, UNDER THE SECURITIES ACT OF 1933, AS AMENDED, AND THE SECURITIES LAWS OF THE JURISDICTIONS IN WHICH WARRANTS ARE SOLD; THE COMPANY MAY, IN ITS SOLE DISCRETION, ATTEMPT TO SO REGISTER OR QUALIFY SUCH SECURITIES IN JURISDICTIONS OTHER THAN THOSE IN WHICH WARRANTS ARE SOLD.

The Holder of this Warrant shall not by virtue thereof have any rights of a shareholder of the Company or to notice of meetings of shareholders or of any other proceedings of the Company.

This Warrant is divisible on surrender, in which case a new Warrant or Warrants will be issued.

Commencing after the conclusion of the offering in which it was sold, and at any time thereafter until and including, but not after, the expiration of the Warrant Exercise Period, the Company may, at its option, redeem all of the Warrants at any time or some of them from time to time, upon payment of One Cent ($0.01) per Warrant to the Holder, provided that the closing bid or sale price of the Common Stock, as quoted on the NASD *OTC Bulletin Board*, or other national securities exchange, equals or exceeds Five Dollars ($5.00) per share for twenty (20) consecutive trading days ending within fifteen (15) days of the date upon which notice of redemption is given as provided herein. In case less than all of the Warrants at the time outstanding are to be redeemed, the Warrants to be redeemed shall be selected by the Company by lot. Notices of such optional redemption will be mailed at least fifteen (15) days prior to the redemption date to each holder of Warrants to be redeemed at the registered address of such Holder. Each Holder of this Warrant, by accepting the same, agrees upon any such notice of redemption to receive payment for this Warrant upon the date fixed for redemption in the amount herein provided.

If prior to the expiration of this Warrant, by exercise hereof or by its terms:

(a) The Company shall be recapitalized through the subdivision of its outstanding shares of Common Stock into a greater number of shares, or shall by exchange or substitution of or for its outstanding Common Stock or otherwise, reduce the number of such shares, then in each such case the number of shares deliverable upon the exercise of this Warrant shall be changed in proportion to such increase or decrease of the outstanding shares of such Common Stock of the Company, without any change in the aggregate payment by the Warrant Holder from the aggregate payment specified on the face of this Warrant.

(b) A dividend shall be declared or paid at any time on the Common Stock of the Company in its Common Stock or in securities convertible into Common Stock of the Company, then in each such case the number of shares deliverable upon the exercise thereafter of this Warrant shall, without requiring any payment by the Warrant Holder in addition to the payment

specified on the face hereof, be increased in proportion to the increase, through such dividend, in the number of outstanding shares of Common Stock of the Company. In the computation of the increased number of shares deliverable upon the exercise of this Warrant, any dividend paid or distributed upon the Common Stock in securities convertible into Common Stock shall be treated as a dividend paid in Common Stock to the extent that shares of Common Stock are issuable upon the conversion thereof. The obligations of the Company and the rights of the Holder hereof shall not be affected by the exercise of any conversion privileges heretofore granted to the holders of any of the stock or securities of the Company or of any other corporation.

(c) The Company shall, at any time while any of the Warrants are outstanding, declare a dividend on its Common Stock, other than as provided in the preceding paragraph (b), then in each such case the Company shall give notice in writing to the registered Holder of this Warrant, and such dividends so declared shall be made payable only to the shareholders of record on a date at least ten (10) days subsequent to the date of such notice, including stock issued pursuant to the exercise of such Warrants prior to such record date.

(d) The Company shall be recapitalized by reclassifying its outstanding Common Stock into stock without par value, or the Company or a successor corporation shall consolidate or merge with, or convey all, or substantially all, of its or any successor corporation's property or assets to, any other corporation or corporations (any such corporation being included within the meaning of "successor corporation" as hereinbefore used in the event of any consolidation or merger of such corporation with, or the sale of all, or substantially all, of the property or assets of such corporation to another corporation or corporations) then in each such case, as a condition of such recapitalization, consolidation, merger or conveyance, lawful and adequate provision shall be made whereby the Holder of each Warrant shall thereafter have the right to purchase, upon the basis and upon the terms and conditions specified in this Warrant, in lieu of the shares of Common Stock of the Company theretofore purchasable upon the exercise of this Warrant, such shares of stock, securities or other assets as may be issued or payable with respect to, or in exchange for, the number of shares of Common Stock of the Company theretofore purchasable upon the exercise of this Warrant had such recapitalization, consolidation, merger or conveyance not taken place; and in any such event the rights of the Warrant Holder to an adjustment of the number of shares of Common Stock purchasable upon the exercise of this Warrant as hereinbefore provided shall continue and be preserved in respect of any stock which the Warrant Holder become entitled to purchase. It shall be a condition of such consolidation, merger or conveyance that each successor corporation shall assume, in manner and form satisfactory to the Warrant Agent, the obligation to deliver to the Warrant Holder, upon the exercise of this Warrant, such shares of stock, securities or assets as, in accordance with the provisions of this Warrant, shall have been provided for such purpose. The Warrant Agent shall assume no liability for its exercise of discretion hereunder, other than for willful wrongdoing.

This Warrant shall be deemed to have been exercised, and the Holder exercising the same to have become a shareholder of record of the Company, for the purpose of receiving dividends and for all other purposes whatsoever as of the date the Holder surrendered this Warrant accompanied by payment in cash, as herein provided. The Company agrees that, while this Warrant shall remain valid and outstanding, its stock transfer books shall not be closed for any purpose whatsoever, except under arrangements which shall insure to Holders exercising Warrants or applying for transfer of stock within five (5) days after the books shall have been

reopened all rights and privileges which they might have had or received if the transfer books had not been closed and they had exercised their Warrants at any time during which such transfer books shall have been closed.

Upon each increase or decrease in the number of shares of Common Stock of the Company deliverable upon the exercise of this Warrant, or in the event of changes in the rights of the Warrant Holders by reason of other events hereinbefore set forth, then in each such case the Company shall forthwith file with the Warrant Agent a certificate executed by its President or one of its Vice Presidents, and attested by its Secretary or one of its Assistant Secretaries, stating the increased or decreased number of shares so deliverable and setting forth in reasonable detail the method of calculation and the facts upon which such calculation is based.

The Company covenants, at all times when Warrants are outstanding and in effect, to reserve, unissued, such number of shares of Common Stock as it may be required to deliver pursuant to the exercise of this Warrant, subject to consolidation, merger or sale, as hereinabove set forth.

As used herein, the terms “Holder” “Warrant Holder” and “Holder of this Warrant” shall be construed to mean the registered holder hereof, and, in the case of any notice required by this Warrant to be given to the Warrant Holder, it shall be sufficient if mailed to the last known address of such Holder as the same appears on the books of the Company.

IN WITNESS WHEREOF, Orion Lighting, Ltd. has caused this Warrant to be signed in its corporate name by its President or a Vice President, manually or in facsimile, and its corporate seal or a facsimile to be imprinted hereon and attested by the manual or facsimile signature of its Secretary or an Assistant Secretary, as of the day and year first above written.

Orion Lighting, Ltd.

By: ______________________________
President

[CORPORATE SEAL]

Attest: ______________________________
Secretary

SUBSCRIPTION FORM

(To be Executed Upon Exercise of Warrant)

The undersigned, the Holder(s) or assignee(s) of such Holder(s) of the within Warrant, hereby (i) subscribes for shares of Common Stock which the undersigned is entitled to purchase under the terms of the within Warrant and (ii.) tenders herewith the full exercise price of all shares subscribed for.

Dated: __________

Number of Shares Subscribed For:

____

By: ____

(Signature)

ASSIGNMENT

(To Be Executed By the Registered Holder to Effect
a Transfer of the Within Warrant)

FOR VALUE RECEIVED, the undersigned Warrant Holder(s) do(es) hereby sell, assign and transfer unto_________________________________ _______________ the right to purchase common stock evidenced by this Warrant, and does hereby irrevocably constitute and appoint ____ to transfer the said right on the books of the Company, will full power of substitution.

Dated: __________

____

(Signature)

____

(Signature)

Exhibit 4.4

WARRANT
To Purchase Common Stock

of

Orion Energy Systems, Ltd.

THIS CERTIFIES THAT, upon surrender of this Warrant at the office of the Warrant Agent hereinafter named, in the City of Plymouth, County of Sheboygan, State of Wisconsin, accompanied by payment as hereinafter provided, ______________________________ __________ or assigns ("Holder") is entitled to purchase at any time prior to the expiration of the Warrant Exercise Period (as hereinafter defined), but not thereafter, ______________________________ shares of common stock ("Common Stock"), of Orion Energy Systems, Ltd., a Wisconsin corporation ("Company"), as such Common Stock shall be constituted at the time of purchase, which shares have been duly authorized and set aside for issuance and will, upon such issuance, be fully paid and nonassessable, at the price of Four Dollars and 60/100 Cents ($4.60) per share, subject to the terms and provisions set forth herein and in an agreement by and between the Company and Community Bank & Trust Co., Plymouth, Wisconsin ("Warrant Agent"), and not otherwise.

This Warrant shall be exercisable in whole at any time or in part from time to time (provided that not less than One Hundred (100) shares of Common Stock, or any integral multiple of such amount, shall be purchased upon any such partial exercise hereof), prior to ______________________________("Warrant Exercise Period"). Upon the expiration of the Warrant Exercise Period, this Warrant will expire and become void and of no value. No fractional shares will be issued upon the exercise hereof.

This Warrant shall be registered at the office of the Warrant Agent and is transferable only at said office by the registered Holder hereof or his duly authorized attorney upon surrender of this certificate, properly endorsed.

Upon any adjustment of the number of shares of Common Stock which may be purchased upon the exercise of this Warrant and/or the purchase price per share, then in each such case the Company shall give written notice thereof, as hereinbelow provided, which notice shall state the purchase price per share resulting from such adjustment and the increase or decrease, if any, in the number of shares of Common Stock purchasable at such price upon the exercise of this Warrant, setting forth in reasonable detail the method of calculation and the facts upon which such calculation is based.

THIS WARRANT MAY NOT BE TRANSFERRED OR EXERCISED UNLESS SAID WARRANT AND THE SHARES OF COMMON STOCK ISSUABLE UPON THE EXERCISE THEREOF ARE REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, AND APPLICABLE STATE SECURITIES LAWS, OR ARE EXEMPT FROM SUCH REGISTRATION, OR SUCH TRANSFER OR EXERCISE (AND THE ISSUANCE OF COMMON STOCK PURSUANT TO SUCH EXERCISE) IS EXEMPT FROM REGISTRATION UNDER SUCH ACT AND SUCH LAWS. THE COMPANY WILL USE ITS BEST EFFORTS TO SO REGISTER OR QUALIFY THIS WARRANT, AND THE COMMON STOCK ISSUABLE UPON THE EXERCISE HEREOF, AND/OR

TO SO REGISTER OR QUALIFY THE TRANSACTIONS PURSUANT TO WHICH SUCH SECURITIES ARE ISSUED OR TRANSFERRED, UNDER THE SECURITIES ACT OF 1933, AS AMENDED, AND THE SECURITIES LAWS OF THE JURISDICTIONS IN WHICH WARRANTS ARE SOLD; THE COMPANY MAY, IN ITS SOLE DISCRETION, ATTEMPT TO SO REGISTER OR QUALIFY SUCH SECURITIES IN JURISDICTIONS OTHER THAN THOSE IN WHICH WARRANTS ARE SOLD.

The Holder of this Warrant shall not by virtue thereof have any rights of a shareholder of the Company or to notice of meetings of shareholders or of any other proceedings of the Company.

This Warrant is divisible on surrender, in which case a new Warrant or Warrants will be issued.

The Company shall not have the right to require the redemption of this Warrant. The stock underlying this Warrant is subject to certain piggyback registration rights.

If prior to the expiration of this Warrant, by exercise hereof or by its terms:

(a) *Stock Splits*. The Company shall be recapitalized through the subdivision of its outstanding shares of Common Stock into a greater number of shares, or shall by exchange or substitution of or for its outstanding Common Stock or otherwise, reduce the number of such shares, then in each such case the number of shares deliverable upon the exercise of this Warrant shall be changed in proportion to such increase or decrease of the outstanding shares of such Common Stock of the Company, without any change in the aggregate payment by the Warrant Holder from the aggregate payment specified on the face of this Warrant.

(b) *Stock Dividends*. A dividend shall be declared or paid at any time on the Common Stock of the Company in its Common Stock or in securities convertible into Common Stock of the Company, then in each such case the number of shares deliverable upon the exercise thereafter of this Warrant shall, without requiring any payment by the Warrant Holder in addition to the payment specified on the face hereof, be increased in proportion to the increase, through such dividend, in the number of outstanding shares of Common Stock of the Company. In the computation of the increased number of shares deliverable upon the exercise of this Warrant, any dividend paid or distributed upon the Common Stock in securities convertible into Common Stock shall be treated as a dividend paid in Common Stock to the extent that shares of Common Stock are issuable upon the conversion thereof. The obligations of the Company and the rights of the Holder hereof shall not be affected by the exercise of any conversion privileges heretofore granted to the holders of any of the stock or securities of the Company or of any other corporation.

(c) *Notice of Cash Dividends*. The Company shall, at any time while any of the Warrants are outstanding, declare a dividend on its Common Stock, other than as provided in the preceding paragraph (b), then in each such case the Company shall give notice in writing to the registered Holder of this Warrant, and such dividends so declared shall be made payable only to

the shareholders of record on a date at least ten (10) days subsequent to the date of such notice, including stock issued pursuant to the exercise of such Warrants prior to such record date.

(d) *Recapitalizations, Mergers and Share Exchanges*. The Company shall be recapitalized by reclassifying its outstanding Common Stock into stock without par value, or the Company or a successor corporation shall consolidate or merge with, or convey all, or substantially all, of its or any successor corporation's property or assets to, any other corporation or corporations (any such corporation being included within the meaning of "successor corporation" as hereinbefore used in the event of any consolidation or merger of such corporation with, or the sale of all, or substantially all, of the property or assets of such corporation to another corporation or corporations) then in each such case, as a condition of such recapitalization, consolidation, merger or conveyance, lawful and adequate provision shall be made whereby the Holder of each Warrant shall thereafter have the right to purchase, upon the basis and upon the terms and conditions specified in this Warrant, in lieu of the shares of Common Stock of the Company theretofore purchasable upon the exercise of this Warrant, such shares of stock, securities or other assets as may be issued or payable with respect to, or in exchange for, the number of shares of Common Stock of the Company theretofore purchasable upon the exercise of this Warrant had such recapitalization, consolidation, merger or conveyance not taken place; and in any such event the rights of the Warrant Holder to an adjustment of the number of shares of Common Stock purchasable upon the exercise of this Warrant as hereinbefore provided shall continue and be preserved in respect of any stock which the Warrant Holder becomes entitled to purchase. It shall be a condition of such consolidation, merger or conveyance that each successor corporation shall assume, in manner and form satisfactory to the Warrant Agent, the obligation to deliver to the Warrant Holder, upon the exercise of this Warrant, such shares of stock, securities or assets as, in accordance with the provisions of this Warrant, shall have been provided for such purpose. The Warrant Agent shall assume no liability for its exercise of discretion hereunder, other than for willful wrongdoing.

This Warrant shall be deemed to have been exercised, and the Holder exercising the same to have become a shareholder of record of the Company, for the purpose of receiving dividends and for all other purposes whatsoever as of the date the Holder surrendered this Warrant accompanied by payment in cash, as herein provided. The Company agrees that, while this Warrant shall remain valid and outstanding, its stock transfer books shall not be closed for any purpose whatsoever, except under arrangements which shall insure to Holders exercising Warrants or applying for transfer of stock within five (5) days after the books shall have been reopened all rights and privileges which they might have had or received if the transfer books had not been closed and they had exercised their Warrants at any time during which such transfer books shall have been closed.

Upon each increase or decrease in the number of shares of Common Stock of the Company deliverable upon the exercise of this Warrant, or in the event of changes in the rights of the Warrant Holders by reason of other events hereinbefore set forth, then in each such case the Company shall forthwith file with the Warrant Agent a certificate executed by its President or one of its Vice Presidents, and attested by its Secretary or one of its Assistant Secretaries, stating the increased or decreased number of shares so deliverable and setting forth in reasonable detail the method of calculation and the facts upon which such calculation is based.

The Company covenants, at all times when Warrants are outstanding and in effect, to reserve, unissued, such number of shares of Common Stock as it may be required to deliver pursuant to the exercise of this Warrant, subject to consolidation, merger or sale, as hereinabove set forth.

As used herein, the terms "Holder" "Warrant Holder" and "Holder of this Warrant" shall be construed to mean the registered holder hereof, and, in the case of any notice required by this Warrant to be given to the Warrant Holder, it shall be sufficient if mailed to the last known address of such Holder as the same appears on the books of the Company.

IN WITNESS WHEREOF, Orion Energy Systems, Ltd. has caused this Warrant to be signed in its corporate name by its President or a Vice President, manually or in facsimile, and its corporate seal or a facsimile to be imprinted hereon and attested by the manual or facsimile signature of its Secretary or an Assistant Secretary, as of the day and year first above written.

Orion Energy Systems, Ltd.

By: ______________________________
President

[CORPORATE SEAL]

____
Secretary

SUBSCRIPTION FORM

(To be Executed Upon Exercise of Warrant)

The undersigned, the Holder(s) or assignee(s) of such Holder(s) of the within Warrant, hereby (i) subscribes for shares of Common Stock which the undersigned is entitled to purchase under terms of the within Warrant and (ii) tenders herewith the full exercise price of all shares subscribed for.

Dated: ____________________

Number of Shares Subscribed for:

____

By: ____
(Signature)

ASSIGNMENT

(To Be Executed By the Registered Holder to Effect
a Transfer of the Within Warrant)

FOR VALUE RECEIVED, the undersigned Warrant Holder(s) do(es) hereby sell, assign and transfer unto __________________________________ ______the right to purchase common stock evidenced by this Warrant, and does hereby irrevocably constitute and appoint ____ to transfer the said right on the books of the Company, with full power of substitution.

Dated: ____________________

____
(Signature)

____
(Signature)

Exhibit 4.5

CREDIT AND SECURITY AGREEMENT

BY AND AMONG

ORION ENERGY SYSTEMS, LTD.
AND
GREAT LAKES ENERGY TECHNOLOGIES, LLC,

AND

WELLS FARGO BANK, NATIONAL ASSOCIATION

Acting through its WELLS FARGO BUSINESS CREDIT
operating division

December 22, 2005

CREDIT AND SECURITY AGREEMENT

Dated as of December 22, 2005

ORION ENERGY SYSTEMS, LTD., a Wisconsin corporation ("Orion") and GREAT LAKES ENERGY TECHNOLOGIES, LLC, a Wisconsin limited liability company ("Great Lakes" and together with Orion, the "Borrowers" and each a "Borrower"), and WELLS FARGO BANK, NATIONAL ASSOCIATION, a national banking association acting through its WELLS FARGO BUSINESS CREDIT operating division (the "Lender"), hereby agree as follows:

ARTICLE I

DEFINITIONS

Section 1.1 Definitions. For all purposes of this Agreement, except as otherwise expressly provided, the following terms shall have the meanings assigned to them in this Section or in the Section referenced after such term:

"Accounts" shall have the meaning given it under the UCC.

"Accounts Advance Rate" means up to eighty five percent (85%), or such lesser rate as the Lender in its sole discretion may deem appropriate from time to time.

"Advance" means a Revolving Advance.

"Affiliate" or "Affiliates" means, as to each Borrower, any Person controlled by, controlling or under common control with such Borrower, including any Subsidiary of such Borrower. For purposes of this definition, "control," when used with respect to any specified Person, means the power to direct the management and policies of such Person, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise.

"Agreement" means this Credit and Security Agreement.

"Availability" means the amount, if any, by which the Borrowing Base exceeds the sum of (i) the outstanding principal balance of the Revolving Note and (ii) the L/C Amount.

"Book Net Worth" means the aggregate of the Owners' equity in the Borrowers, determined on a consolidated basis in accordance with GAAP; provided, however, that any increase in the Owners' equity on account of the forgiveness of debt due to Osram, which is to occur late in fiscal year 2006 or early in fiscal year 2007 shall be excluded in determining the Borrowers' compliance with the provisions of Section 6.2(a) for the period in which such event occurs.

"Borrowing Base" means at any time the lesser of:

(a) The Maximum Line Amount; or

(b) Subject to change from time to time in the Lender's sole discretion, the sum of:

(i) The lesser of (A) the product of the Accounts Advance Rate times Eligible Accounts or (B) $25,000,000, plus

(ii) The lesser of (A) the product of the Inventory Advance Rate times Eligible Inventory or (B) $5,500,000, less

(iii) The Borrowing Base Reserve, less

(iv) Obligations that the Borrowers owe to the Lender that have not yet been advanced on the Revolving Note, and the dollar amount that the Lender in its reasonable discretion then determines to be a reasonable determination of the Borrowers' credit exposure with respect to Wells Fargo Bank Affiliate Obligations.

"Borrowing Base Reserve" means, as of any date of determination, such amounts (expressed as either a specified amount or as a percentage of a specified category or item) as the Lender may from time to time establish and adjust in reducing Availability (a) to reflect events, conditions, contingencies or risks which, as determined by the Lender, do or may affect (i) the Collateral or its value, (ii) the assets, business or prospects of any Borrower, or (iii) the security interests and other rights of the Lender in the Collateral (including the enforceability, perfection and priority thereof), including, without limitation, such reserve as the Lender may from time to time establish in its discretion, for potential wage liens, as determined under Wis. Stat. Section 109.09, or (b) to reflect the Lender's judgment that any collateral report or financial information furnished by or on behalf of the Borrowers to the Lender is or may have been incomplete, inaccurate or misleading in any material respect, or (c) in respect of any state of facts that the Lender determines constitutes an Event of Default.

"Business Day" means day on which the Federal Reserve Bank of New York is open for business.

"Capital Expenditures" means for a period, any expenditure of money during such period for the lease, purchase or other acquisition of any capital asset, or for the lease of any other asset whether payable currently or in the future.

"Collateral" means all of each Borrower's Accounts, chattel paper and electronic chattel paper, deposit accounts, documents, Equipment, General Intangibles, goods, instruments, Inventory, Investment Property, letter-of-credit rights, letters of credit, all sums on deposit in any Collateral Account, and any items in any Lockbox; together with (i) all substitutions and replacements for and products of any of the foregoing; (ii) in the case of all goods, all accessions; (iii) all accessories, attachments, parts, equipment and repairs now or hereafter attached or affixed to or used in connection with any goods; (iv) all warehouse receipts, bills of lading and other documents of title now or hereafter covering such goods; (v) all collateral subject to the Lien of any Security Document; (vi) any money, or other assets of each Borrower that now or hereafter come into the possession, custody, or control of the Lender; (vii) all sums on deposit in the Special Account; (viii) proceeds of any and all of the foregoing; (ix) books and records of

each Borrower, including all mail or electronic mail addressed to a Borrower; and (x) all of the foregoing, whether now owned or existing or hereafter acquired or arising or in which the Borrower now has or hereafter acquires any rights.

"Collateral Account" means the "Lender Account" as defined in the Wholesale Lockbox and Collection Account Agreement.

"Commercial Letter of Credit Agreement" means an agreement governing the issuance of documentary letters of credit by the Lender, entered into between a Borrower as applicant and the Lender as issuer.

"Commitment" means the Lender's commitment to make Advances to, and to issue Letters of Credit for the account of, the Borrowers pursuant to Article II.

"Constituent Documents" means with respect to any Person, as applicable, such Person's certificate of incorporation, articles of incorporation, by-laws, certificate of formation, articles of organization, limited liability company agreement, management agreement, operating agreement, shareholder agreement, partnership agreement or similar document or agreement governing such Person's existence, organization or management or concerning disposition of ownership interests of such Person or voting rights among such Person's owners.

"Credit Facility" means the credit facility under which Revolving Advances may be made available to the Borrowers by the Lender under Article II.

"Cut-off Time" means 11:00 a.m. Milwaukee, Wisconsin time.

"Default Period" means any period of time beginning on the day an Event of Default occurs and ending on the date identified by the Lender in writing as the date that such Event of Default has been cured or waived.

"Default Rate" means an annual interest rate in effect during a Default Period or following the Termination Date, which interest rate shall be equal to three percent (3%) over the Floating Rate, as such rate may change from time to time.

"Director" means, as to each Borrower, a director of such Borrower.

"ERISA" means the Employee Retirement Income Security Act of 1974, as amended from time to time.

"ERISA Affiliate" means any trade or business (whether or not incorporated) that is a member of a group which includes the Borrowers and which is treated as a single employer under Section 414 of the IRC.

"Eligible Accounts" means, as to each Borrower, all unpaid Accounts of such Borrower arising from the sale or lease of goods or the performance of services, net of any credits, but excluding any such Accounts having any of the following characteristics:

(i) That portion of Accounts unpaid ninety (90) days or more after the invoice date, or, if the Lender in its discretion has determined that a particular dated Account may be eligible, that portion of such Account which is unpaid more than sixty (60) days past the stated due date or more than one hundred twenty (120) days past the invoice date;

(ii) That portion of Accounts related to goods or services with respect to which the applicable Borrower has received notice of a claim or dispute, which are subject to a claim of offset or a contra account, or which reflect a reasonable reserve for warranty claims or returns;

(iii) That portion of Accounts not yet earned by the final delivery of goods or rendition of services, as applicable, by the applicable Borrower to the customer, including progress billings, and that portion of Accounts for which an invoice has not been sent to the applicable account debtor;

(iv) Accounts constituting (i) proceeds of copyrightable material unless such copyrightable material shall have been registered with the United States Copyright Office, or (ii) proceeds of patentable inventions unless such patentable inventions have been registered with the United States Patent and Trademark Office;

(v) Accounts owed by any unit of government, whether foreign or domestic (provided, however, that there shall be included in Eligible Accounts that portion of Accounts owed by such units of government for which the applicable Borrower has provided evidence satisfactory to the Lender that (A) the Lender has a first priority perfected security interest and (B) such Accounts may be enforced by the Lender directly against such unit of government under all applicable laws);

(vi) Accounts owed by an account debtor located outside the United States which are not (A) backed by a bank letter of credit naming the Lender as beneficiary or assigned to the Lender, in the Lender’s possession or control, and with respect to which a control agreement concerning the letter-of-credit rights is in effect, and acceptable to the Lender in all respects, in its sole discretion, or (B) covered by a foreign receivables insurance policy acceptable to the Lender in its sole discretion;

(vii) Accounts owed by an account debtor that is insolvent, the subject of bankruptcy proceedings or has gone out of business;

(viii) Accounts owed by an Owner, Subsidiary, Affiliate, Officer or employee of any Borrower or by Northland Capital;

(ix) Accounts not subject to a duly perfected security interest in the Lender’s favor or which are subject to any Lien in favor of any Person other than the Lender;

(x) That portion of Accounts that has been restructured, extended, amended or modified;

(xi) That portion of Accounts that constitutes advertising, finance charges, service charges or sales or excise taxes;

(xii) Accounts owed by an account debtor, regardless of whether otherwise eligible, to the extent that the aggregate balance of such Accounts exceeds fifteen percent (15%) of the aggregate amount of all Eligible Accounts;

(xiii) Accounts owed by an account debtor, regardless of whether otherwise eligible, if twenty five percent (25%) or more of the total amount of Accounts due from such account debtor is ineligible under clauses (i), (ii), or (x) above; and

(xiv) Accounts, or portions thereof, otherwise deemed ineligible by the Lender in its sole discretion.

"Eligible Inventory" means, as to each Borrower, all Inventory of such Borrower, valued at the lower of cost or market in accordance with GAAP; but excluding any Inventory having any of the following characteristics:

(i) Inventory that is: in-transit; located at any warehouse, job site or other premises other than the Premises or other premises approved by the Lender in writing; not subject to a duly perfected first priority security interest in the Lender's favor; subject to any lien or encumbrance that is subordinate to Lender's first priority security interest; covered by any negotiable or non-negotiable warehouse receipt, bill of lading or other document of title; on consignment from any Person; on consignment to any Person or subject to any bailment unless such consignee or bailee has executed an agreement with the Lender;

(ii) Supplies, packaging, fabricated parts, sample Inventory, or customer supplied parts or Inventory;

(iii) Work-in-process Inventory;

(iv) Inventory that is damaged, defective, obsolete, slow moving or not currently saleable in the normal course of a Borrower's operations, or the amount of such Inventory that has been reduced by shrinkage;

(v) Inventory that a Borrower has returned, has attempted to return, is in the process of returning or intends to return to the vendor thereof;

(vi) Inventory that is perishable or live;

(vii) Inventory manufactured by a Borrower pursuant to a license unless the applicable licensor has agreed in writing to permit the Lender to exercise its rights and remedies against such Inventory;

(viii) Inventory that is subject to a Lien in favor of any Person other than the Lender; and

(ix) Inventory otherwise deemed ineligible by the Lender in its sole discretion.

"Environmental Law" means any federal, state, local or other governmental statute, regulation, law or ordinance dealing with the protection of human health and the environment.

"Equipment" shall have the meaning given it under the UCC.

"Event of Default" has the meaning set forth in Section 7.1.

"Executive Officers" means those Officers of the Borrowers identified on Schedule 1.1 hereto.

"Financial Covenants" means the covenants set forth in Section 6.2.

"Floating Rate" means an annual interest rate equal to the sum of the Prime Rate plus one percent (1.0%), which interest rate shall change when and as the Prime Rate changes.

"Funding Date" has the meaning set forth in Section 2.1.

"GAAP" means generally accepted accounting principles, applied on a basis consistent with the accounting practices applied in the financial statements described in Section 5.6.

"General Intangibles" shall have the meaning given it under the UCC.

"Guarantor Security Documents" means the Security Agreement between Orion Aviation, Inc. and the Lender, to secure such Guarantor's obligations to the Lender pursuant to its guaranty and to secure the Obligations, and any other document delivered by a Guarantor to the Lender from time to time to secure the Obligations.

"Guarantors" means Orion Aviation, Inc. or any other Person now or hereafter guarantying the Obligations, each a "Guarantor."

"Hazardous Substances" means pollutants, contaminants, hazardous substances, hazardous wastes, petroleum and fractions thereof, and all other chemicals, wastes, substances and materials listed in, regulated by or identified in any Environmental Law.

"IRC" means the Internal Revenue Code of 1986, as amended from time to time.

"Infringement" or "Infringing" when used with respect to Intellectual Property Rights means any infringement or other violation of Intellectual Property Rights.

"Intellectual Property Rights" means all actual or prospective rights arising in connection with any intellectual property or other proprietary rights, including all rights arising in connection with copyrights, patents, service marks, trade dress, trade secrets, trademarks, trade names or mask works.

"Intercreditor Agreements" means the Security Interest Subordination Agreement executed by the City of Manitowoc, in the Lender's favor, and the Intercreditor Agreement between Hometown Bank and the Lender, each dated on or about the same date as this

Agreement and acknowledged by the Borrowers, and any other subordination or intercreditor agreement accepted by the Lender from a creditor of any Borrower from time to time.

“Interest Payment Date” has the meaning set forth in Section 2.5(a).

“Inventory” shall have the meaning given it under the UCC.

“Inventory Advance Rate” means up to sixty percent (60%), or such lesser rate as the Lender in its sole discretion may deem appropriate from time to time.

“Investment Property” shall have the meaning given it under the UCC.

“L/C Amount” means the sum of (i) the aggregate face amount of any issued and outstanding Letters of Credit and (ii) the unpaid amount of the Obligation of Reimbursement.

“L/C Application” means an application for the issuance of standby letters of credit pursuant to the terms of a Standby Letter of Credit Agreement or a Commercial Letter of Credit Agreement in form acceptable to the Lender.

“Letter of Credit” has the meaning set forth in Section 2.3(a).

“Licensed Intellectual Property” has the meaning set forth in Section 5.11(c).

“Lien” means any security interest, mortgage, deed of trust, pledge, lien, charge, encumbrance, title retention agreement or analogous instrument or device, including the interest of each lessor under any capitalized lease and the interest of any bondsman under any payment or performance bond, in, of or on any assets or properties of a Person, whether now owned or hereafter acquired and whether arising by agreement or operation of law.

“Loan Documents” means this Agreement, the Notes, the Security Documents and any L/C Application.

“Lockbox” means the “Lockbox” as defined in the Wholesale Lockbox and Collection Account Agreement.

“Material Adverse Effect” means any of the following:

(i) A material adverse effect on the business, operations, results of operations, prospects, assets, liabilities or financial condition of the Borrowers , taken as a whole;

(ii) A material adverse effect on the ability of any Borrower to perform its obligations under the Loan Documents;

(iii) A material adverse effect on the ability of the Lender to enforce the Obligations or to realize the intended benefits of the Security Documents, including a material adverse effect on the validity or enforceability of any Loan Document or of any rights against any Guarantor, or on the status, existence, perfection, priority (subject to

Permitted Liens) or enforceability of any Lien securing payment or performance of the Obligations; or

(iv) Any claim against any Borrower or threat of litigation which if determined adversely to such Borrower would cause such Borrower to be liable to pay an amount exceeding Fifty Thousand Dollars ($50,000) or would be an event described in clauses (i), (ii) and (iii) above.

"Maturity Date" means December 31, 2008.

"Maximum Line Amount" means Twenty Five Million Dollars ($25,000,000).

"Minimum Interest Charge" has the meaning given in Section 2.5(b).

"Mortgaged Real Estate" means the real estate of the Borrowers, which is encumbered by the Mortgages.

"Mortgages" means the Real Estate Mortgages by each of the Borrowers in favor of the Lender with respect top their respective Premises.

"Multiemployer Plan" means a multiemployer plan (as defined in Section 4001(a)(3) of ERISA) to which any Borrower or any ERISA Affiliate contributes or is obligated to contribute.

"Net Income" means fiscal year-to-date after-tax net income of the Borrowers from continuing operations, including extraordinary losses but excluding extraordinary gains, all as determined on a consolidated basis in accordance with GAAP; provided, however, that any income earned by the Borrowers on account of the forgiveness of debt due to Osram, which is to occur late in fiscal year 2006 or early in fiscal year 2007 shall be excluded in determining the Borrowers' compliance with the provisions of Section 6.2(b) for the periods in which such event occurs.

"Note" means the Revolving Note or any other promissory note hereafter issued by a Borrower hereunder; collectively, the "Notes."

"Obligation of Reimbursement" means the obligation of Borrowers to reimburse the Lender pursuant to the terms of the Standby Letter of Credit Agreement or Commercial Letter of Credit Agreement and any applicable L/C Application.

"Obligations" means each Note, the Obligation of Reimbursement and each and every other debt, liability and obligation of every type and description which each Borrower may now or at any time hereafter owe to the Lender, whether such debt, liability or obligation now exists or is hereafter created or incurred, whether it arises in a transaction involving the Lender alone or in a transaction involving other creditors of the Borrowers, and whether it is direct or indirect, due or to become due, absolute or contingent, primary or secondary, liquidated or unliquidated, or sole, joint, several or joint and several, and including all indebtedness of the Borrowers arising under any Loan Document among the Borrowers and the Lender, whether now in effect or hereafter entered into and all Wells Fargo Bank Affiliate Obligations.

“Officer” means, as to each Borrower, an officer of such Borrower.

“Overadvance” means the amount, if any, by which (i) the outstanding principal balance of the Revolving Note, plus (ii) the L/C Amount, is in excess of the then-existing Borrowing Base.

“Owned Intellectual Property” has the meaning set forth in Section 5.11(a).

“Owner” means, as to each Borrower, each Person having legal or beneficial title to an ownership interest in such Borrower or a right to acquire such an interest.

“Pass-Through Tax Liabilities” means, as to Great Lakes, the amount of state and federal income tax paid or to be paid by such Borrower’s Owners on taxable income earned by such Borrower and attributable to the Owners as a result of such Borrower’s “pass-through” tax status, assuming the highest marginal income tax rate for federal and state (for the state or states in which any Owner is liable for income taxes with respect to such income) income tax purposes, after taking into account any deduction for state income taxes in calculating the federal income tax liability and all other deductions, credits, deferrals and other reductions available to the Owners from or through such Borrower.

“Patent and Trademark Security Agreement” means the Patent and Trademark Security Agreement by the Borrowers in favor of the Lender dated the same date as this Agreement.

“Pension Plan” means a pension plan (as defined in Section 3(2) of ERISA) maintained for employees of any Borrower or any ERISA Affiliate and covered by Title IV of ERISA.

“Permitted Lien” and “Permitted Liens” have the meanings set forth in Section 6.3(a).

“Person” means any individual, corporation, partnership, joint venture, limited liability company, association, joint-stock company, trust, unincorporated organization or government or any agency or political subdivision thereof.

“Plan” means an employee benefit plan (as defined in Section 3(3) of ERISA) maintained for employees of the Borrowers or any ERISA Affiliate.

“Premises” means, as to each Borrower, all locations where such Borrower conducts its business or has any rights of possession, including but not limited to the locations legally described in **Exhibit C** attached hereto.

“Prime Rate” means at any time the rate of interest most recently announced by the Lender at its principal office as its Prime Rate, with the understanding that the Prime Rate is one of the Lender’s base rates, and serves as the basis upon which effective rates of interest are calculated for those loans making reference thereto, and is evidenced by the recording thereof in such internal publication or publications as the Lender may designate. Each change in the rate of interest shall become effective on the date each Prime Rate change is announced by the Lender.

“Reportable Event” means a reportable event (as defined in Section 4043 of ERISA), other than an event for which the thirty (30) day notice requirement under ERISA has been waived in regulations issued by the Pension Benefit Guaranty Corporation.

“Revolving Advance” has the meaning set forth in Section 2.1.

“Revolving Note” means the Borrowers’ revolving promissory note, payable to the order of the Lender in substantially the form of **Exhibit A** hereto, as same may be renewed and amended from time to time, and all replacements thereto.

“Security Documents” means this Agreement, the Wholesale Lockbox and Collection Account Agreement, the Mortgages, the Patent and Trademark Security Agreement and any other document delivered to the Lender from time to time to secure the Obligations.

“Security Interest” has the meaning set forth in Section 3.1.

“Special Account” means a specified cash collateral account maintained by the Lender or another financial institution acceptable to the Lender in connection with Letters of Credit, as contemplated by Section 2.4.

“Standby Letter of Credit Agreement” means an agreement governing the issuance of standby letters of credit by the Lender entered into between the applicable Borrower as applicant and the Lender as issuer.

“Subsidiary” means, as to each Borrower, any corporation or other organization of which more than fifty percent (50%) of the outstanding shares of capital stock having general voting power under ordinary circumstances to elect a majority of the board of directors of such corporation, irrespective of whether or not at the time stock of any other class or classes shall have or might have voting power by reason of the happening of any contingency, is at the time directly or indirectly owned by the Borrower, by the Borrower and one or more other Subsidiaries, or by one or more other Subsidiaries.

“Tax Distributions” means, as to each of Great Lakes, distributions declared and paid by such Borrower to its Owners, or which could have been declared and paid by such Borrower, in an amount not to exceed the Pass-Through Tax Liabilities of such Borrower.

“Termination Date” means the earliest of (i) the Maturity Date, (ii) the date the Borrowers terminate the Credit Facility, or (iii) the date the Lender demands payment of the Obligations, following an Event of Default, pursuant to Section 7.2.

“UCC” means the Uniform Commercial Code as in effect in the state designated in Section 8.13 as the state whose laws shall govern this Agreement, or in any other state whose laws are held to govern this Agreement or any portion hereof.

“Unused Amount” is defined in Section 2.6(c).

“Wells Fargo Bank Affiliate Obligations” means all obligations, liabilities, contingent reimbursement obligations, fees, and expenses owing by a Borrower or its Subsidiaries to any

person that is owned in material part by the Lender and that relates to any service or facility extended to such Borrower or its Subsidiaries including but not limited to: (a) credit cards, (b) credit card processing services, (c) debit cards, and (d) purchase cards, as well as any other services or facilities from time to time specified by the Lender, whether direct or indirect, absolute or contingent, due or to become due, and whether existing now or in the future; provided, however, that the Borrower's obligations to Wells Fargo Equipment Finance are specifically excluded from the Wells Fargo Bank Affiliate Obligations.

"Wholesale Lockbox and Collection Account Agreement" means the Wholesale Lockbox and Collection Account Agreement by and among the Borrowers and the Lender, dated the same date as this Agreement.

Section 1.2 Other Definitional Terms; Rules of Interpretation. The words "hereof", "herein" and "hereunder" and words of similar import when used in this Agreement shall refer to this Agreement as a whole and not to any particular provision of this Agreement. All accounting terms not otherwise defined herein have the meanings assigned to them in accordance with GAAP. All terms defined in the UCC and not otherwise defined herein have the meanings assigned to them in the UCC. References to Articles, Sections, subsections, Exhibits, Schedules and the like, are to Articles, Sections and subsections of, or Exhibits or Schedules attached to, this Agreement unless otherwise expressly provided. The words "include", "includes" and "including" shall be deemed to be followed by the phrase "without limitation". Unless the context in which used herein otherwise clearly requires, "or" has the inclusive meaning represented by the phrase "and/or". Defined terms include in the singular number the plural and in the plural number the singular. Reference to any agreement (including the Loan Documents), document or instrument means such agreement, document or instrument as amended or modified and in effect from time to time in accordance with the terms thereof (and, if applicable, in accordance with the terms hereof and the other Loan Documents), except where otherwise explicitly provided, and reference to any promissory note includes any promissory note which is an extension or renewal thereof or a substitute or replacement therefor. Reference to any law, rule, regulation, order, decree, requirement, policy, guideline, directive or interpretation means as amended, modified, codified, replaced or reenacted, in whole or in part, and in effect on the determination date, including rules and regulations promulgated thereunder.

ARTICLE II

AMOUNT AND TERMS OF THE CREDIT FACILITY

Section 2.1 Revolving Advances. The Lender agrees, subject to the terms and conditions of this Agreement, to make advances ("Revolving Advances") to the Borrowers from time to time from the date that all of the conditions set forth in 4.1 are satisfied (the "Funding Date") to and until the Termination Date in an amount not in excess of the Maximum Line Amount. The Lender shall have no obligation to make a Revolving Advance to the extent that the amount of the requested Revolving Advance exceeds Availability. Each Borrower's joint and several obligation to pay the Revolving Advances shall be evidenced by the Revolving Note and shall be secured by the Collateral. Within the limits set forth in this Section 2.1, the Borrowers may borrow, prepay pursuant to Section 2.9, and reborrow.

Section 2.2 Procedures for Requesting Advances. The Borrowers shall comply with the following procedures in requesting Revolving Advances:

(a) ***Time for Requests***. The Borrowers shall request each Advance not later than the Cut-off Time on the Business Day on which the Advance is to be made**.** Each request that conforms to the terms of this Agreement shall be effective upon receipt by the Lender, shall be in writing or by telephone or telecopy transmission, and shall be confirmed in writing by the Borrowers if so requested by the Lender**,** by (i) an Officer of any Borrower; or (ii) a person designated as any Borrower's agent by an Officer of such Borrower in a writing delivered to the Lender; or (iii) a person whom the Lender reasonably believes to be an Officer of the Borrower or such a designated agent. The Borrowers shall repay all Advances even if the Lender does not receive such confirmation and even if the person requesting an Advance was not in fact authorized to do so. Any request for an Advance, whether written or telephonic, shall be deemed to be a representation by the Borrowers that the conditions set forth in Section 4.2 have been satisfied as of the time of the request.

(b) ***Disbursement***. Upon fulfillment of the applicable conditions set forth in Article IV, the Lender shall disburse the proceeds of the requested Advance by crediting the same to Orion's demand deposit account maintained with Lender unless the Lender and the Borrowers shall agree in writing to another manner of disbursement.

Section 2.3 Letters of Credit.

(a) ***Issuance of Letters of Credit***. The Lender agrees, subject to the terms and conditions of this Agreement, to issue, at any time after the Funding Date and prior to the Termination Date, one or more irrevocable standby or documentary letters of credit (each, a "Letter of Credit") for the requested Borrower's account. The Lender shall have no obligation to issue any Letter of Credit if the face amount of the Letter of Credit to be issued would exceed the Availability. Each Letter of Credit, if any, shall be issued pursuant to a separate L/C Application made by the Borrower to the Lender, which must be completed in a manner satisfactory to the Lender. The terms and conditions set forth in each such L/C Application shall supplement the terms and conditions of the Commercial Letter of Credit Agreement or Standby Letter of Credit Agreement applicable thereto.

(b) ***Expiry Date***. No Letter of Credit shall be issued with an expiry date later than the Termination Date in effect as of the date of issuance.

(c) ***Conditions Precedent***. Any request for issuance of a Letter of Credit shall be deemed to be a representation by the Borrowers that the conditions set forth in Section 4.2 have been satisfied as of the date of the request.

(d) ***Obligation of Reimbursement***. If a draft is submitted under a Letter of Credit when the Borrowers are unable, because a Default Period exists or for any other reason, to obtain a Revolving Advance to pay the Obligation of Reimbursement, the Borrowers shall pay to the Lender on demand and in immediately available funds, the amount of the Obligation of Reimbursement together with interest, accrued from the date of the draft until payment in full at the Default Rate. Notwithstanding the Borrowers' inability to obtain a Revolving Advance for

any reason, the Lender is irrevocably authorized, in its sole discretion, to make a Revolving Advance in an amount sufficient to discharge the Obligation of Reimbursement and all accrued but unpaid interest thereon.

Section 2.4 Special Account. If the Credit Facility is terminated for any reason while any Letter of Credit is outstanding, the Borrowers shall thereupon pay the Lender in immediately available funds for deposit in the Special Account an amount equal to the L/C Amount plus any anticipated fees and costs. If Borrowers fail to promptly make any such payment in the amount required hereunder, then Lender may make a Revolving Advance against the Credit Facility in an amount sufficient to fulfill this obligation and deposit the proceeds to the Special Account. The Special Account shall be an interest bearing account maintained by the Lender or by any other financial institution acceptable to the Lender. Any interest earned on amounts deposited in the Special Account shall be credited to the Special Account. The Lender may apply amounts on deposit in the Special Account at any time or from time to time to the Obligations in the Lender's sole discretion. The Borrowers may not withdraw any amounts on deposit in the Special Account as long as the Lender maintains a security interest therein. The Lender agrees to transfer any balance in the Special Account to the Borrowers when the Lender is required to release its security interest in the Special Account under applicable law.

Section 2.5 Interest; Minimum Interest Charge; Default Interest Rate; Application of Payments; Participations; Usury.

(a) ***Interest***. Except as provided in Section 2.5(c) and Section 2.5(f), the principal amount of each Advance shall bear interest at the Floating Rate.

(b) ***Minimum Interest Charge***. Notwithstanding any other terms of this Agreement to the contrary, the Borrowers shall pay to the Lender interest of not less than Twenty Thousand Dollars ($20,000) per calendar month (the "Minimum Interest Charge") during the term of this Agreement, and the Borrowers shall pay any deficiency between the Minimum Interest Charge and the amount of interest otherwise calculated under Section 2.5(a) on the first day of each month and on the Termination Date. When calculating the deficiency due hereunder, if any, between the Minimum Interest Charge and the amount of interest otherwise payable under Section 2.5(a), the Default Rate, if applicable, shall be disregarded.

(c) ***Default Interest Rate***. At any time during any Default Period or following the Termination Date, in the Lender's sole discretion and without waiving any of its other rights or remedies, the principal of the Notes shall bear interest at the Default Rate or such lesser rate as the Lender may determine, effective as of the first day of the month in which any Default Period begins through the last day of such Default Period, or any shorter time period that the Lender may determine. The decision of the Lender to impose a rate that is less than the Default Rate or to not impose the Default Rate for the entire duration of the Default Period shall be made by Lender in its sole discretion and shall not be a waiver of any of its other rights and remedies, including its right to retroactively impose the full Default Rate for the entirety of any such Default Period or following the Termination Date.

(d) ***Application of Payments***. Payments shall be applied to the Obligations on the Business Day of receipt by the Lender in the Lender's general account, but the amount of

principal paid shall continue to accrue interest at the interest rate applicable under the terms of this Agreement from the calendar day the Lender receives the payment, and continuing through the end of the second Business Day following receipt of the payment.

(e) ***Participations***. If any Person shall acquire a participation in the Advances or the Obligation of Reimbursement, the Borrowers shall be obligated to the Lender to pay the full amount of all interest calculated under this Section 2.5, along with all other fees, charges and other amounts due under this Agreement, regardless if such Person elects to accept interest with respect to its participation at a lower rate than that calculated under this Section 2.5, or otherwise elects to accept less than its prorata share of such fees, charges and other amounts due under this Agreement.

(f) ***Usury***. In any event no rate change shall be put into effect which would result in a rate greater than the highest rate permitted by law. Notwithstanding anything to the contrary contained in any Loan Document, all agreements which either now are or which shall become agreements between the Borrowers and the Lender are hereby limited so that in no contingency or event whatsoever shall the total liability for payments in the nature of interest, additional interest and other charges exceed the applicable limits imposed by any applicable usury laws. If any payments in the nature of interest, additional interest and other charges made under any Loan Document are held to be in excess of the limits imposed by any applicable usury laws, it is agreed that any such amount held to be in excess shall be considered payment of principal hereunder, and the indebtedness evidenced hereby shall be reduced by such amount so that the total liability for payments in the nature of interest, additional interest and other charges shall not exceed the applicable limits imposed by any applicable usury laws, in compliance with the desires of the Borrowers and the Lender. This provision shall never be superseded or waived and shall control every other provision of the Loan Documents and all agreements between the Borrowers and the Lender, or their successors and assigns.

Section 2.6 Fees.

(a) ***Origination Fee***. The Borrowers shall pay the Lender a fully earned and non-refundable origination fee of Fifty Thousand Dollars ($50,000), due and payable upon the execution of this Agreement.

(b) ***Facility Fee***. The Borrowers agree to pay to the Lender a fully earned and non-refundable annual facility fee of Fifteen Thousand Dollars ($15,000), which facility fee shall be due and payable annually in advance on the Funding Date, and thereafter on January 1, 2007, and each January 1 thereafter.

(c) ***Unused Fee***. For the purpose of this Section 2.6(c) "Unused Amount" means the Maximum Line Amount reduced by outstanding Revolving Advances and the L/C Amount. The Borrower agrees to pay to the Lender an unused line fee at the rate of one quarter percent (.25%) per annum on the average daily Unused Amount from the date of this Agreement to and including the Termination Date, due and payable monthly in arrears on the first day of the month and on the Termination Date.

(d) ***Collateral Exam Fees***. The Borrowers shall pay the Lender fees in connection with any collateral exams, audits or inspections conducted by or on behalf of the Lender of any Collateral or the Borrowers' respective operations or business at the rates established from time to time by the Lender as its collateral exam fees (which fees are currently $850 per day per collateral examiner), together with all actual out-of-pocket costs and expenses incurred in conducting any such collateral examination or inspection; provided, however, that except during Default Periods, the Borrowers shall not have to reimburse the Lender for more than four (4) such collateral exams per calendar year.

(e) ***Letter of Credit Fees***. The Borrowers shall pay to the Lender a fee with respect to each Letter of Credit, if any, accruing on a daily basis and computed at an annual rate of two percent (2.0%) of the aggregate amount that may then be drawn, assuming compliance with all conditions for drawing (the "Aggregate Face Amount"), from and including the date of issuance of such Letter of Credit until such date as such Letter of Credit shall terminate by its terms or be returned to the Lender, due and payable monthly in arrears on the first day of each month and on the Termination Date; provided, however, that during Default Periods, in the Lender's sole discretion and without waiving any of its other rights and remedies, such fee shall increase to five percent (5.0%) of the Aggregate Face Amount. The foregoing fee shall be in addition to any and all fees, commissions and charges of the lender with respect to or in connection with such Letter of Credit.

(f) ***Letter of Credit Administrative Fees***. The Borrowers shall pay to the Lender all administrative fees charged by the Lender in connection with the honoring of drafts under any Letter of Credit, amendments thereto, transfers thereof and all other activity with respect to the Letters of Credit at the then – current rates published by the Lender for such services rendered on behalf of its customers generally.

(g) ***Termination Fees***. If the Credit Facility is terminated by the Borrowers as of a date other than the Maturity Date then in effect (as determined in accordance with Section 2.9), the Borrowers shall pay to the Lender as liquidated damages a termination fee in an amount equal to the following percentages of the Maximum Line Amount: (i) three percent (3.0%) if such termination occurs on or prior to the first anniversary of the Funding Date; (ii) two percent (2.0%) if such termination occurs after the first anniversary of the Funding Date but on or prior to the second anniversary of the Funding Date, or (iii) one percent (1.0%) if such termination occurs after the second anniversary of the Funding Date.

Borrowers acknowledge that termination may result in Lender incurring additional costs, expenses and/or liabilities, and that it is difficult to ascertain the full extent of such costs, expenses and/or liabilities. Borrowers therefore agree to pay the above-described termination fees and agree that said termination fees represent a reasonable estimate of the termination costs, expenses and/or liabilities of the Lender.

(h) ***Waiver of Termination Fees***. The Borrowers, at the Lender's discretion, will be excused from the payment of termination fees otherwise due under Section 2.6(g) if such termination is made because of refinancing through Wells Fargo Bank.

(i) ***Overadvance Fees***. The Borrowers shall pay a fee for each Overadvance in the minimum amount of One Thousand Dollars ($1,000) for each day that an Overadvance exists, regardless of how the Overadvance arises or whether or not the Overadvance has been agreed to in advance by Lender; provided, however, that during a Default Period, the Overadvance fee shall be Two Thousand Dollars ($2,000) per day. The acceptance of payment of any such Overadvance fee shall not be deemed to constitute either consent to the Overadvance or the waiver of any Event of Default arising as the result of an Overadvance not otherwise consented to in advance by Lender.

(j) ***Other Fees and Charges; Payment of Fees.*** The Lender may from time to time impose additional fees and charges as consideration for Advances made in excess of Availability or for other events that constitute an Event of Default hereunder, including fees and charges for the administration of Collateral by the Lender, and fees and charges for the late delivery of reports, which may be assessed in the Lender's sole discretion on either an hourly, periodic, or flat fee basis, and in lieu of or in addition to imposing interest at the Default Rate.

Section 2.7 Time for Interest Payments; Payment on Non-Business Days; Computation of Interest and Fees.

(a) ***Time For Interest Payments***. Accrued and unpaid interest shall be due and payable on the first day of each month and on the Termination Date (each an "Interest Payment Date"), or if any such day is not a Business Day, on the next succeeding Business Day. Interest will accrue from the most recent date to which interest has been paid or, if no interest has been paid, from the date of advance to the Interest Payment Date. If an Interest Payment Date is not a Business Day, payment shall be made on the next succeeding Business Day.

(b) ***Payment on Non-Business Days***. Whenever any payment to be made hereunder shall be stated to be due on a day which is not a Business Day, such payment may be made on the next succeeding Business Day, and such extension of time shall in such case be included in the computation of interest on the Advances or the fees hereunder, as the case may be.

(c) ***Computation of Interest and Fees***. Interest accruing on the outstanding principal balance of the Advances and fees hereunder outstanding from time to time shall be computed on the basis of actual number of days elapsed in a year of three hundred sixty (360) days.

Section 2.8 Lockbox and Collateral Account; Sweep of Funds.

(a) ***Lockbox and Collateral Account***.

(i) Each Borrower shall instruct all account debtors to pay all Accounts directly to the Lockbox. If, notwithstanding such instructions, any Borrower receives any payments on Accounts, such Borrower shall deposit such payments into the Collateral Account. Each Borrower shall also deposit all other cash proceeds of Collateral regardless of source or nature directly into the Collateral Account. Until so deposited, the Borrowers shall hold all such payments and cash proceeds in trust for and as the property of the Lender and shall not commingle such property with any of their other funds or property. All deposits in the Collateral Account shall constitute proceeds of Collateral and shall not constitute payment of the Obligations.

(ii) All items deposited in the Collateral Account shall be subject to final payment. If any such item is returned uncollected, the Borrowers will immediately pay the Lender, or, for items deposited in the Collateral Account, the bank maintaining such account, the amount of that item, or such bank at its discretion may charge any uncollected item to the applicable Borrower's commercial account or other account. The Borrowers shall be liable as an endorser on all items deposited in the Collateral Account, whether or not in fact endorsed by a Borrower.

(b) ***Sweep of Funds***. The Lender shall from time to time, in accordance with the Wholesale Lockbox and Collection Account Agreement, cause funds in the Collateral Account to be transferred to the Lender's general account for payment of the Obligations. Amounts deposited in the Collateral Account shall not be subject to withdrawal by any Borrower, except after payment in full and discharge of all Obligations.

Section 2.9 Voluntary Prepayment; Termination of the Credit Facility by the Borrowers. Except as otherwise provided herein, the Borrowers may prepay the Advances in whole at any time or from time to time in part. The Borrowers may terminate the Credit Facility at any time if they (i) give the Lender at least sixty (60) days advance written notice prior to the proposed Termination Date, and (ii) pay the Lender applicable termination fees in accordance with Section 2.6(g). If the Borrowers terminate the Credit Facility, all Obligations shall be immediately due and payable, and if the Borrowers give the Lender less than the required sixty (60) days advance written notice, then the interest rate applicable to borrowings evidenced by Revolving Note shall be the Default Rate for the period of time commencing sixty (60) days prior to the proposed Termination Date through the date that the Lender actually receives such written notice. If the Borrowers do not wish the Lender to consider renewal of the Credit Facility on the next Maturity Date, then the Borrowers shall give the Lender at least sixty (60) days written notice prior to the Maturity Date that they will not be requesting renewal. If the Borrowers fail to give the Lender such timely notice, then the interest rate applicable to borrowings evidenced by the Revolving Note shall be the Default Rate for the period of time commencing sixty (60) days prior to the Maturity Date through the date that the Lender actually receives such written notice.

Section 2.10 Mandatory Prepayment. Without notice or demand, if the sum of the outstanding principal balance of the Revolving Advances plus the L/C Amount shall at any time exceed the Borrowing Base, the Borrowers shall (i) first, immediately prepay the Revolving Advances to the extent necessary to eliminate such excess; and (ii) if prepayment in full of the Revolving Advances is insufficient to eliminate such excess, pay to the Lender in immediately available funds for deposit in the Special Account an amount equal to the remaining excess. Any payment received by the Lender hereunder or under Section 2.9 may be applied to the Obligations, in such order and in such amounts as the Lender in its sole discretion may determine from time to time.

Section 2.11 Revolving Advances to Pay Obligations. Notwithstanding the terms of Section 2.1, the Lender may, in its discretion at any time or from time to time, without the Borrowers' request and even if the conditions set forth in Section 4.2 would not be satisfied, make a Revolving Advance in an amount equal to the portion of the Obligations from time to

time due and payable, and may deliver the proceeds of any such Revolving Advance to any affiliate of the Lender in satisfaction of any Wells Fargo Bank Affiliate Obligations.

Section 2.12 Use of Proceeds. The Borrowers shall use the proceeds of Advances and each Letter of Credit to refinance outstanding indebtedness and for ordinary working capital purposes.

Section 2.13 Liability Records. The Lender may maintain from time to time, at its discretion, records as to the Obligations. All entries made on any such record shall be presumed correct until the Borrowers establish the contrary. Upon the Lender's demand, the Borrowers will admit and certify in writing the exact principal balance of the Obligations that the Borrowers then assert to be outstanding. Any billing statement or accounting rendered by the Lender shall be conclusive and fully binding on the Borrowers unless the Borrowers gives the Lender specific written notice of exception within thirty (30) days after receipt.

ARTICLE III

SECURITY INTEREST; OCCUPANCY; SETOFF

Section 3.1 Grant of Security Interest. Each Borrower hereby pledges, assigns and grants to the Lender, for the benefit of itself and as agent for any affiliate of the Lender that may provide credit or services to the Borrowers that constitute Wells Fargo Bank Affiliate Obligations, a lien and security interest (collectively referred to as the "Security Interest") in the Collateral, as security for the payment and performance of the Obligations. Upon request by the Lender, each Borrower will grant the Lender, for the benefit of itself and as agent for any affiliate of the Lender that may provide credit or services to the Borrowers that constitute Wells Fargo Bank Affiliate Obligations, a security interest in all commercial tort claims it may have against any Person.

Section 3.2 Notification of Account Debtors and Other Obligors. The Lender may at any time a Default Period then exists notify any account debtor or other person obligated to pay the amount due that such right to payment has been assigned or transferred to the Lender for security and shall be paid directly to the Lender. The applicable Borrower will join in giving such notice if the Lender so requests. At any time after a Borrower or the Lender gives such notice to an account debtor or other obligor, the Lender may, but need not, in the Lender's name or in such Borrower's name, (a) demand, sue for, collect or receive any money or property at any time payable or receivable on account of, or securing, any such right to payment, or grant any extension to, make any compromise or settlement with or otherwise agree to waive, modify, amend or change the obligations (including collateral obligations) of any such account debtor or other obligor. The Lender may, in the Lender's name or in a Borrower's name, as such Borrower's agent and attorney-in-fact, notify the United States Postal Service to change the address for delivery of such Borrower's mail to any address designated by the Lender, otherwise intercept such Borrower's mail, and receive, open and dispose of such Borrower's mail, applying all Collateral as permitted under this Agreement and holding all other mail for such Borrower's account or forwarding such mail to such Borrower's last known address.

Section 3.3 Assignment of Insurance. As additional security for the payment and performance of the Obligations, each Borrower hereby assigns to the Lender any and all monies (including proceeds of insurance and refunds of unearned premiums) due or to become due under, and all other rights of such Borrower with respect to, any and all policies of insurance now or at any time hereafter covering the Collateral or any evidence thereof or any business records or valuable papers pertaining thereto, and such Borrower hereby directs the issuer of any such policy to pay all such monies directly to the Lender. At any time, whether or not a Default Period then exists, the Lender may (but need not), in the Lender's name or in the applicable Borrower's name, execute and deliver proof of claim, receive all such monies, endorse checks and other instruments representing payment of such monies, and adjust, litigate, compromise or release any claim against the issuer of any such policy.

Section 3.4 Occupancy.

(a) ***Right to Possession Upon Default***. Each Borrower hereby irrevocably grants to the Lender the right to take exclusive possession of its Premises at any time during a Default Period without notice or consent.

(b) ***Lender's Use of Premises***. The Lender may use the Premises only to hold, process, manufacture, sell, use, store, liquidate, realize upon or otherwise dispose of goods that are Collateral and for other purposes that the Lender may in good faith deem to be related or incidental purposes.

(c) ***Termination of Occupancy***. The Lender's right to hold the Premises shall cease and terminate upon the earlier of (i) payment in full and discharge of all Obligations and termination of the Credit Facility, or (ii) final sale or disposition of all goods constituting Collateral and delivery of all such goods to purchasers.

(d) ***No Obligation***. The Lender shall not be obligated to pay or account for any rent or other compensation for the possession, occupancy or use of any of the Premises; provided, however, that if the Lender does pay or account for any rent or other compensation for the possession, occupancy or use of any of the Premises, the Borrowers shall reimburse the Lender promptly for the full amount thereof. In addition, the Borrowers will pay, or reimburse the Lender for, all taxes, fees, duties, imposts, charges and expenses at any time incurred by or imposed upon the Lender by reason of the execution, delivery, existence, recordation, performance or enforcement of this Agreement or the provisions of this Section 3.4.

Section 3.5 License. Without limiting the generality of any other Security Document, the Borrower hereby grants to the Lender a non-exclusive, worldwide and royalty-free license to use or otherwise exploit all Intellectual Property Rights of such Borrower for the purpose of: (a) completing the manufacture of any in-process materials during any Default Period so that such materials become saleable Inventory, all in accordance with the same quality standards previously adopted by such Borrower for its own manufacturing and subject to such Borrower's reasonable exercise of quality control; and (b) selling, leasing or otherwise disposing of any or all Collateral during any Default Period.

Section 3.6 Financing Statement. Each Borrower authorizes the Lender to file from time to time, such financing statements against collateral described as "all personal property" or "all assets" or describing specific items of collateral including commercial tort claims as the Lender deems necessary or useful to perfect the Security Interest. All financing statements filed before the date hereof to perfect the Security Interest were authorized by the Borrowers and are hereby re-authorized. A carbon, photographic or other reproduction of this Agreement or of any financing statements signed by the applicable Borrower is sufficient as a financing statement and may be filed as a financing statement in any state to perfect the security interests granted hereby. For this purpose, the Borrowers represent and warrant that the following information is true and correct:

Names and addresses of Debtor:

Orion Energy Systems, Ltd.
1204 Pilgrim Road
Plymouth, Wisconsin 53073
Federal Employer Identification No. 39-1847269
Organizational Identification No. O017617

Great Lakes Energy Technologies, LLC
2001 Mirro Drive
Manitowoc, Wisconsin 54220
Federal Employer Identification No. 72-1582713
Organizational Identification No. G034942

Name and address of Secured Party:

Wells Fargo Bank, National Association,
acting through its Wells Fargo Business Credit operating division
100 East Wisconsin Avenue, Suite 1400
MAC N9811–143
Milwaukee, Wisconsin 53202

Section 3.7 Setoff. The Lender may at any time or from time to time, at its sole discretion and without demand and without notice to anyone, setoff any liability owed to any Borrower by the Lender, whether or not due, against any Obligation, whether or not due. In addition, each other Person holding a participating interest in any Obligations shall have the right to appropriate or setoff any deposit or other liability then owed by such Person to any Borrower, whether or not due, and apply the same to the payment of said participating interest, as fully as if such Person had lent directly to the Borrowers the amount of such participating interest.

Section 3.8 Collateral. This Agreement does not contemplate a sale of accounts, contract rights or chattel paper, and, as provided by law, the Borrowers are entitled to any surplus and shall remain liable for any deficiency. The Lender's duty of care with respect to Collateral in its possession (as imposed by law) shall be deemed fulfilled if it exercises reasonable care in physically keeping such Collateral, or in the case of Collateral in the custody or possession of a bailee or other third person, exercises reasonable care in the selection of the

bailee or other third person, and the Lender need not otherwise preserve, protect, insure or care for any Collateral. The Lender shall not be obligated to preserve any rights a Borrower may have against prior parties, to realize on the Collateral at all or in any particular manner or order or to apply any cash proceeds of the Collateral in any particular order of application. The Lender has no obligation to clean-up or otherwise prepare the Collateral for sale. Each Borrower waives any right it may have to require the Lender to pursue any third person for any of the Obligations.

ARTICLE IV

CONDITIONS OF LENDING

Section 4.1 Conditions Precedent to the Initial Advances and Letter of Credit. The Lender's obligation to make the initial Advances or to cause any Letters of Credit to be issued shall be subject to the condition precedent that the Lender shall have received all of the following, each properly executed by the appropriate party and in form and substance satisfactory to the Lender:

(a) This Agreement.

(b) The Revolving Note.

(c) A Standby Letter of Credit Agreement or Commercial Letter of Credit Agreement, and L/C Application for each Letter of Credit, if any, that Borrowers wish to have issued thereunder on the Funding Date.

(d) A true and correct copy of any and all leases pursuant to which any Borrower is leasing the Premises, together with a landlord's disclaimer and consent with respect to each such lease.

(e) A true and correct copy of any and all mortgages pursuant to which any Borrower has mortgaged the Premises, together with, when required by the Lender, a mortgagee's disclaimer and consent with respect to each such mortgage.

(f) A true and correct copy of any and all agreements pursuant to which any Borrower's property is in the possession of any Person other than such Borrower, together with, in the case of any goods held by such Person for resale, (i) a consignee's acknowledgment and waiver of Liens, (ii) UCC financing statements sufficient to protect such Borrower's and the Lender's interests in such goods, and (iii) UCC searches showing that no other secured party has filed a financing statement against such Person and covering property similar to such Borrower's other than such Borrower, or if there exists any such secured party, evidence that each such secured party has received notice from such Borrower and the Lender sufficient to protect such Borrower's and the Lender's interests in such Borrower's goods from any claim by such secured party.

(g) An acknowledgment and waiver of Liens from each warehouse in which any Borrower is storing Inventory.

(h) A true and correct copy of any and all agreements pursuant to which any Borrower's property is in the possession of any Person other than such Borrower, together with, (i) an acknowledgment and waiver of Liens from each subcontractor who has possession of such Borrower's goods from time to time, (ii) UCC financing statements sufficient to protect such Borrower's and the Lender's interests in such goods, and (iii) UCC searches showing that no other secured party has filed a financing statement covering such Person's property other than such Borrower, or if there exists any such secured party, evidence that each such secured party has received notice from such Borrower and the Lender sufficient to protect such Borrower's and the Lender's interests in such Borrower's goods from any claim by such secured party.

(i) The Wholesale Lockbox and Collection Account Agreement.

(j) Control agreements with each bank other than the Lender, if any, at which any Borrower maintains deposit accounts.

(k) The Patent and Trademark Security Agreement.

(l) The Mortgages.

(m) Each Intercreditor Agreement duly executed by the creditor of Borrowers party thereto, and each acknowledged by the Borrowers.

(n) Current searches of appropriate filing offices showing that (i) no Liens have been filed and remain in effect against any Borrower except Permitted Liens or Liens held by Persons who have agreed in writing that upon receipt of proceeds of the initial Advances, they will satisfy, release or terminate such Liens in a manner satisfactory to the Lender, and (ii) the Lender has duly filed all financing statements necessary to perfect the Security Interest, to the extent the Security Interest is capable of being perfected by filing.

(o) A certificate of each Borrower's Secretary or Assistant Secretary certifying that attached to such certificate are (i) the resolutions of such Borrower's Directors and, if required, Owners, authorizing the execution, delivery and performance of the Loan Documents, (ii) true, correct and complete copies of such Borrower's Constituent Documents, and (iii) examples of the signatures of such Borrower's Officers or agents authorized to execute and deliver the Loan Documents and other instruments, agreements and certificates, including Advance requests, on such Borrower's behalf.

(p) Current certificates issued by the Wisconsin Department of Financial Institutions, certifying that each of the Borrowers is in compliance with all applicable organizational requirements of the State of Wisconsin and is in active status.

(q) Evidence that each Borrower is duly licensed or qualified to transact business in all jurisdictions where the character of the property owned or leased or the nature of the business transacted by it makes such licensing or qualification necessary.

(r) Certificate of an Officer of each Borrower confirming the representations and warranties set forth in Article V.

(s) An authorized individuals letter regarding those Persons authorized to request Advances, confirm such request, and sign collateral reports.

(t) Certificates of the insurance required hereunder, with all hazard insurance containing a lender's loss payable endorsement in the Lender's favor and with all liability insurance naming the Lender as an additional insured.

(u) The guaranty of Orion Aviation, Inc., pursuant to which such Guarantor unconditionally guarantees the full and prompt payment of all Obligations to the extent provided in such guaranty.

(v) A Security Agreement, duly executed by Orion Aviation, Inc.

(w) A certificate of Orion Aviation, Inc.'s Secretary or Assistant Secretary certifying that attached to such certificate are (i) the resolutions of such Guarantor's Directors and, if required, Owners, authorizing the execution, delivery and performance of such Guarantor's guaranty and Guarantor Security Documents, (ii) true, correct and complete copies of such Guarantor's Constituent Documents, and (iii) examples of the signatures of such Guarantor's Officers or agents authorized to execute and deliver the guaranty and Guarantor Security Documents and other instruments, agreements and certificates on such Guarantor's behalf.

(x) Payment of the fees and commissions due under Section 2.6 through the date of the initial Advance or Letter of Credit and expenses incurred by the Lender through such date and required to be paid by the Borrower under Section 8.5, including all legal expenses incurred through the date of this Agreement.

(y) Evidence that after making the initial Revolving Advance, satisfying the working capital obligations of the Borrowers owed to Hometown Bank, satisfying all trade payables older than thirty (30) days from due date, book overdrafts and closing costs, Availability shall be not less than Seven Hundred Fifty Thousand Dollars ($750,000).

(z) A Customer Identification Information form and such other forms and verification as Lender may need to comply with the U.S.A. Patriot Act.

(aa) With respect to the Mortgaged Real Estate (i) a flood hazard determination form, confirming whether or not the parcel is in a flood hazard area and whether or not flood insurance must be obtained, and, if the real estate is located in a flood hazard area, a policy of flood insurance, and (ii) a title report showing the applicable Borrower's fee interest in its Mortgaged Real Estate, subject only to such prior liens as are acceptable to the Lender in its discretion.

(bb) Such other documents as the Lender in its sole discretion may require.

Section 4.2 Conditions Precedent to All Advances and Letters of Credit. The Lender's obligation to make each Advance or to cause the issuance of a Letter of Credit shall be subject to the further conditions precedent that:

(a) the representations and warranties contained in Article V are correct on and as of the date of such Advance or issuance of a Letter of Credit as though made on and as of such date, except to the extent that such representations and warranties relate solely to an earlier date; and

(b) no event has occurred and is continuing, or would result from such Advance or issuance of a Letter of Credit which constitutes an Event of Default.

ARTICLE V

REPRESENTATIONS AND WARRANTIES

Each Borrower (as to such Borrower) represents and warrants to the Lender as follows:

Section 5.1 Existence and Power; Name; Chief Executive Office; Inventory and Equipment Locations; Federal Employer Identification Number and Organizational Identification Number. The Borrower is a corporation, duly organized, validly existing and in good standing under the laws of the state of Wisconsin and is duly licensed or qualified to transact business in all jurisdictions where the character of the property owned or leased or the nature of the business transacted by it makes such licensing or qualification necessary. The Borrower has all requisite power and authority to conduct its business, to own its properties and to execute and deliver, and to perform all of its obligations under, the Loan Documents. During its existence, the Borrower has done business solely under the names set forth in **Schedule 5.1**. The Borrower's chief executive office and principal place of business is located at the address set forth in **Schedule 5.1**, and all of the Borrower's records relating to its business or the Collateral are kept at that location. All Inventory and Equipment is located at that location or at one of the other locations listed in **Schedule 5.1**. The Borrower's federal employer identification number and organization identification number are correctly set forth in Section 3.6.

Section 5.2 Capitalization. **Schedule 5.2** constitutes a correct and complete list of the principal shareholders of Orion and rights to acquire ownership interests including the record holder, number of interests and percentage interests on a fully diluted basis, and an organizational chart showing the ownership structure of the Borrower and all Subsidiaries of the Borrower.

Section 5.3 Authorization of Borrowing; No Conflict as to Law or Agreements. The execution, delivery and performance by the Borrower of the Loan Documents and the borrowings from time to time hereunder have been duly authorized by all necessary corporate action and do not and will not (i) require any consent or approval of the Borrower's Owners; (ii) require any authorization, consent or approval by, or registration, declaration or filing with, or notice to, any governmental department, commission, board, bureau, agency or instrumentality, domestic or foreign, or any third party, except such authorization, consent, approval, registration, declaration, filing or notice as has been obtained, accomplished or given prior to the date hereof; (iii) violate any provision of any law, rule or regulation (including Regulation X of the Board of Governors of the Federal Reserve System) or of any order, writ, injunction or decree presently in effect having applicability to the Borrower or of the Borrower's Constituent Documents; (iv) result in a breach of or constitute a default under any indenture or loan or credit agreement or any other material agreement, lease or instrument to which the

Borrower is a party or by which it or its properties may be bound or affected; or (v) result in, or require, the creation or imposition of any Lien (other than the Security Interest) upon or with respect to any of the properties now owned or hereafter acquired by the Borrower.

Section 5.4 Legal Agreements. This Agreement constitutes and, upon due execution by the Borrower, the other Loan Documents will constitute the legal, valid and binding obligations of the Borrower, enforceable against the Borrower in accordance with their respective terms.

Section 5.5 Subsidiaries. Except as set forth in **Schedule 5.5** hereto, the Borrower has no Subsidiaries.

Section 5.6 Financial Condition; No Adverse Change. The Borrower has furnished to the Lender its financial statements for the fiscal-year-to-date period ended November 30, 2005, and those statements fairly present the Borrower's financial condition on the dates thereof and the results of its operations and cash flows for the periods then ended and were prepared in accordance with generally accepted accounting principals. Since the date of the most recent financial statements, there has been no change in the Borrower's business, properties or condition (financial or otherwise) which has had a Material Adverse Effect.

Section 5.7 Litigation. There are no actions, suits or proceedings pending or, to the Borrower's knowledge, threatened against or affecting the Borrower or any of its Affiliates or the properties of the Borrower or any of its Affiliates before any court or governmental department, commission, board, bureau, agency or instrumentality, domestic or foreign, which, if determined adversely to the Borrower or any of its Affiliates, would result in a final judgment or judgments against the Borrower or any of its Affiliates in an amount in excess of Fifty Thousand Dollars ($50,000), apart from those matters specifically listed in **Schedule 5.7**; or result in a Material Adverse Effect.

Section 5.8 Regulation U. The Borrower is not engaged in the business of extending credit for the purpose of purchasing or carrying margin stock (within the meaning of Regulation U of the Board of Governors of the Federal Reserve System), and no part of the proceeds of any Advance will be used to purchase or carry any margin stock or to extend credit to others for the purpose of purchasing or carrying any margin stock.

Section 5.9 Taxes. The Borrower and its Affiliates have paid or caused to be paid to the proper authorities when due all federal, state and local taxes required to be withheld by each of them. The Borrower and its Affiliates have filed all federal, state and local tax returns which to the knowledge of the Officers of the Borrower or any Affiliate, as the case may be, are required to be filed, and the Borrower and its Affiliates have paid or caused to be paid to the respective taxing authorities all taxes as shown on said returns or on any assessment received by any of them to the extent such taxes have become due.

Section 5.10 Titles and Liens. The Borrower has good and absolute title to all Collateral free and clear of all Liens other than Permitted Liens. No financing statement naming the Borrower as debtor is on file in any office except to perfect only Permitted Liens.

Section 5.11 Intellectual Property Rights.

(a) ***Owned Intellectual Property***. **Schedule 5.11** is a complete list of all patents, applications for patents, trademarks, applications to register trademarks, service marks, applications to register service marks, mask works, trade dress and copyrights for which the Borrower is the owner of record (the "Owned Intellectual Property"). Except as disclosed on **Schedule 5.11**, (i) the Borrower owns the Owned Intellectual Property free and clear of all restrictions (including covenants not to sue a third party), court orders, injunctions, decrees, writs or Liens, whether by written agreement or otherwise, (ii) no Person other than the Borrower owns or has been granted any right in the Owned Intellectual Property, (iii) all Owned Intellectual Property is valid, subsisting and enforceable and (iv) the Borrower has taken all commercially reasonable action necessary to maintain and protect the Owned Intellectual Property.

(b) ***Agreements with Employees and Contractors***. As reasonably determined by the Borrower to be necessary in its business, the Borrower has entered into a legally enforceable agreements with such employees and subcontractors obligating each such Person to assign to the Borrower, without any additional compensation, any Intellectual Property Rights created, discovered or invented by such Person in the course of such Person's employment or engagement with the Borrower (except to the extent prohibited by law), and further requiring such Person to cooperate with the Borrower, without any additional compensation, in connection with securing and enforcing any Intellectual Property Rights therein; provided, however, that the foregoing shall not apply with respect to employees and subcontractors whose job descriptions are of the type such that no such assignments are reasonably foreseeable.

(c) ***Intellectual Property Rights Licensed from Others***. **Schedule 5.11** is a complete list of all agreements under which the Borrower has licensed Intellectual Property Rights from another Person ("Licensed Intellectual Property") other than readily available, non-negotiated licenses of computer software and other intellectual property used solely for performing accounting, word processing and similar administrative tasks ("Off-the-shelf Software") and a summary of any ongoing payments the Borrower is obligated to make with respect thereto. Except as disclosed on **Schedule 5.11** and in written agreements copies of which have been given to the Lender, the Borrower's licenses to use the Licensed Intellectual Property are free and clear of all restrictions, Liens, court orders, injunctions, decrees, or writs, whether by written agreement or otherwise. Except as disclosed on **Schedule 5.11**, the Borrower is not obligated or under any liability whatsoever to make any payments of a material nature by way of royalties, fees or otherwise to any owner of, licensor of, or other claimant to, any Intellectual Property Rights.

(d) ***Other Intellectual Property Needed for Business***. Except for Off-the-shelf Software and as disclosed on **Schedule 5.11**, the Owned Intellectual Property and the Licensed Intellectual Property constitute all Intellectual Property Rights used or necessary to conduct the Borrower's business as it is presently conducted or as the Borrower reasonably foresees conducting it.

(e) ***Infringement***. Except as disclosed on **Schedule 5.11**, the Borrower has no knowledge of, and has not received any written claim or notice alleging, any Infringement of

another Person's Intellectual Property Rights (including any written claim that the Borrower must license or refrain from using the Intellectual Property Rights of any third party) nor, to the Borrower's knowledge, is there any threatened claim or any reasonable basis for any such claim.

Section 5.12 Plans. Except as disclosed to the Lender in writing prior to the date hereof, neither the Borrower nor any ERISA Affiliate (i) maintains or has maintained any Pension Plan, (ii) contributes or has contributed to any Multiemployer Plan or (iii) provides or has provided post-retirement medical or insurance benefits with respect to employees or former employees (other than benefits required under Section 601 of ERISA, Section 4980B of the IRC or applicable state law). Neither the Borrower nor any ERISA Affiliate has received any notice or has any knowledge to the effect that it is not in full compliance with any of the requirements of ERISA, the IRC or applicable state law with respect to any Plan. No Reportable Event exists in connection with any Pension Plan. Each Plan which is intended to qualify under the IRC is so qualified, and no fact or circumstance exists which may have an adverse effect on the Plan's tax-qualified status. Neither the Borrower nor any ERISA Affiliate has (i) any accumulated funding deficiency (as defined in Section 302 of ERISA and Section 412 of the IRC) under any Plan, whether or not waived, (ii) any liability under Section 4201 or 4243 of ERISA for any withdrawal, partial withdrawal, reorganization or other event under any Multiemployer Plan or (iii) any liability or knowledge of any facts or circumstances which could result in any liability to the Pension Benefit Guaranty Corporation, the Internal Revenue Service, the Department of Labor or any participant in connection with any Plan (other than routine claims for benefits under the Plan).

Section 5.13 Default. The Borrower is not in breach or default of any provisions of any agreements, instruments, decrees and orders to which it is a party or by which it or its property is bound or affected, which breach or default could have a Material Adverse Effect.

Section 5.14 Environmental Matters.

(a) ***Presence of Hazardous Substances***. Except as disclosed on **Schedule 5.14**, there are not present in, on or under the Premises any Hazardous Substances in such form or quantity as to create any material liability or obligation for either the Borrower or the Lender under the common law of any jurisdiction or under any Environmental Law, and no Hazardous Substances have ever been stored, buried, spilled, leaked, discharged, emitted or released in, on or under the Premises in such a way as to create any such material liability.

(b) ***Disposal of Hazardous Substances***. Except as disclosed on **Schedule 5.14**, the Borrower has not disposed of Hazardous Substances in such a manner as to create any material liability under any Environmental Law.

(c) ***Claims***. Except as disclosed on **Schedule 5.14**, there have not existed in the past, nor are there any threatened or impending requests, claims, notices, investigations, demands, administrative proceedings, hearings or litigation relating in any way to the Premises or the Borrower, alleging material liability under, violation of, or noncompliance with any Environmental Law or any license, permit or other authorization issued pursuant thereto.

(d) ***Compliance with Environmental Law***. Except as disclosed on **Schedule 5.14**, the Borrower's businesses are and have in the past always been conducted in accordance with all Environmental Laws and all licenses, permits and other authorizations required pursuant to any Environmental Law and necessary for the lawful and efficient operation of such businesses are in the Borrower's possession and are in full force and effect, nor has Borrower been denied insurance on grounds related to potential environmental liability. No permit required under any Environmental Law is scheduled to expire within 12 months and there is no threat that any such permit will be withdrawn, terminated, limited or materially changed.

(e) ***Lists***. Except as disclosed on **Schedule 5.14**, the Premises are not and never have been listed on the National Priorities List, the Comprehensive Environmental Response, Compensation and Liability Information System or any similar federal, state or local list, schedule, log, inventory or database.

(f) ***Environmental Reports***. The Borrower has delivered to the Lender all environmental assessments, audits, reports, permits, licenses and other documents describing or relating in any way to the Premises or Borrower's businesses.

Section 5.15 Submissions to Lender. All financial and other information provided to the Lender by or on behalf of the Borrower in connection with the Borrower's request for the credit facilities contemplated hereby is (i) true and correct in all material respects, (ii) does not omit any material fact necessary to make such information not misleading and, (iii) as to projections, valuations or proforma financial statements, present a good faith opinion as to such projections, valuations and proforma condition and results.

Section 5.16 Financing Statements. The Borrower has authorized the filing of financing statements sufficient when filed to perfect the Security Interest and the other security interests created by the Security Documents. When such financing statements are filed in the offices noted therein, the Lender will have a valid and perfected security interest in all Collateral which is capable of being perfected by filing financing statements. None of the Collateral is or will become a fixture on real estate, unless a sufficient fixture filing is in effect with respect thereto.

Section 5.17 Rights to Payment. Each right to payment and each instrument, document, chattel paper and other agreement constituting or evidencing Collateral is (or, in the case of all future Collateral, will be when arising or issued) the valid, genuine and legally enforceable obligation, subject to no defense, setoff or counterclaim, of the account debtor or other obligor named therein or in the Borrower's records pertaining thereto as being obligated to pay such obligation.

ARTICLE VI

COVENANTS

So long as the Obligations shall remain unpaid, or the Credit Facility shall remain outstanding, the Borrowers will comply with the following requirements, unless the Lender shall otherwise consent in writing:

Section 6.1 Reporting Requirements. The Borrowers will deliver, or cause to be delivered, to the Lender each of the following, which shall be in form and detail acceptable to the Lender:

(a) ***Annual Financial Statements***. As soon as available, and in any event within one hundred five (105) days after the end of each fiscal year of the Borrowers, the Borrowers' audited financial statements with the unqualified opinion of independent certified public accountants selected by the Borrowers and acceptable to the Lender, which annual financial statements shall include the Borrowers' balance sheet as at the end of such fiscal year and the related statements of the Borrowers' income, retained earnings and cash flows for the fiscal year then ended, prepared on a consolidated basis to include any Affiliates, all in reasonable detail and prepared on a consolidated basis in accordance with GAAP, together with (i) copies of all management letters prepared by such accountants; and (ii) a certificate of the Borrowers' chief financial officer substantially in the form of **Exhibit B** hereto stating that such financial statements have been prepared in accordance with GAAP, fairly represent the Borrowers' financial position and the results of their operations, and whether or not such Officer has knowledge of the occurrence of any Event of Default and, if so, stating in reasonable detail the facts with respect thereto.

(b) ***Monthly Financial Statements***. As soon as available and in any event within twenty (20) days after the end of each month, the unaudited/internal balance sheet and statements of income and retained earnings of the Borrowers as at the end of and for such month and for the year-to-date period then ended, prepared on a consolidated basis to include any Affiliates, in reasonable detail and stating in comparative form the figures for the corresponding date and periods in the previous year, all prepared on a consolidated basis in accordance with GAAP, subject to year-end audit adjustments and the absence of footnotes, and which fairly represent the Borrowers' financial position and the results of their operations; and accompanied by a certificate of the Borrowers' chief financial officer, substantially in the form of **Exhibit B** hereto stating (i) that such financial statements have been prepared in accordance with GAAP, subject to year-end audit adjustments, and fairly represent the Borrowers' financial position and the results of their operations, (ii) whether or not such Officer has knowledge of the occurrence of any Event of Default not theretofore reported and remedied and, if so, stating in reasonable detail the facts with respect thereto, and (iii) all relevant facts in reasonable detail to evidence, and the computations as to, whether or not the Borrowers are in compliance with the Financial Covenants.

(c) ***Collateral Reports***. Within twenty (20) days after the end of each month or more frequently if the Lender so requires, the Borrowers will deliver to the Lender, or its designated agent, agings of each Borrower's accounts receivable and accounts payable, an inventory certification report, and a calculation of each Borrower's Accounts, Eligible Accounts, Inventory and Eligible Inventory as at the end of such month or shorter time period.

(d) ***Projections***. No later than thirty (30) days prior to the last day of each fiscal year, the Borrowers will deliver to the Lender their projected balance sheets, income statements, statements of cash flow and projected Availability for each month of the succeeding fiscal year, each in reasonable detail. Such items will be certified by the Borrowers' chief financial officer as being the most accurate projections available and identical to the projections used by the

Borrowers for internal planning purposes and be delivered with a statement of underlying assumptions and such supporting schedules and information as the Lender may in its discretion require.

(e) ***Supplemental Reports.*** Weekly, or more frequently if the Lender so requires, the Borrowers will deliver to the Lender the "daily collateral reports", receivables schedules, collection reports, copies of invoices to account debtors in excess of Twenty Thousand Dollars ($20,000), signed and dated shipment documents and delivery receipts for goods sold to said account debtors in excess of Twenty Thousand Dollars ($20,000).

(f) ***Litigation***. Immediately after the commencement thereof, the Borrowers will deliver to the Lender notice in writing of all litigation and of all proceedings before any governmental or regulatory agency affecting any Borrower (i) of the type described in Section 5.14(c) or (ii) which seek a monetary recovery against any Borrower in excess of Fifty Thousand Dollars ($50,000).

(g) ***Defaults***. When any Officer of any Borrower becomes aware of the probable occurrence of any Event of Default, the Borrowers will deliver to the Lender, no later than three (3) days after such Officer becomes aware of such Event of Default, notice of such occurrence, together with a detailed statement by a responsible Officer of such Borrower of the steps being taken by such Borrower to cure the effect thereof.

(h) ***Plans***. As soon as possible, and in any event within thirty (30) days after any Borrower knows or has reason to know that any Reportable Event with respect to any Pension Plan has occurred, the Borrowers will deliver to the Lender a statement of the Borrowers' chief financial officer setting forth details as to such Reportable Event and the action which the Borrowers propose to take with respect thereto, together with a copy of the notice of such Reportable Event to the Pension Benefit Guaranty Corporation. As soon as possible, and in any event within ten (10) days after any Borrower fails to make any quarterly contribution required with respect to any Pension Plan under Section 412(m) of the IRC, the Borrowers will deliver to the Lender a statement of the Borrowers' chief financial officer setting forth details as to such failure and the action which the Borrowers propose to take with respect thereto, together with a copy of any notice of such failure required to be provided to the Pension Benefit Guaranty Corporation. As soon as possible, and in any event within ten (10) days after any Borrower knows or has reason to know that it has or is reasonably expected to have any liability under Sections 4201 or 4243 of ERISA for any withdrawal, partial withdrawal, reorganization or other event under any Multiemployer Plan, the Borrowers will deliver to the Lender a statement of the Borrowers' chief financial officer setting forth details as to such liability and the action which the Borrowers propose to take with respect thereto.

(i) ***Disputes***. Promptly upon knowledge thereof, the Borrowers will deliver to the Lender notice of (i) any disputes or claims by any Borrower's customers; (ii) credit memos; and (iii) any goods returned to or recovered by any Borrower; in each of the foregoing instances, exceeding $15,000 individually or $25,000 in the aggregate during any fiscal year.

(j) ***Officers and Directors***. Promptly upon knowledge thereof, the Borrowers will deliver to the Lender notice any change in the persons constituting any Borrower's Executive Officers or Directors.

(k) ***Collateral***. Promptly upon knowledge thereof, the Borrowers will deliver to the Lender notice of any loss of or damage to any Collateral in excess of $50,000 or of any substantial adverse change in any Collateral or the prospect of payment thereof.

(l) ***Commercial Tort Claims***. Promptly upon knowledge thereof, the Borrowers will deliver to the Lender notice of any commercial tort claims either may bring against any Person, including the name and address of each defendant, a summary of the facts, an estimate of such Borrower's damages, copies of any complaint or demand letter submitted by such Borrower, and such other information as the Lender may request.

(m) ***Intellectual Property***.

(i) The Borrowers will give the Lender thirty (30) days prior written notice of their intent to acquire material Intellectual Property Rights; except for transfers permitted under Section 6.18, the Borrowers will give the Lender thirty (30) days prior written notice of their intent to dispose of material Intellectual Property Rights and upon request shall provide the Lender with copies of all proposed documents and agreements concerning such rights.

(ii) Promptly upon knowledge thereof, the Borrowers will deliver to the Lender notice of (A) any Infringement of its Intellectual Property Rights by others, (B) claims that any Borrower is Infringing another Person's Intellectual Property Rights and (C) any threatened cancellation, termination or material limitation of any Borrower's Intellectual Property Rights.

(iii) Promptly upon receipt, the Borrowers will give the Lender copies of all registrations and filings with respect to their Intellectual Property Rights.

(n) ***Reports to Owners***. Promptly upon their distribution, the Borrowers will deliver to the Lender copies of all financial statements, reports and proxy statements which any Borrower shall have sent to its Owners.

(o) ***Tax Returns of Each Borrower and Guarantor***. As soon as possible, and in any event no later than twenty (20) days after they are due to be filed (or any proper extension of such date), copies of the state and federal income tax returns and all schedules thereto of each Borrower and of Guarantor.

(p) ***Violations of Law***. Promptly upon knowledge thereof, the Borrowers will deliver to the Lender notice of any Borrower's violation of any law, rule or regulation, the non-compliance with which could have a Material Adverse Effect.

(q) ***Other Reports***. From time to time, with reasonable promptness, the Borrowers will deliver to the Lender any and all receivables schedules, collection reports, deposit records, equipment schedules, copies of invoices to account debtors, shipment documents and delivery

receipts for goods sold, and such other material, reports, records or information as the Lender may request.

Section 6.2 Financial Covenants.

(a) ***Minimum Book Net Worth***. The Borrowers will maintain, as of each date described below during the term hereof, a Book Net Worth of an amount not less than the amount set forth below opposite such period:

Date	Minimum Book Net Worth
Funding Date	$5,490,000
December 31, 2005	Book Net Worth as of September 30, 2005, plus $60,000
March 31, 2006	Book Net Worth as of December 31, 2005, plus $300,000 and Book Net Worth as of March 31, 2005, minus $942,000
June 30, 2006	Book Net Worth as of March 31, 2006, plus $150,000
September 30, 2006	Book Net Worth as of March 31, 2006, plus $425,000
December 31, 2006	Book Net Worth as of March 31, 2006, plus $725,000
March 31, 2007	Book Net Worth as of March 31, 2006, plus $1,250,000
June 30, 2007, and each June 30 thereafter	Book Net Worth as of prior March 31, plus $200,000
September 30, 2007, and each September 30 thereafter	Book Net Worth as of prior March 31, plus $600,000
December 31, 2007, and each December 31 thereafter	Book Net Worth as of prior March 31, plus $1,100,000
March 31, 2008, and each march 31 thereafter	Book Net Worth as of prior March 31, plus $1,750,000

(b) ***Minimum Net Income***. The Borrowers will achieve during each fiscal year period described below ending during the term hereof, a Net Income of not less than the amount set forth opposite such period:

Period	Minimum Net Income
Three (3) months ended December 31, 2005	$ 60,000
Six (6) months ended March 31, 2006	$ 300,000
Three (3) months ended June 30, 2006	$ 150,000
Six (6) months ended September 30, 2006	$ 425,000
Nine (9) months ended December 31, 2006, and each December 31 thereafter	$ 725,000
Twelve (12) months ended March 31, 2007, and each March 31 thereafter	$1,250,000
Three (3) months ended June 30, 2007, and each June 30 thereafter	$ 200,000
Six (6) months ended September 30, 2007, and each September 30 thereafter	$ 600,000
Nine (9) months ended December 31, 2007, and each December 31 thereafter	$1,100,000
Twelve (12) months ended March 31, 2008, and each March 31 thereafter	$1,750,000

(c) ***Capital Expenditures***. The Borrowers will not incur or contract to incur Capital Expenditures of more than One Million Five Hundred Thousand Dollars ($1,500,000) in the aggregate during any fiscal year ending during the term hereof, with no more than Five Hundred Thousand Dollars ($500,000) in the aggregate to be paid from the Borrowers' working capital in any such fiscal year.

Section 6.3 Permitted Liens; Financing Statements.

(a) The Borrowers will not create, incur or suffer to exist any Lien upon or of any of their respective assets, now owned or hereafter acquired, to secure any indebtedness; excluding, however, from the operation of the foregoing, the following (each a "Permitted Lien"; collectively, "Permitted Liens"):

(i) In the case of any Borrower's property which is not Collateral, covenants, restrictions, rights, easements and minor irregularities in title which do not materially interfere with such Borrower's business or operations as presently conducted;

(ii) Liens in existence on the date hereof and listed in **Schedule 6.3** hereto, securing indebtedness for borrowed money permitted under Section 6.4;

(iii) The Security Interest and Liens created by the Security Documents; and

(iv) Purchase money Liens relating to the acquisition of machinery and equipment of the Borrowers not exceeding the lesser of cost or fair market value thereof and so long as no Default Period is then in existence and none would exist immediately after such acquisition.

(b) The Borrowers will not amend any financing statements in favor of the Lender except as permitted by law. Any authorization by the Lender to any Person to amend financing statements in favor of the Lender shall be in writing.

Section 6.4 Indebtedness. The Borrower will not incur, create, assume or permit to exist any indebtedness or liability on account of deposits or advances or any indebtedness for borrowed money or letters of credit issued on the Borrower's behalf, or any other indebtedness or liability evidenced by notes, bonds, debentures or similar obligations, except:

(a) Indebtedness arising hereunder;

(b) Indebtedness of the Borrower in existence on the date hereof and listed in **Schedule 6.4** hereto;

(c) Indebtedness relating to Permitted Liens; and

(d) Indebtedness subject to a debt subordination agreement in favor of the Lender and acceptable to the Lender in its sole discretion.

Section 6.5 Guaranties. The Borrower will not assume, guarantee, endorse or otherwise become directly or contingently liable in connection with any obligations of any other Person, except:

(a) The endorsement of negotiable instruments by the Borrower for deposit or collection or similar transactions in the ordinary course of business; and

(b) Guaranties, endorsements and other direct or contingent liabilities in connection with the obligations of other Persons, in existence on the date hereof and listed in **Schedule 6.4** hereto.

Section 6.6 Investments and Subsidiaries. No Borrower will make or permit to exist any loans or advances to, or make any investment or acquire any interest whatsoever in, any other Person or Affiliate, including any partnership or joint venture, nor purchase or hold beneficially any stock or other securities or evidence of indebtedness of any other person or Affiliate, except:

(a) Investments in direct obligations of the United States of America or any agency or instrumentality thereof whose obligations constitute full faith and credit obligations of the United States of America having a maturity of one year or less, commercial paper issued by U.S. corporations rated "A-1" or "A-2" by Standard & Poor's Ratings Services or "P-1" or "P-2" by Moody's Investors Service or certificates of deposit or bankers' acceptances having a maturity of

one year or less issued by members of the Federal Reserve System having deposits in excess of One Hundred Million Dollars ($100,000,000) (which certificates of deposit or bankers' acceptances are fully insured by the Federal Deposit Insurance Corporation);

(b) Travel advances or loans to such Borrower's Officers and employees not exceeding at any one time an aggregate of Ten Thousand Dollars ($10,000); provided, however, that the Lender agrees that advances to Neal Verfuerth in an amount not to exceed $230,000 at any time outstanding may remain outstanding.

(c) Prepaid rent not exceeding one (1) month and security deposits; and

(d) Current investments in the Subsidiaries in existence on the date hereof and listed in **Schedule 5.5** hereto.

Section 6.7 Dividends and Distributions. Except as set forth in this Section 6.7, no Borrower will declare or pay any dividends (other than dividends payable solely in stock of the Borrower) on any class of its stock or make any payment on account of the purchase, redemption or other retirement of any shares of such stock or make any distribution in respect thereof, either directly or indirectly. With respect to Great Lakes so long as such Borrower is a "pass-through" tax entity for United States federal income tax purposes, and after first providing such supporting documentation as the Lender may request such Borrower may pay Tax Distributions, net of any prior year loss carry-forward.

Section 6.8 Salaries. The Borrowers will not pay excessive or unreasonable salaries, bonuses, commissions, consultant fees or other compensation; or increase the salary, bonus, commissions, consultant fees or other compensation of any Director, Executive Officer or consultant, or any member of their families, by more than ten percent (10%) in any one year, either individually or for all such persons in the aggregate, or pay any such increase from any source other than profits earned in the year of payment.

Section 6.9 Books and Records; Collateral Examination, Inspection and Appraisals.

(a) Each Borrower will keep accurate books of record and account for itself pertaining to the Collateral and pertaining to such Borrower's business and financial condition and such other matters as the Lender may from time to time request in which true and complete entries will be made in accordance with GAAP and, upon the Lender's request, will permit any officer, employee, attorney, accountant or other agent of Lender to audit, review, make extracts from or copy any and all company and financial books and records of such Borrower at all times during ordinary business hours, to send and discuss with account debtors and other obligors requests for verification of amounts owed to such Borrower, and to discuss such Borrower's affairs with any of its Directors, Officers, employees or agents.

(b) Each Borrower hereby irrevocably authorizes all accountants and third parties to disclose and deliver to Lender or its designated agent, at such Borrower's expense, all financial information, books and records, work papers, management reports and other information in their possession regarding such Borrower.

(c) Each Borrower will permit the Lender or its employees, accountants, attorneys or agents, to examine and inspect any Collateral or any other property of such Borrower at any time during ordinary business hours.

(d) The Lender may also, from time to time, no more than one (1) time each calendar year, obtain at the Borrowers' expense an appraisal of Inventory by appraisers acceptable to the Lender in its sole discretion; provided, however, that nothing contained herein shall limit the Lender's right to obtain, at the Borrowers' expense, such appraisals as it deems necessary during any Default Period.

Section 6.10 Account Verification.

(a) The Lender or its agent may at any time and from time to time send or require any Borrower to send requests for verification of accounts or notices of assignment to account debtors and other obligors. The Lender or its agent may also at any time and from time to time telephone account debtors and other obligors to verify accounts.

(b) Each Borrower shall pay when due each account payable due to a Person holding a Permitted Lien (as a result of such payable) on any Collateral.

Section 6.11 Compliance with Laws.

(a) Each Borrower shall (i) comply with the requirements of applicable laws and regulations, the non-compliance with which could have a Material Adverse Effect and (ii) use and keep the Collateral, and require that others use and keep the Collateral, only for lawful purposes, without violation of any federal, state or local law, statute or ordinance.

(b) Without limiting the foregoing undertakings, each Borrower specifically agrees that it will comply with all applicable Environmental Laws and obtain and comply with all permits, licenses and similar approvals required by any Environmental Laws, and will not generate, use, transport, treat, store or dispose of any Hazardous Substances in such a manner as to create any material liability or obligation under the common law of any jurisdiction or any Environmental Law.

(c) The Borrowers shall (a) ensure that no Owner shall be listed on the Specially Designated Nationals and Blocked Person List or other similar lists maintained by the Office of Foreign Assets Control ("OFAC"), the Department of the Treasury or included in any Executive Orders, (b) not use or permit the use of the proceeds of the Credit Facility or any other financial accommodation from Lender to violate any of the foreign asset control regulations of OFAC or other applicable law, (c) comply with all applicable Bank Secrecy Act laws and regulations, as amended from time to time, and (d) otherwise comply with the USA Patriot Act as required by federal law and Lender's policies and practices.

Section 6.12 Payment of Taxes and Other Claims. Each Borrower will pay or discharge, when due, (a) all taxes, assessments and governmental charges levied or imposed upon it or upon its income or profits, upon any properties belonging to it (including the Collateral) or upon or against the creation, perfection or continuance of the Security Interest, prior to the date on which penalties attach thereto, (b) all federal, state and local taxes required to

be withheld by it, and (c) all lawful claims for labor, materials and supplies which, if unpaid, might by law become a Lien upon any properties of such Borrower; provided, that such Borrower shall not be required to pay any such tax, assessment, charge or claim whose amount, applicability or validity is being contested in good faith by appropriate proceedings and for which proper reserves have been made.

Section 6.13 Maintenance of Properties.

(a) Each Borrower will keep and maintain the Collateral and all of its other properties necessary or useful in its business in good condition, repair and working order (normal wear and tear excepted) and will from time to time replace or repair any worn, defective or broken parts; provided, however, that nothing in this Section 6.13 shall prevent such Borrower from discontinuing the operation and maintenance of any of its properties if such discontinuance is, in such Borrower's judgment, desirable in the conduct of such Borrower's business and not disadvantageous in any material respect to the Lender. Each Borrower will take all commercially reasonable steps necessary to protect and maintain its Intellectual Property Rights.

(b) Each Borrower will defend the Collateral against all Liens, claims or demands of all Persons (other than the Lender) claiming the Collateral or any interest therein. Each Borrower will keep all Collateral free and clear of all Liens except Permitted Liens. Each Borrower will take all commercially reasonable steps necessary to prosecute any Person Infringing its Intellectual Property Rights and to defend itself against any Person accusing it of Infringing any Person's Intellectual Property Rights.

Section 6.14 Insurance. Each Borrower will obtain and at all times maintain insurance with insurers acceptable to Lender, in such amounts, on such terms (including any deductibles) and against such risks as may from time to time be required by the Lender, but in all events in such amounts and against such risks as is usually carried by companies engaged in similar business and owning similar properties in the same general areas in which the Borrower operates. Without limiting the generality of the foregoing, each Borrower will at all times maintain business interruption insurance including coverage for force majeure and keep all tangible Collateral insured against risks of fire (including so-called extended coverage), theft, collision (for Collateral consisting of motor vehicles) and such other risks and in such amounts as the Lender may reasonably request, with any loss payable to the Lender to the extent of its interest, and all policies of such insurance shall contain a lender's loss payable endorsement for the Lender's benefit. All policies of liability insurance required hereunder shall name the Lender as an additional insured.

Section 6.15 Preservation of Existence. Each Borrower will preserve and maintain its existence and all of its rights, privileges and franchises necessary or desirable in the normal conduct of its business and shall conduct its business in an orderly, efficient and regular manner.

Section 6.16 Delivery of Instruments, etc. Upon request by the Lender, each Borrower will promptly deliver to the Lender in pledge all instruments, documents and chattel paper constituting Collateral, duly endorsed or assigned by such Borrower.

Section 6.17 Sale or Transfer of Assets; Suspension of Business Operations. No Borrower will sell, lease, assign, transfer or otherwise dispose of (i) the stock of any Subsidiary, (ii) all or a substantial part of its assets, or (iii) any Collateral or any interest therein (whether in one transaction or in a series of transactions) to any other Person other than the sale of Inventory in the ordinary course of business and will not liquidate, dissolve or suspend business operations. No Borrower will transfer any part of its ownership interest in any Intellectual Property Rights and will not permit any agreement under which it has licensed Licensed Intellectual Property to lapse, except that a Borrower may transfer such rights or permit such agreements to lapse if it shall have reasonably determined that the applicable Intellectual Property Rights are no longer useful in its business. If a Borrower transfers any Intellectual Property Rights for value, the Borrower will pay over the proceeds to the Lender for application to the Obligations. No Borrower will license any other Person to use any of such Borrower's Intellectual Property Rights, except that each Borrower may grant licenses in the ordinary course of its business in connection with sales of Inventory or provision of services to its customers.

Section 6.18 Consolidation and Merger; Asset Acquisitions. No Borrower will consolidate with or merge into any Person (other than another of the Borrowers), or permit any other Person (other than another of the Borrowers) to merge into it, or acquire (in a transaction analogous in purpose or effect to a consolidation or merger) all or substantially all the assets of any other Person.

Section 6.19 Sale and Leaseback. No Borrower will enter into any arrangement, directly or indirectly, with any other Person whereby such Borrower shall sell or transfer any real or personal property, whether now owned or hereafter acquired, and then or thereafter rent or lease as lessee such property or any part thereof or any other property which such Borrower intends to use for substantially the same purpose or purposes as the property being sold or transferred.

Section 6.20 Restrictions on Nature of Business. No Borrower will engage in any line of business materially different from that presently engaged in by such Borrower and will not purchase, lease or otherwise acquire assets not related to its business.

Section 6.21 Accounting. The Borrowers will not adopt any material change in accounting principles other than as required by GAAP. The Borrowers will not adopt, permit or consent to any change in their fiscal year.

Section 6.22 Discounts, etc. After notice from the Lender, no Borrower will grant any discount, credit or allowance to any customer of such Borrower or accept any return of goods sold. No Borrower will at any time modify, amend, subordinate, cancel or terminate the obligation of any account debtor or other obligor of such Borrower.

Section 6.23 Plans. Unless disclosed to the Lender pursuant to Section 5.12, no Borrower nor any ERISA Affiliate will (i) adopt, create, assume or become a party to any Pension Plan, (ii) incur any obligation to contribute to any Multiemployer Plan, (iii) incur any obligation to provide post-retirement medical or insurance benefits with respect to employees or former employees (other than benefits required by law) or (iv) amend any Plan in a manner that would materially increase its funding obligations.

Section 6.24 Place of Business; Name. No Borrower will transfer its chief executive office or principal place of business, or move, relocate, close or sell any business location. No Borrower will permit any tangible Collateral or any records pertaining to the Collateral to be located in any state or area in which, in the event of such location, a financing statement covering such Collateral would be required to be, but has not in fact been, filed in order to perfect the Security Interest. No Borrower will change its name or jurisdiction of organization.

Section 6.25 Constituent Documents. The Borrowers will not amend their Constituent Documents in any manner which would (i) affect either Borrower's ability to perform under the terms of this Agreement as previously authorized, (ii) affect the Liens granted to the Lender pursuant to the Security Documents, or (iii) change either Borrower's name or jurisdiction of incorporation or organization.

Section 6.26 Performance by the Lender. If a Borrower at any time fails to perform or observe any of the foregoing covenants contained in this Article VI or elsewhere herein, and if such failure shall continue for a period of ten (10) calendar days after the Lender gives the Borrowers written notice thereof (or in the case of the agreements contained in Section 6.12 and Section 6.14, immediately upon the occurrence of such failure, without notice or lapse of time), the Lender may, but need not, perform or observe such covenant on behalf and in the name, place and stead of the applicable Borrower (or, at the Lender's option, in the Lender's name) and may, but need not, take any and all other actions which the Lender may reasonably deem necessary to cure or correct such failure (including the payment of taxes, the satisfaction of Liens, the performance of obligations owed to account debtors or other obligors, the procurement and maintenance of insurance, the execution of assignments, security agreements and financing statements, and the endorsement of instruments); and the Borrowers shall thereupon pay to the Lender on demand the amount of all monies expended and all costs and expenses (including reasonable attorneys' fees and legal expenses) incurred by the Lender in connection with or as a result of the performance or observance of such agreements or the taking of such action by the Lender, together with interest thereon from the date expended or incurred at the Default Rate. To facilitate the Lender's performance or observance of such covenants of the Borrowers, the Borrowers hereby irrevocably appoint the Lender, or the Lender's delegate, acting alone, as each Borrower's attorney in fact (which appointment is coupled with an interest) with the right (but not the duty) from time to time to create, prepare, complete, execute, deliver, endorse or file in the name and on behalf of the Borrowers any and all instruments, documents, assignments, security agreements, financing statements, applications for insurance and other agreements and writings required to be obtained, executed, delivered or endorsed by any Borrower under this Section 6.26.

ARTICLE VII

EVENTS OF DEFAULT, RIGHTS AND REMEDIES

Section 7.1 Events of Default. "Event of Default", wherever used herein, means any one of the following events:

(a) Default in the payment of any Obligations when they become due and payable;

(b) Default in the performance, or breach, of any covenant or agreement of any Borrower contained in this Agreement;

(c) The existence of any Overadvance arising as the result of any reduction in the Borrowing Base, or that arises in any manner and on terms not otherwise approved in advance by the Lender;

(d) Any majority ownership interest in any Borrower shall be sold, transferred, or become subject to a Lien or Neal Verfuerth shall cease to actively manage the Borrowers' day to day business activities;

(e) Any Borrower or any Guarantor shall be or become insolvent, or admit in writing its or his inability to pay its or his debts as they mature, or make an assignment for the benefit of creditors; or any Borrower or any Guarantor shall apply for or consent to the appointment of any receiver, trustee, or similar officer for it or him or for all or any substantial part of its or his property; or such receiver, trustee or similar officer shall be appointed without the application or consent of such Borrower or such Guarantor, as the case may be; or any Borrower or any Guarantor shall institute (by petition, application, answer, consent or otherwise) any bankruptcy, insolvency, reorganization, arrangement, readjustment of debt, dissolution, liquidation or similar proceeding relating to it or him under the laws of any jurisdiction; or any such proceeding shall be instituted (by petition, application or otherwise) against any Borrower or any such Guarantor; or any judgment, writ, warrant of attachment or execution or similar process shall be issued or levied against a substantial part of the property of any Borrower or any Guarantor;

(f) A petition shall be filed by or against any Borrower or any Guarantor under the United States Bankruptcy Code naming such Borrower or such Guarantor as debtor;

(g) Any representation or warranty made by any Borrower in this Agreement, by any Guarantor in any guaranty delivered to the Lender, or by any Borrower (or any of its Officers) or any Guarantor in any agreement, certificate, instrument or financial statement or other statement contemplated by or made or delivered pursuant to or in connection with this Agreement or any such guaranty shall prove to have been incorrect in any material respect when deemed to be effective;

(h) The rendering against any Borrower of an arbitration award, final judgment, decree or order for the payment of money in excess of Fifty Thousand Dollars ($50,000) and the continuance of such arbitration award, judgment, decree or order unsatisfied and in effect for any period of thirty (30) consecutive days without a stay of execution;

(i) A default under any bond, debenture, note or other evidence of material indebtedness of any Borrower owed to any Person other than the Lender, or under any indenture or other instrument under which any such evidence of indebtedness has been issued or by which it is governed, or under any material lease or other contract, and the expiration of the applicable period of grace, if any, specified in such evidence of indebtedness, indenture, other instrument, lease or contract;

(j) Any Reportable Event, which the Lender determines in good faith might constitute grounds for the termination of any Pension Plan or for the appointment by the

appropriate United States District Court of a trustee to administer any Pension Plan, shall have occurred and be continuing thirty (30) days after written notice to such effect shall have been given to the Borrowers by the Lender; or a trustee shall have been appointed by an appropriate United States District Court to administer any Pension Plan; or the Pension Benefit Guaranty Corporation shall have instituted proceedings to terminate any Pension Plan or to appoint a trustee to administer any Pension Plan; or any Borrower or any ERISA Affiliate shall have filed for a distress termination of any Pension Plan under Title IV of ERISA; or the Borrower or any ERISA Affiliate shall have failed to make any quarterly contribution required with respect to any Pension Plan under Section 412(m) of the IRC, which the Lender determines in good faith may by itself, or in combination with any such failures that the Lender may determine are likely to occur in the future, result in the imposition of a Lien on any Borrower's assets in favor of the Pension Plan; or any withdrawal, partial withdrawal, reorganization or other event occurs with respect to a Multiemployer Plan which results or could reasonably be expected to result in a material liability of any Borrower to the Multiemployer Plan under Title IV of ERISA;

(k) An event of default shall occur under any Security Document or any Guarantor Security Document;

(l) Any Borrower shall liquidate, dissolve, terminate or suspend its business operations or otherwise fail to operate its business in the ordinary course, merge with another organization (other than another of the Borrowers) unless such Borrower is the surviving entity; or sell or attempt to sell all or substantially all of its assets, without the Lender's prior written consent;

(m) Default in the payment of any amount owed by the Borrowers to the Lender other than any indebtedness arising hereunder;

(n) Any Guarantor shall repudiate, purport to revoke or fail to perform its obligations under its Guaranty in favor of the Lender, or any Guarantor shall cease to exist;

(o) Any Borrower shall take or participate in any action which would be prohibited under the provisions of any debt subordination agreement or any Intercreditor Agreement;

(p) Any event or circumstance with respect to any Borrower shall occur such that the Lender shall believe in good faith that the prospect of payment of all or any part of the Obligations or the performance by the Borrowers under the Loan Documents is impaired or any material adverse change in the business or financial condition of the Borrowers, taken as a whole, shall occur;

(q) Any breach, default or event of default by or attributable to any Affiliate under any agreement between such Affiliate and the Lender shall occur; or

(r) The indictment of any Director or Executive Officer of any Borrower, or Guarantor, for a felony offence under state or federal law.

Section 7.2 Rights and Remedies. During any Default Period, the Lender may exercise any or all of the following rights and remedies:

(a) The Lender may, by notice to the Borrowers, declare the Commitment to be terminated, whereupon the same shall forthwith terminate;

(b) The Lender may, by notice to the Borrowers, declare the Obligations to be forthwith due and payable, whereupon all Obligations shall become and be forthwith due and payable, without presentment, notice of dishonor, protest or further notice of any kind, all of which the Borrowers hereby expressly waive;

(c) The Lender may, without notice to the Borrowers and without further action, apply any and all money owing by the Lender to the Borrower to the payment of the Obligations;

(d) The Lender may exercise and enforce any and all rights and remedies available upon default to a secured party under the UCC, including the right to take possession of Collateral, or any evidence thereof, proceeding without judicial process or by judicial process (without a prior hearing or notice thereof, which each Borrower hereby expressly waives) and the right to sell, lease or otherwise dispose of any or all of the Collateral (with or without giving any warranties as to the Collateral, title to the Collateral or similar warranties), and, in connection therewith, each Borrower will on demand assemble its Collateral and make it available to the Lender at a place to be designated by the Lender which is reasonably convenient to both parties;

(e) The Lender may make demand upon the Borrowers and, forthwith upon such demand, the Borrowers will pay to the Lender in immediately available funds for deposit in the Special Account pursuant to Section 2.5 an amount equal to the aggregate maximum amount available to be drawn under all Letters of Credit then outstanding, assuming compliance with all conditions for drawing thereunder;

(f) The Lender may exercise and enforce its rights and remedies under the Loan Documents, the Guaranties and the Guarantor Security Documents;

(g) The Lender may without regard to any waste, adequacy of the security or solvency of any Borrower, apply for the appointment of a receiver of the Collateral, to which appointment the Borrowers hereby consent, whether or not foreclosure proceedings have been commenced under the Security Documents and whether or not a foreclosure sale has occurred; and

(h) The Lender may exercise any other rights and remedies available to it by law or agreement.

Notwithstanding the foregoing, upon the occurrence of an Event of Default described in Section 7.1(e) or (f), the Obligations shall be immediately due and payable automatically without presentment, demand, protest or notice of any kind. If the Lender sells any of the Collateral on credit, the Obligations will be reduced only to the extent of payments actually received. If the purchaser fails to pay for the Collateral, the Lender may resell the Collateral and shall apply any proceeds actually received to the Obligations.

Section 7.3 Certain Notices. If notice to a Borrower of any intended disposition of Collateral or any other intended action is required by law in a particular instance, such notice

shall be deemed commercially reasonable if given (in the manner specified in Section 8.3) at least ten (10) calendar days before the date of intended disposition or other action.

ARTICLE VIII

MISCELLANEOUS

Section 8.1 No Waiver; Cumulative Remedies; Compliance with Laws. No failure or delay by the Lender in exercising any right, power or remedy under the Loan Documents shall operate as a waiver thereof; nor shall any single or partial exercise of any such right, power or remedy preclude any other or further exercise thereof or the exercise of any other right, power or remedy under the Loan Documents, any Guaranty or any Guarantor Security Documents. The remedies provided in the Loan Documents, the Guaranties and the Guarantor Security Documents are cumulative and not exclusive of any remedies provided by law. The Lender may comply with any applicable state or federal law requirements in connection with a disposition of the Collateral and such compliance will not be considered adversely to affect the commercial reasonableness of any sale of the Collateral.

Section 8.2 Amendments, Etc. No amendment, modification, termination or waiver of any provision of any Loan Document or consent to any departure by the Borrowers therefrom or any release of a Security Interest shall be effective unless the same shall be in writing and signed by the Lender, and then such waiver or consent shall be effective only in the specific instance and for the specific purpose for which given. No notice to or demand on the Borrowers in any case shall entitle the Borrowers to any other or further notice or demand in similar or other circumstances.

Section 8.3 Notices; Communication of Confidential Information; Requests for Accounting. Except as otherwise expressly provided herein, all notices, requests, demands and other communications provided for under the Loan Documents shall be in writing and shall be (a) personally delivered, (b) sent by first class United States mail, (c) sent by overnight courier of national reputation, (d) transmitted by telecopy, or (e) sent as electronic mail, in each case delivered or sent to the party to whom notice is being given to the business address, telecopier number, or e-mail address set forth below next to its signature or, as to each party, at such other business address, telecopier number, or e-mail address as it may hereafter designate in writing to the other party pursuant to the terms of this Section. All such notices, requests, demands and other communications shall be deemed to be an authenticated record communicated or given on (a) the date received if personally delivered, (b) when deposited in the mail if delivered by mail, (c) the date delivered to the courier if delivered by overnight courier, or (d) the date of transmission if sent by telecopy or by e-mail, except that notices or requests delivered to the Lender pursuant to any of the provisions of Article II of this Agreement shall not be effective until received by the Lender. All notices, financial information, or other business records sent by either party to this Agreement may be transmitted, sent, or otherwise communicated via such medium as the sending party may deem appropriate and commercially reasonable; provided, however, that the risk that the confidentiality or privacy of such notices, financial information, or other business records sent by either party may be compromised shall be borne exclusively by the Borrowers. All requests for an accounting under Section 9-210 of the UCC (i) shall be made in a writing signed by a Person authorized under Section 2.2(b), (ii) shall be personally delivered,

sent by registered or certified mail, return receipt requested, or by overnight courier of national reputation, (iii) shall be deemed to be sent when received by the Lender and (iv) shall otherwise comply with the requirements of Section 9-210 of the UCC. The Borrowers request that the Lender respond to all such requests which on their face appear to come from an authorized individual and release the Lender from any liability for so responding. The Borrowers shall pay the Lender the maximum amount allowed by law for responding to such requests.

Section 8.4 Further Documents. Each Borrower will from time to time execute, deliver, endorse and authorize the filing of any and all instruments, documents, conveyances, assignments, security agreements, financing statements, control agreements and other agreements and writings that the Lender may reasonably request in order to secure, protect, perfect or enforce the Security Interest or the Lender's rights under the Loan Documents (but any failure to request or assure that such Borrower executes, delivers, endorses or authorizes the filing of any such item shall not affect or impair the validity, sufficiency or enforceability of the Loan Documents and the Security Interest, regardless of whether any such item was or was not executed, delivered or endorsed in a similar context or on a prior occasion).

Section 8.5 Costs and Expenses. The Borrowers shall pay on demand all costs and expenses, including reasonable attorneys' fees, incurred by the Lender in connection with the Obligations, this Agreement, the Loan Documents, any Letter of Credit, the Guaranties, the Guarantor Security Documents and any other document or agreement related hereto or thereto, and the transactions contemplated hereby, including all such costs, expenses and fees incurred in connection with the negotiation, preparation, execution, amendment, administration, performance, collection and enforcement of the Obligations and all such documents and agreements and the creation, perfection, protection, satisfaction, foreclosure or enforcement of the Security Interest.

Section 8.6 Indemnity. In addition to the payment of expenses pursuant to Section 8.5, the Borrowers shall indemnify, defend and hold harmless the Lender, and any of its participants, parent corporations, subsidiary corporations, affiliated corporations, successor corporations, and all present and future officers, directors, employees, attorneys and agents of the foregoing (the "Indemnitees") from and against any of the following (collectively, "Indemnified Liabilities"):

(i) Any and all transfer taxes, documentary taxes, assessments or charges made by any governmental authority by reason of the execution and delivery of the Loan Documents, the Guaranties or the Guarantor Security Documents or the making of the Advances;

(ii) Any claims, loss or damage to which any Indemnitee may be subjected if any representation or warranty contained in Section 5.14 proves to be incorrect in any respect or as a result of any violation of the covenant contained in Section 6.11(b); and

(iii) Any and all other liabilities, losses, damages, penalties, judgments, suits, claims, costs and expenses of any kind or nature whatsoever (including the reasonable fees and disbursements of counsel) in connection with the foregoing and any other investigative, administrative or judicial proceedings, whether or not such Indemnitee

shall be designated a party thereto, which may be imposed on, incurred by or asserted against any such Indemnitee, in any manner related to or arising out of or in connection with the making of the Advances and the Loan Documents, the Guaranties and the Guarantor Security Documents or the use or intended use of the proceeds of the Advances.

If any investigative, judicial or administrative proceeding arising from any of the foregoing is brought against any Indemnitee, upon such Indemnitee's request, the Borrowers, or counsel designated by the Borrowers and satisfactory to the Indemnitee, will resist and defend such action, suit or proceeding to the extent and in the manner directed by the Indemnitee, at the Borrowers' sole costs and expense. Each Indemnitee will use its best efforts to cooperate in the defense of any such action, suit or proceeding. If the foregoing undertaking to indemnify, defend and hold harmless may be held to be unenforceable because it violates any law or public policy, the Borrowers shall nevertheless make the maximum contribution to the payment and satisfaction of each of the Indemnified Liabilities which is permissible under applicable law. The Borrowers' obligation under this Section 8.6 shall survive the termination of this Agreement and the discharge of the Borrowers' other obligations hereunder.

Section 8.7 Participants. The Lender and its participants, if any, are not partners or joint venturers, and the Lender shall not have any liability or responsibility for any obligation, act or omission of any of its participants. All rights and powers specifically conferred upon the Lender may be transferred or delegated to any of the Lender's participants, successors or assigns.

Section 8.8 Execution in Counterparts; Telefacsimile Execution. This Agreement and other Loan Documents may be executed in any number of counterparts, each of which when so executed and delivered shall be deemed to be an original and all of which counterparts, taken together, shall constitute but one and the same instrument. Delivery of an executed counterpart of this Agreement by telefacsimile shall be equally as effective as delivery of an original executed counterpart of this Agreement. Any party delivering an executed counterpart of this Agreement by telefacsimile also shall deliver an original executed counterpart of this Agreement but the failure to deliver an original executed counterpart shall not affect the validity, enforceability, and binding effect of this Agreement.

Section 8.9 Retention of Borrowers' Records. The Lender shall have no obligation to maintain any electronic records or any documents, schedules, invoices, agings, or other papers delivered to the Lender by the Borrowers or in connection with the Loan Documents for more than thirty (30) days after receipt by the Lender. If there is a special need to retain specific records, the Borrowers must inform Lender of its need to retain those records with particularity, which must be delivered in accordance with the notice provisions of Section 8.3 of this Agreement within thirty (30) days of Lender taking control of same.

Section 8.10 Binding Effect; Assignment; Complete Agreement; Sharing Information. The Loan Documents shall be binding upon and inure to the benefit of each Borrower and the Lender and their respective successors and assigns, except that no Borrower shall have the right to assign its rights thereunder or any interest therein without the Lender's prior written consent. To the extent permitted by law, each Borrower waives and will not assert against any assignee any claims, defenses or set-offs which such Borrower could assert against the Lender. This

Agreement shall also bind all Persons who become a party to this Agreement as a borrower. This Agreement, together with the Loan Documents, comprises the complete and integrated agreement of the parties on the subject matter hereof and supersedes all prior agreements, written or oral, on the subject matter hereof. To the extent that any provision of this Agreement contradicts other provisions of the Loan Documents, this Agreement shall control. Without limiting the Lender's right to share information regarding the Borrowers and their Affiliates with the Lender's participants, accountants, lawyers and other advisors, the Lender may share any and all information it may have in its possession regarding the Borrowers and their Affiliates, and the Borrowers waive any right of confidentiality they may have with respect to such sharing of information.

Section 8.11 Severability of Provisions. Any provision of this Agreement which is prohibited or unenforceable shall be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof.

Section 8.12 Headings. Article, Section and subsection headings in this Agreement are included herein for convenience of reference only and shall not constitute a part of this Agreement for any other purpose.

Section 8.13 Governing Law; Jurisdiction, Venue; Waiver of Jury Trial. The Loan Documents shall be governed by and construed in accordance with the substantive laws (other than conflict laws) of the State of Wisconsin. The parties hereto hereby (i) consent to the personal jurisdiction of the state and federal courts located in the State of Wisconsin in connection with any controversy related to this Agreement; (ii) waive any argument that venue in any such forum is not convenient; (iii) agree that any litigation initiated by the Lender or any Borrower in connection with this Agreement or the other Loan Documents may be venued in either the state or federal courts located in the City of Milwaukee, Wisconsin, County of Milwaukee; and (iv) agree that a final judgment in any such suit, action or proceeding shall be conclusive and may be enforced in other jurisdictions by suit on the judgment or in any other manner provided by law.

EACH BORROWER AND LENDER WAIVE ANY RIGHT TO TRIAL BY JURY IN ANY ACTION AT LAW OR IN EQUITY OR IN ANY OTHER PROCEEDING BASED ON OR PERTAINING TO THIS AGREEMENT OR ANY OTHER LOAN DOCUMENT. Borrowers' Initials __________ ; Lender's Initials __________ .

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed by their respective officers thereunto duly authorized as of the date first above written.

Orion Energy Systems, Ltd.
1204 Pilgrim Road
Plymouth, Wisconsin 53073
Facsimile: ____/____-_______
Attention:
e-mail:

ORION ENERGY SYSTEMS, LTD.

By: /s/ Neal R. Verfuerth
Neal R. Verfuerth, President

By: /s/ Eric von Estorff
Eric von Estorff, Secretary

Great Lakes Energy Technologies, LLC
2001 Mirro Drive
Manitowoc, Wisconsin 54220
Facsimile: ____/____-________
Attention:
e-mail:

GREAT LAKES ENERGY TECHNOLOGIES, LLC

By: /s/ Neal Verfuerth
Neal R. Verfuerth, Manager

Wells Fargo Bank, National Association
acting through its
Wells Fargo Business Credit operating division
100 East Wisconsin Avenue, Suite 1400
MAC N9811–143
Milwaukee, Wisconsin 53202
Telecopier: 414/224-7439
Attention: Melissa L. Dreifuerst
e-mail: melissa.l.dreifuerst@wellsfargo.com

WELLS FARGO BANK,
NATIONAL ASSOCIATION, acting through its
Wells Fargo Business Credit operating division

By: /s/ Melissa L. Dreifuerst
Melissa L. Dreifuerst, Vice President

Table of Exhibits and Schedules

Exhibit A	Form of Revolving Note
Exhibit B	Compliance Certificate
Exhibit C	Premises
Schedule 1.1	Executive Officers
Schedule 5.1	Trade Names, Chief Executive Office, Principal Place of Business, and Locations of Collateral
Schedule 5.2	Capitalization and Organizational Chart
Schedule 5.5	Subsidiaries
Schedule 5.7	Litigation Matters in Excess of $50,000.00
Schedule 5.11	Intellectual Property Disclosures
Schedule 5.14	Environmental Matters
Schedule 6.3	Permitted Liens
Schedule 6.4	Permitted Indebtedness and Guaranties

Exhibit A to Credit and Security Agreement

REVOLVING NOTE

$25,000,000.00 December 22, 2005

For value received, the undersigned, ORION ENERGY SYSTEMS, LTD., a Wisconsin corporation (“Orion”) and GREAT LAKES ENERGY TECHNOLOGIES, LLC, a Wisconsin limited liability company (“Great Lakes” and together with Orion, the “Borrowers” and each a “Borrower”), hereby jointly and severally promise to pay on the Termination Date under the Credit Agreement (defined below), to the order of WELLS FARGO BANK, NATIONAL ASSOCIATION, a national banking association, acting through its WELLS FARGO BUSINESS CREDIT operating division (the “Lender”), at its office in Milwaukee, Wisconsin, or at any other place designated at any time by the holder hereof, in lawful money of the United States of America and in immediately available funds, the lesser of the principal sum of Twenty Five Million Dollars ($25,000,000) or the aggregate unpaid principal amount of all Revolving Advances made by the Lender to the Borrowers under the Credit Agreement (defined below) together with interest on the principal amount hereunder remaining unpaid from time to time, computed on the basis of the actual number of days elapsed and a three hundred sixty (360) day year, from the date hereof until this Note is fully paid at the rate from time to time in effect under the Credit and Security Agreement dated the same date as this Note (the “Credit Agreement”) by and among the Lender and the Borrowers. The principal hereof and interest accruing thereon shall be due and payable as provided in the Credit Agreement. This Note may be prepaid only in accordance with the Credit Agreement.

This Note is issued pursuant, and is subject, to the Credit Agreement, which provides, among other things, for acceleration hereof. This Note is the Revolving Note referred to in the Credit Agreement. This Note is secured, among other things, pursuant to the Credit Agreement and the Security Documents as therein defined, and may now or hereafter be secured by one or more other security agreements, mortgages, deeds of trust, assignments or other instruments or agreements.

The Borrowers shall pay all costs of collection, including reasonable attorneys’ fees and legal expenses if this Note is not paid when due, whether or not legal proceedings are commenced.

Presentment or other demand for payment, notice of dishonor and protest are expressly waived.

ORION ENERGY SYSTEMS, LTD.

By: ____________________________

Neal R. Verfuerth, President

GREAT LAKES ENERGY TECHNOLOGIES, LLC

By: ____________________________

Neal R. Verfuerth, President

Exhibit B to Credit and Security Agreement

COMPLIANCE CERTIFICATE

To:	Wells Fargo Business Credit
Date:	__________, 200___
Subject:	Financial Statements

In accordance with our Credit and Security Agreement dated as of December 22, 2005 (the "Credit Agreement"), attached are the financial statements of each of Orion Energy Systems, Ltd., a Wisconsin corporation ("Orion") and Great Lakes Energy Technologies, LLC, a Wisconsin limited liability company ("Great Lakes" and together with Orion, the "Borrowers" and each a "Borrower") as of and for __________, 200___ (the "Reporting Date") and the year-to-date period then ended (the "Current Financials"). All terms used in this certificate have the meanings given in the Credit Agreement.

I certify that the Current Financials have been prepared in accordance with GAAP, subject to year-end adjustments, and fairly present each Borrower's financial condition as of the date thereof.

I further hereby certify as follows: Events of Default. (Check one):

o The undersigned does not have knowledge of the occurrence of an Event of Default under the Credit Agreement except as previously reported in writing to the Lender.

o The undersigned has knowledge of the occurrence of an Event of Default under the Credit Agreement not previously reported in writing to the Lender and attached hereto is a statement of the facts with respect to thereto. The Borrower acknowledges that pursuant to 2.5(c) of the Credit Agreement, the Lender may impose the Default Rate at any time during the resulting Default Period.

Material Adverse Change in Litigation Matters of Borrowers. I further hereby certify as follows (check one):

o The undersigned has no knowledge of any material adverse change to the litigation exposure of the Borrowers or any of the Guarantors or Affiliates.

o The undersigned has knowledge of material adverse changes to the litigation exposure of the Borrowers or any of the Guarantors or Affiliates not previously disclosed in Schedule 5.7. Attached to this Certificate is a statement of the facts with respect thereto.

Financial Covenants. I further hereby certify as follows (check and complete each of the following):

1. **Minimum Book Net Worth**. Pursuant to Section 6.2(a) of the Credit Agreement, as of the Reporting Date, the combined Book Net Worth of the Borrowers was $__________ which ☐ satisfies ☐ does not satisfy the requirement that such amount be not less than $__________ on the Reporting Date as set forth in the table below:

Date	Minimum Book Net Worth
Funding Date	$60,000
December 31, 2005	Book Net Worth as of September 30, 2005, plus $150,000
March 31, 2006	Book Net Worth as of December 31, 2005, plus $300,000 and Book Net Worth as of March 31, 2005, minus $942,000
June 30, 2006	Book Net Worth as of March 31, 2006, plus $150,000
September 30, 2006	Book Net Worth as of March 31, 2006, plus $425,000
December 31, 2006	Book Net Worth as of March 31, 2006, plus $725,000
March 31, 2007	Book Net Worth as of March 31, 2006, plus $1,250,000
June 30, 2007, and each June 30 thereafter	Book Net Worth as of prior March 31, plus $200,000
September 30, 2007, and each September 30 thereafter	Book Net Worth as of prior March 31, plus $600,000
December 31, 2007, and each December 31 thereafter	Book Net Worth as of prior March 31, plus $1,100,000
March 31, 2008, and each march 31 thereafter	Book Net Worth as of prior March 31, plus $1,750,000

2. **Minimum Net Income**. Pursuant to Section 6.2(b) of the Credit Agreement, the combined Net Income of the Borrowers for the fiscal year-to-date period ending on the Reporting Date, was $__________, which ☐ satisfies ☐ does not satisfy the requirement that such amount be not less than $__________ during the relevant period as set forth in the table below:

Period	Minimum Net Income
Three (3) months ended December 31, 2005	$ 60,000
Six (6) months ended March 31, 2006	$ 300,000
Three (3) months ended June 30, 2006	$ 150,000
Six (6) months ended September 30, 2006	$ 425,000
Nine (9) months ended December 31, 2006, and each December 31 thereafter	$ 725,000
Twelve (12) months ended March 31, 2007, and each March 31 thereafter	$1,250,000
Three (3) months ended June 30, 2007, and each June 30 thereafter	$ 200,000
Six (6) months ended September 30, 2007, and each September 30 thereafter	$ 600,000
Nine (9) months ended December 31, 2007, and each December 31 thereafter	$1,100,000
Twelve (12) months ended March 31, 2008, and each March 31 thereafter	$1,750,000

3. **Capital Expenditures**. Pursuant to Section 6.2(c) of the Credit Agreement, for the year-to-date period ending on the Reporting Date, the Borrowers have expended or contracted to expend during the fiscal year ended __________, 200___, for Capital Expenditures, $__________ in the aggregate of which $__________ was from the Borrowers' working capital, which ☐ satisfies ☐ does not satisfy the requirement that (a) such expenditures not exceed One Million Five Hundred Thousand Dollars ($1,500,000) in the aggregate during any fiscal year thereafter, and (b) not more than Five Hundred Thousand Dollars ($500,000) in the aggregate of such expenditures may be made from the Borrowers' working capital during in any fiscal year.

4. **Salaries**. As of the Reporting Date, the Borrowers have not paid excessive or unreasonable salaries, bonuses, commissions, consultant fees or other compensation, or increased the salary, bonus, commissions, consultant fees or other compensation of any Director, Officer or consultant, or any member of their families, by more than ten percent (10%) over the amount paid in the Borrowers' previous fiscal year, either individually or for all such persons in the aggregate, and has not paid any increase from any source other than profits earned in the year of payment, and as a consequence o is o is not in compliance with Section 6.8 of the Credit Agreement.

Attached hereto are all relevant facts in reasonable detail to evidence, and the computations of the financial covenants referred to above. These computations were made in accordance with GAAP.

ORION ENERGY SYSTEMS, LTD.

By: ______________________________
Its Chief Financial Officer

GREAT LAKES ENERGY TECHNOLOGIES, LLC

By: ______________________________
Its Chief Financial Officer

Exhibit C to Credit and Security Agreement

PREMISES

The Premises referred to in the Credit and Security Agreement are legally described as follows:

Orion Energy Systems, Ltd.

Lots 8 and 9, Plymouth Industrial Park – South, in the County of Sheboygan and State of Wisconsin.

Great Lakes Energy Technologies, LLC

PARCEL A:

Tract Numbered One (1) of a Certified Survey in the Southeast Quarter of Section Numbered Nine (9), Township Numbered Nineteen (19) North, Range Numbered Twenty-four (24) East, in the City of Manitowoc, as recorded in the Office of the Register of Deeds for Manitowoc County, Wisconsin, in Volume 24 of Certified Survey Maps on page 63 as Document No. 967193.

EXCEPTING the East 40 feet for Woodland Drive.

PARCEL B:

Non-exclusive easement for the benefit of Parcel A created by an instrument dated May 27, 2004 and recorded as Document No. 969543 for ingress and egress as provided for therein.

FIRST AMENDMENT TO CREDIT AND SECURITY AGREEMENT

THIS AMENDMENT, dated as of January 26, 2006, is made by and among ORION ENERGY SYSTEMS, LTD., a Wisconsin corporation ("Orion") and GREAT LAKES ENERGY TECHNOLOGIES, LLC, a Wisconsin limited liability company ("Great Lakes" and together with Orion, the "Borrowers" and each a "Borrower"), and WELLS FARGO BANK, NATIONAL ASSOCIATION ("Lender"), acting through its WELLS FARGO BUSINESS CREDIT operating division.

RECITALS

The Borrower and the Lender are parties to a Credit and Security Agreement dated as of December 22, 2005 (the "Credit Agreement"). Capitalized terms used in these recitals have the meanings given to them in the Credit Agreement unless otherwise specified.

The Borrower has requested that certain amendments be made to the Credit Agreement, which the Lender is willing to make pursuant to the terms and conditions set forth herein.

NOW, THEREFORE, in consideration of the premises and of the mutual covenants and agreements herein contained, it is agreed as follows:

1. Defined Terms. Capitalized terms used in this Amendment which are defined in the Credit Agreement shall have the same meanings as defined therein, unless otherwise defined herein.

2. Amendment of Section 6.2(c). Section 6.2(c) of the Credit Agreement is amended to read as follows:

> (c) ***Capital Expenditures.*** The Borrowers will not incur or contract to incur Capital Expenditures of more than One Million Five Hundred Thousand Dollars ($1,500,000) in the aggregate during any fiscal year ending during the term hereof, with no more than Eight Hundred Fifty Thousand Dollars ($850,000) in the aggregate to be paid from the Borrowers' working capital in the fiscal year ending March 31, 2006, and no more than Five Hundred Thousand Dollars ($500,000) in the aggregate to be paid from the Borrowers' working capital in any fiscal year thereafter.

3. No Other Changes. Except as explicitly amended by this Amendment, all of the terms and conditions of the Credit Agreement shall remain in full force and effect and shall apply to any advance or letter of credit thereunder.

4. Conditions Precedent. This Amendment shall be effective when the Lender shall have received an executed original hereof, together with the Acknowledgment and Agreement of Guarantor set forth at the end of this Amendment, duly executed by the Guarantor.

5. Representations and Warranties. The Borrower hereby represents and warrants to the Lender as follows:

(a) The Borrower has all requisite power and authority to execute this Amendment and to perform all of its obligations hereunder, and this Amendment has been duly executed and delivered by the Borrower and constitutes the legal, valid and binding obligation of the Borrower, enforceable in accordance with its terms.

(b) The execution, delivery and performance by the Borrower of this Amendment have been duly authorized by all necessary corporate action and do not (i) require any authorization, consent or approval by any governmental department, commission, board, bureau, agency or instrumentality, domestic or foreign, (ii) violate any provision of any law, rule or regulation or of any order, writ, injunction or decree presently in effect, having applicability to the Borrower, or the articles of incorporation or by-laws of the Borrower, or (iii) result in a breach of or constitute a default under any indenture or loan or credit agreement or any other agreement, lease or instrument to which the Borrower is a party or by which it or its properties may be bound or affected.

(c) All of the representations and warranties contained in Article V of the Credit Agreement are correct on and as of the date hereof as though made on and as of such date, except to the extent that such representations and warranties relate solely to an earlier date.

6. References. All references in the Credit Agreement to "this Agreement" shall be deemed to refer to the Credit Agreement as amended hereby; and any and all references in the Security Documents to the Credit Agreement shall be deemed to refer to the Credit Agreement as amended hereby.

7. No Waiver. The execution of this Amendment and acceptance of any documents related hereto shall not be deemed to be a waiver of any Default or Event of Default under the Credit Agreement or breach, default or event of default under any Security Document or other document held by the Lender, whether or not known to the Lender and whether or not existing on the date of this Amendment.

8. Release. The Borrower, and the Guarantor by signing the Acknowledgment and Agreement of Guarantor set forth below, each hereby absolutely and unconditionally releases and forever discharges the Lender, and any and all participants, parent corporations, subsidiary corporations, affiliated corporations, insurers, indemnitors, successors and assigns thereof, together with all of the present and former directors, officers, agents and employees of any of the foregoing, from any and all claims, demands or causes of action of any kind, nature or description, whether arising in law or equity or upon contract or tort or under any state or federal law or otherwise, which the Borrower or such Guarantor has had, now has or has made claim to have against any such person for or by reason of any act, omission, matter, cause or thing whatsoever arising from the beginning of time to and including the date of this Amendment, whether such claims, demands and causes of action are matured or unmatured or known or unknown.

9. Costs and Expenses. The Borrower hereby reaffirms its agreement under the Credit Agreement to pay or reimburse the Lender on demand for all costs and expenses incurred by the Lender in connection with the Loan Documents, including without limitation all reasonable fees and disbursements of legal counsel. Without limiting the generality of the foregoing, the Borrower specifically agrees to pay all fees and disbursements of counsel to the Lender for the services performed by such counsel in connection with the preparation of this Amendment and the documents and instruments incidental hereto. The Borrower hereby agrees that the Lender may, at any time or from time to time in its sole discretion and without further authorization by the Borrower, make a loan to the Borrower under the Credit Agreement, or apply the proceeds of any loan, for the purpose of paying any such fees, disbursements, costs and expenses.

10. Miscellaneous. This Amendment and the Acknowledgment and Agreement of Guarantor may be executed in any number of counterparts, each of which when so executed and delivered shall be deemed an original and all of which counterparts, taken together, shall constitute one and the same instrument.

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be duly executed as of the date first written above.

WELLS FARGO BANK,
NATIONAL ASSOCIATION, acting through its
Wells Fargo Business Credit operating division

By: /s/ Melissa L. Dreifuerst
Melissa L. Dreifuerst, Vice President

ORION ENERGY SYSTEMS, LTD.

By: /s/ Neal R. Verfuerth
Neal R. Verfuerth, President

By: /s/ Eric von Estorff
Eric von Estorff, Secretary

GREAT LAKES ENERGY TECHNOLOGIES, LLC

By: /s/ Neal R. Verfuerth
Neal R. Verfuerth, Manager

ACKNOWLEDGMENT AND AGREEMENT OF GUARANTORS

The undersigned, a guarantor of the indebtedness of Orion Energy Systems, Ltd., a Wisconsin corporation (“Orion”) and Great Lakes Energy Technologies, LLC, a Wisconsin limited liability company (“Great Lakes” and together with Orion, the “Borrowers” and each a “Borrower”) to Wells Fargo Bank, National Association (the “Lender”), through its Wells Fargo Business Credit operating division, pursuant to a Guaranty by Corporation dated as of December 22, 2005, (the “Guaranty”), hereby (i) acknowledges receipt of the foregoing Amendment; (ii) consents to the terms (including without limitation the release set forth in paragraph 8 of the Amendment) and execution thereof; (iii) reaffirms its obligations to the Lender pursuant to the terms of its Guaranty; and (iv) acknowledges that the Lender may amend, restate, extend, renew or otherwise modify the Credit Agreement and any indebtedness or agreement of the Borrower, or enter into any agreement or extend additional or other credit accommodations, without notifying or obtaining the consent of the undersigned and without impairing the liability of the undersigned under the Guaranty for all of the Borrower’s present and future indebtedness to the Lender.

ORION AVIATION, INC.

By: /s/ Neal R. Verfuerth
Neal R. Verfuerth, President

SECOND AMENDMENT TO CREDIT AND SECURITY AGREEMENT

THIS SECOND AMENDMENT TO CREDIT AND SECURITY AGREEMENT (the "Amendment"), dated as of June 30, 2006, is made by and among ORION ENERGY SYSTEMS, LTD., a Wisconsin corporation ("Orion") and GREAT LAKES ENERGY TECHNOLOGIES, LLC, a Wisconsin limited liability company ("Great Lakes" and together with Orion, the "Borrowers" and each a "Borrower"), and WELLS FARGO BANK, NATIONAL ASSOCIATION ("Lender"), acting through its WELLS FARGO BUSINESS CREDIT operating division.

RECITALS

The Borrowers and the Lender are parties to a Credit and Security Agreement dated as of December 22, 2005, as amended (the "Credit Agreement"). Capitalized terms used in these recitals have the meanings given to them in the Credit Agreement unless otherwise specified.

Orion and Clean Technology Fund II, LP have entered in to a letter of intent summarizing the terms upon which Orion may sell up to 1,636,364 shares of its Series C Preferred Stock (representing 7.05% of the fully diluted equity of Orion) (the "Series C Stock") for up to $4,500,000. In connection with the sale of the Series C Stock the Borrowers have requested that certain amendments be made to the Credit Agreement, which the Lender is willing to make pursuant to the terms and conditions set forth herein.

NOW, THEREFORE, in consideration of the premises and of the mutual covenants and agreements herein contained, it is agreed as follows:

1. Defined Terms. Capitalized terms used in this Amendment which are defined in the Credit Agreement shall have the same meanings as defined therein, unless otherwise defined herein. In addition, the following defined terms shall be added or amended, as the case may be:

"Book Net Worth" means, as of the date of determination, the sum of (i) the aggregate of the Owners' equity in the Borrowers plus (ii) the Series C Stock, all as determined on a consolidated basis in accordance with GAAP; provided, however, that any increase in the Owners' equity on account of the forgiveness of debt due to Osram, which is to occur late in fiscal year 2006 or early in fiscal year 2007 shall be excluded in determining the Borrowers' compliance with the provisions of Section 6.2(a) for the period in which such event occurs.

"Net Income" means the sum of (i) fiscal year-to-date after-tax net income of the Borrowers from continuing operations, including extraordinary losses but excluding extraordinary gains, plus unpaid dividends accrued during such fiscal year-to-date period on the Series C Stock (to the extent the same have reduced net income), all as determined on a consolidated basis in accordance with GAAP (ii); provided, however, that any income earned by the Borrowers on account of the forgiveness of debt due to Osram, which is to occur late in fiscal

year 2006 or early in fiscal year 2007 shall be excluded in determining the Borrowers' compliance with the provisions of Section 6.2(b) for the periods in which such event occurs.

"Series C Stock" shall mean at any time the issued and outstanding shares of Orion's Series C Preferred Stock.

2. Amendment of Section 7.1(p). Section 7.1(p) of the Credit Agreement shall be amended to read as follows:

(p) Intentionally Left Blank;

3. No Other Changes. Except as explicitly amended by this Amendment, all of the terms and conditions of the Credit Agreement shall remain in full force and effect and shall apply to any advance or letter of credit thereunder.

4. Conditions Precedent. This Amendment shall be effective when the Lender shall have received an executed original hereof, together with the Acknowledgment and Agreement of Guarantor set forth at the end of this Amendment, duly executed by the Guarantor.

5. Representations and Warranties. The Borrower hereby represents and warrants to the Lender as follows:

(a) The Borrower has all requisite power and authority to execute this Amendment and to perform all of its obligations hereunder, and this Amendment has been duly executed and delivered by the Borrower and constitutes the legal, valid and binding obligation of the Borrower, enforceable in accordance with its terms.

(b) The execution, delivery and performance by the Borrower of this Amendment have been duly authorized by all necessary corporate action and do not (i) require any authorization, consent or approval by any governmental department, commission, board, bureau, agency or instrumentality, domestic or foreign, (ii) violate any provision of any law, rule or regulation or of any order, writ, injunction or decree presently in effect, having applicability to the Borrower, or the articles of incorporation or by-laws of the Borrower, or (iii) result in a breach of or constitute a default under any indenture or loan or credit agreement or any other agreement, lease or instrument to which the Borrower is a party or by which it or its properties may be bound or affected.

(c) All of the representations and warranties contained in Article V of the Credit Agreement are correct on and as of the date hereof as though made on and as of such date, except to the extent that such representations and warranties relate solely to an earlier date.

6. References. All references in the Credit Agreement to “this Agreement” shall be deemed to refer to the Credit Agreement as amended hereby; and any and all references in the Security Documents to the Credit Agreement shall be deemed to refer to the Credit Agreement as amended hereby.

7. No Waiver. The execution of this Amendment and acceptance of any documents related hereto shall not be deemed to be a waiver of any Default or Event of Default under the Credit Agreement or breach, default or event of default under any Security Document or other document held by the Lender, whether or not known to the Lender and whether or not existing on the date of this Amendment.

8. Release. The Borrower, and the Guarantor by signing the Acknowledgment and Agreement of Guarantor set forth below, each hereby absolutely and unconditionally releases and forever discharges the Lender, and any and all participants, parent corporations, subsidiary corporations, affiliated corporations, insurers, indemnitors, successors and assigns thereof, together with all of the present and former directors, officers, agents and employees of any of the foregoing, from any and all claims, demands or causes of action of any kind, nature or description, whether arising in law or equity or upon contract or tort or under any state or federal law or otherwise, which the Borrower or such Guarantor has had, now has or has made claim to have against any such person for or by reason of any act, omission, matter, cause or thing whatsoever arising from the beginning of time to and including the date of this Amendment, whether such claims, demands and causes of action are matured or unmatured or known or unknown.

9. Costs and Expenses. The Borrower hereby reaffirms its agreement under the Credit Agreement to pay or reimburse the Lender on demand for all costs and expenses incurred by the Lender in connection with the Loan Documents, including without limitation all reasonable fees and disbursements of legal counsel. Without limiting the generality of the foregoing, the Borrower specifically agrees to pay all fees and disbursements of counsel to the Lender for the services performed by such counsel in connection with the preparation of this Amendment and the documents and instruments incidental hereto. The Borrower hereby agrees that the Lender may, at any time or from time to time in its sole discretion and without further authorization by the Borrower, make a loan to the Borrower under the Credit Agreement, or apply the proceeds of any loan, for the purpose of paying any such fees, disbursements, costs and expenses.

10. Miscellaneous. This Amendment and the Acknowledgment and Agreement of Guarantor may be executed in any number of counterparts, each of which when so executed and delivered shall be deemed an original and all of which counterparts, taken together, shall constitute one and the same instrument.

IN WITNESS WHEREOF, the parties hereto have caused this Second Amendment to Credit and Security Agreement to be duly executed as of the date first written above.

WELLS FARGO BANK,
NATIONAL ASSOCIATION, acting through its
Wells Fargo Business Credit operating division

By: /s/ Melissa L. Dreifuerst
Melissa L. Dreifuerst, Vice President

ORION ENERGY SYSTEMS, LTD.

By: /s/ Neal R. Verfuerth
Neal R. Verfuerth, President

By: /s/ Eric von Estorff
Eric von Estorff, Secretary

GREAT LAKES ENERGY TECHNOLOGIES, LLC

By: /s/ Neal R. Verfuerth
Neal R. Verfuerth, Manager

ACKNOWLEDGMENT AND AGREEMENT OF GUARANTORS

The undersigned, a guarantor of the indebtedness of Orion Energy Systems, Ltd., a Wisconsin corporation ("Orion") and Great Lakes Energy Technologies, LLC, a Wisconsin limited liability company ("Great Lakes" and together with Orion, the "Borrowers" and each a "Borrower") to Wells Fargo Bank, National Association (the "Lender"), through its Wells Fargo Business Credit operating division, pursuant to a Guaranty by Corporation dated as of December 22, 2005, (the "Guaranty"), hereby (i) acknowledges receipt of the foregoing Amendment; (ii) consents to the terms (including without limitation the release set forth in paragraph 7 of the Amendment) and execution thereof; (iii) reaffirms its obligations to the Lender pursuant to the terms of its Guaranty; and (iv) acknowledges that the Lender may amend, restate, extend, renew or otherwise modify the Credit Agreement and any indebtedness or agreement of the Borrower, or enter into any agreement or extend additional or other credit accommodations, without notifying or obtaining the consent of the undersigned and without impairing the liability of the undersigned under the Guaranty for all of the Borrower's present and future indebtedness to the Lender.

ORION AVIATION, INC.

By: /s/ Neal R. Verfuerth
Neal R. Verfuerth, President

**THIRD AMENDMENT TO CREDIT AND SECURITY AGREEMENT,
WAIVER OF DEFAULTS AND CONSENTS**

This Third Amendment to Credit and Security Agreement, Waiver of Defaults and Consents (the "Amendment"), dated as of March 29, 2007, is made by and among ORION ENERGY SYSTEMS, LTD., a Wisconsin corporation ("Orion") and GREAT LAKES ENERGY TECHNOLOGIES, LLC, a Wisconsin limited liability company ("Great Lakes" and together with Orion, the "Borrowers" and each a "Borrower"), and WELLS FARGO BANK, NATIONAL ASSOCIATION ("Lender"), acting through its Wells Fargo Business Credit operating division.

RECITALS

The Borrowers and the Lender are parties to a Credit and Security Agreement dated as of December 22, 2005, as amended (the "Credit Agreement"). Capitalized terms used in these recitals have the meanings given to them in the Credit Agreement unless otherwise specified.

The Borrowers have requested that the Lender waive certain defaults, consent to various matters and make certain amendments to the Credit Agreement, all of which the Lender is willing to do pursuant to the terms and conditions set forth herein.

NOW, THEREFORE, in consideration of the premises and of the mutual covenants and agreements herein contained, it is agreed as follows:

1. Defined Terms. Capitalized terms used in this Amendment which are defined in the Credit Agreement shall have the same meanings as defined therein, unless otherwise defined herein. In addition, the following defined terms shall be added or amended, as the case may be:

"Borrowing Base" means at any time the lesser of:

(a) The Maximum Line Amount; or

(b) Subject to change from time to time in the Lender's sole discretion, the sum of:

(i) The lesser of (A) the product of the Accounts Advance Rate times Eligible Accounts or (B) $25,000,000, plus

(ii) The lesser of (A) the product of the Inventory Advance Rate times Eligible Inventory or (B) $5,500,000, less

(iii) The Borrowing Base Reserve, less

(iv) Indebtedness that the Borrowers owe to the Lender that has not yet been advanced on the Revolving Note, and the dollar amount that

the Lender in its reasonable discretion then determines to be a reasonable determination of the Borrowers' credit exposure with respect to any swap, derivative, foreign exchange, hedge, deposit, treasury management or other similar transaction or arrangement offered to Borrowers by Lender that is not described in Article II of this Agreement.

"Guarantor Security Documents" means each Security Agreement between a Guarantor and the Lender, to secure such Guarantor's obligations to the Lender pursuant to its guaranty and to secure the Indebtedness, and any other document delivered by a Guarantor to the Lender from time to time to secure the Indebtedness.

"Guarantors" means Clean Energy Solutions, LLC, Energy Capital Partners, LLC or any other Person now or hereafter guarantying the Indebtedness, each a "Guarantor."

"Lender" means Wells Fargo Bank, National Association in its broadest and most comprehensive sense as a legal entity, and is not limited in its meaning to Lender's Wells Fargo Business Credit operating division, or to any other operating division of Lender.

2. Definition of Indebtedness. The definition of "Wells Fargo Bank Affiliate Obligations" shall be deleted in its entirety from the Credit Agreement and shall not be replaced, and each reference in the Credit Agreement to "Obligations" shall be deleted and replaced with the term "Indebtedness", and Section 1.1 of the Credit Agreement shall further be amended to include the following definition:

"Indebtedness" is used herein in its most comprehensive sense and means any and all advances, debts, obligations and liabilities of each Borrower to the Lender, heretofore, now or hereafter made, incurred or created, whether voluntary or involuntary and however arising, whether due or not due, absolute or contingent, liquidated or unliquidated, determined or undetermined, including under any swap, derivative, foreign exchange, hedge, deposit, treasury management or other similar transaction or arrangement at any time entered into by any Borrower with the Lender, and whether any Borrower may be liable individually or jointly with others, or whether recovery upon such Indebtedness may be or hereafter becomes unenforceable.

3. Amendment of Section 2.11. Section 2.11 of the Credit Agreement shall be amended to read as follows:

Section 2.11 Revolving Advances to Pay Indebtedness. Notwithstanding the terms of Section 2.1, the Lender may, in its discretion at any time or from time to time, without the Borrowers' request and even if the conditions set forth in Section 4.2 would not be satisfied, make a Revolving Advance in an amount equal to the portion of the Indebtedness from time to time due and payable.

4. Amendment of Section 3.1. Section 3.1 of the Credit Agreement shall be amended in its entirety to read as follows:

Section 3.1 Grant of Security Interest. Each Borrower hereby pledges, assigns and grants to the Lender, a lien and security interest (collectively referred to as the "Security Interest") in the Collateral, as security for the payment and performance of: (a) all present and future Indebtedness of the Borrowers to the Lender; (b) all obligations of the Borrowers and rights of the Lender under this Agreement; and (c) all present and future obligations of the Borrowers to the Lender of other kinds. Upon request by the Lender, each Borrower will grant the Lender a security interest in all commercial tort claims that such Borrower may have against any Person.

5. Amendment of Section 6.2. Section 6.2 of the Credit Agreement shall be amended to read as follows:

Section 6.2 Financial Covenants.

(a) ***Minimum Book Net Worth***. The Borrowers will maintain, as of each date described below during the term hereof, a Book Net Worth of an amount not less than the amount set forth below opposite such period:

Date	Minimum Book Net Worth
June 30, 2006	Book Net Worth as of March 31, 2006, plus $172,000
September 30, 2006	Book Net Worth as of March 31, 2006, plus $219,000
December 31, 2006	Book Net Worth as of March 31, 2006, plus $558,000
March 31, 2007	Book Net Worth as of March 31, 2006, plus $608,000
June 30, 2007, and each June 30 thereafter	Book Net Worth as of prior March 31, plus $25,000
September 30, 2007, and each September 30 thereafter	Book Net Worth as of prior March 31, plus $125,000
December 31, 2007, and each December 31 thereafter	Book Net Worth as of prior March 31, plus $500,000
March 31, 2008, and each March 31 thereafter	Book Net Worth as of prior March 31, plus $800,000

(b) ***Minimum Net Income***. The Borrowers will achieve during each fiscal year period described below ending during the term hereof, a Net Income of not less than the amount set forth opposite such period:

Period	Minimum Net Income
Three (3) months ended June 30, 2006	$172,000
Six (6) months ended September 30, 2006	$219,000
Nine (9) months ended December 31, 2006	$558,000
Twelve (12) months ended March 31, 2007	$608,000
Three (3) months ended June 30, 2007, and each June 30 thereafter	$ 25,000
Six (6) months ended September 30, 2007, and each September 30 thereafter	$125,000
Nine (9) months ended December 31, 2007, and each December 31 thereafter	$500,000
Twelve (12) months ended March 31, 2008, and each March 31 thereafter	$800,000

(c) ***Capital Expenditures***. The Borrowers will not incur or contract to incur Capital Expenditures of more than One Million Five Hundred Thousand Dollars ($1,500,000) in the aggregate during any fiscal year ending during the term hereof, with no more than One Million Dollars ($1,000,000) in the aggregate to be paid from the Borrowers' working capital in the fiscal year ending March 31, 2007, and no more than One Million One Hundred Thousand Dollars ($1,100,000) in the aggregate to be paid from the Borrowers' working capital in any fiscal year thereafter.

6. Amendment of Section 6.4. Section 6.4 of the Credit Agreement shall be amended in its entirety to read as follows:

Section 6.4 Indebtedness. The Borrowers will not incur, create, assume or permit to exist any indebtedness or liability on account of deposits or advances or any indebtedness for borrowed money or letters of credit issued on the Borrowers' behalf, or any other indebtedness or liability evidenced by notes, bonds, debentures or similar obligations, except:

(a) The Indebtedness arising hereunder;

(b) Any indebtedness of any Borrower in existence on the date of this Agreement and listed in **Schedule 6.4** hereto;

(c) Any indebtedness relating to Permitted Liens; and

(d) Any indebtedness subject to a debt subordination agreement in favor of the Lender and acceptable to the Lender in its sole discretion.

7. Amendment of Schedules. Schedules 1.1, 5.1, 5.2, 5.5 and 5.11 to the Credit Agreement shall be amended in their entirety to read as set forth in **Exhibit A** attached hereto.

8. No Other Changes. Except as explicitly amended by this Amendment, all of the terms and conditions of the Credit Agreement shall remain in full force and effect and shall apply to any advance or letter of credit thereunder.

9. Waiver of Defaults. Prior to giving effect to the amendments set forth herein, the Borrowers were in default of both the provisions of Section 6.2(b) of the Credit Agreement (Minimum Net Income) for the fiscal year-to-date period ended December 31,2006, and the provision of Section 6.6(b) of the Credit Agreement (Investments and Subsidiaries) on account of advances to Neal Verfuerth exceeding the stated limitation therein prior to the date hereof (the "Defaults"). Upon the terms and subject to the conditions set forth in this Amendment and provided the outstanding amount of advances to Mr. Verfuerth have not exceeded Two Hundred Fifty Thousand Dollars ($250,000), the Lender hereby waives the Defaults. This waiver shall be effective only in this specific instance and for the specific purpose for which it is given, and this waiver shall not entitle the Borrowers to any other or further waiver in any similar or other circumstances.

10. Consents. The Borrowers have advised the Lender that Orion has or expects to take the following steps to restructure or reorganize its business and that Orion has or expects to make the following described loans:

(a) Orion has created a wholly owned subsidiary known as Clean Energy Solutions, LLC, a Wisconsin limited liability company ("CES") which entity will operate under the trade name Orion Energy Services and conduct national retail sales;

(b) Orion has created a wholly owned subsidiary known as Energy Capital Partners, LLC, a Wisconsin limited liability company ("ECP") which entity will provide project financing and other related business services;

(c) Orion Aviation, Inc. is to be merged into Orion as there are no longer assets or indebtedness at Orion Aviation, Inc.;

(d) Orion has made a loan of Four Hundred Fifty Thousand Dollars ($450,000) (the "CPLN Loan") to WebEnergy.net, Inc., doing business as ConsumerPowerline ("CPLN"), which loan is evidenced by a Note in such amount payable to Orion and secured by a first priority security interest in the assets of CPLN and a personal guaranty of CPLN's President; and

(e) Orion intends to make a loan of Eight Hundred Twelve Thousand Five Hundred Dollars ($812,500) (the "Verfuerth Loan") to Neal R. Verfuerth, which loan is to be used for the purchase of stock of Orion under certain stock option agreements in favor of Mr. Verfuerth, which loan will be evidenced by a Note in such amount payable to Orion and secured by a pledge of all stock purchased with the proceeds of such loan.

Upon the terms and subject to the conditions set forth in this Amendment, the Lender hereby provides its consent to the foregoing matters notwithstanding anything in the Credit Agreement to the contrary. These consents shall be effective only in this specific instance and for this

specific purpose for which they are given and these consents shall not entitle the Borrowers to any other or further waiver or consent in any similar or other circumstances.

11. Conditions Precedent. This Amendment, and the waiver and consents set forth in Paragraphs 9 and 10, shall be effective when the Lender shall have received an executed original hereof, together with each of the following:

(a) A Certificate of Authority of the Secretary of Orion certifying as to (i) the resolutions of the Board of Directors of Orion approving the execution and delivery of this Amendment, (ii) the fact that the Articles or Incorporation and By-Laws of Orion, which documents were certified and delivered to the Lender pursuant to this Certificate of Authority of the Secretary of Orion dated as of December 22, 2005, in connection with the execution and delivery of the Credit Agreement, continue in full force and effect and have not been amended or otherwise modified, except as set forth in the Certificate to be delivered, and (iii) the officers and agents of Orion who have been certified to the Lender, pursuant to its Certificate of Authority dated as of December 22, 2005, as being authorized as to sign and to act on behalf of the Borrower continue to be so authorized or setting forth the name, title and signature of those officers and agents of Orion who have been subsequently authorized to sign and to act on behalf of Orion.

(b) With respect to CES, a Guaranty, Security Agreement and Certificate of Authority of the Secretary of CES including resolutions of CES approving the execution and delivery of said Guaranty and Security Agreement.

(c) With respect to ECP, a Guaranty, Security Agreement and Certificate of Authority of the Secretary of ECP including resolutions of ECP approving the execution and delivery of said Guaranty and Security Agreement.

(d) Copies of all of the executed and recorded documents provided to Orion in connection with the CPLN Loan and the Verfuerth Loan.

(e) Such other matters as the Lender may require.

12. Representations and Warranties. Each Borrower (as to such Borrower) hereby represents and warrants to the Lender as follows:

(a) The Borrower has all requisite power and authority to execute this Amendment and to perform all of its obligations hereunder, and this Amendment has been duly executed and delivered by the Borrower and constitutes the legal, valid and binding obligation of the Borrower, enforceable in accordance with its terms.

(b) The execution, delivery and performance by the Borrower of this Amendment have been duly authorized by all necessary corporate action and do not (i) require any authorization, consent or approval by any governmental department, commission, board, bureau, agency or instrumentality, domestic or foreign, (ii) violate any provision of any law, rule or regulation or of any order, writ, injunction or decree

presently in effect, having applicability to the Borrower, or the articles of incorporation or by-laws of the Borrower, or (iii) result in a breach of or constitute a default under any indenture or loan or credit agreement or any other agreement, lease or instrument to which the Borrower is a party or by which it or its properties may be bound or affected.

(c) All of the representations and warranties contained in Article V of the Credit Agreement are correct on and as of the date hereof as though made on and as of such date, except to the extent that such representations and warranties relate solely to an earlier date.

13. References. All references in the Credit Agreement to "this Agreement" shall be deemed to refer to the Credit Agreement as amended hereby; and any and all references in the Security Documents to the Credit Agreement shall be deemed to refer to the Credit Agreement as amended hereby.

14. No Other Waiver or Consent. Except as provided in Paragraphs 9 and 10, the execution of this Amendment and acceptance of any documents related hereto shall not be deemed to be a waiver of or consent to any Default or Event of Default under the Credit Agreement or breach, default or event of default under any Security Document or other document held by the Lender, whether or not known to the Lender and whether or not existing on the date of this Amendment.

15. Release. The Borrowers, each hereby absolutely and unconditionally releases and forever discharges the Lender, and any and all participants, parent corporations, subsidiary corporations, affiliated corporations, insurers, indemnitors, successors and assigns thereof, together with all of the present and former directors, officers, agents and employees of any of the foregoing, from any and all claims, demands or causes of action of any kind, nature or description, whether arising in law or equity or upon contract or tort or under any state or federal law or otherwise, which the Borrowers have had, now have or have made claim to have against any such person for or by reason of any act, omission, matter, cause or thing whatsoever arising from the beginning of time to and including the date of this Amendment, whether such claims, demands and causes of action are matured or unmatured or known or unknown.

16. Costs and Expenses. The Borrowers hereby reaffirm their agreement under the Credit Agreement to pay or reimburse the Lender on demand for all costs and expenses incurred by the Lender in connection with the Loan Documents, including without limitation all reasonable fees and disbursements of legal counsel. Without limiting the generality of the foregoing, the Borrowers specifically agree to pay all fees and disbursements of counsel to the Lender for the services performed by such counsel in connection with the preparation of this Amendment and the documents and instruments incidental hereto. The Borrowers hereby agree that the Lender may, at any time or from time to time in its sole discretion and without further authorization by the Borrowers, make a loan to the Borrowers under the Credit Agreement, or apply the proceeds of any loan, for the purpose of paying any such fees, disbursements, costs and expenses.

17. Miscellaneous. This Amendment may be executed in any number of counterparts, each of which when so executed and delivered shall be deemed an original and all of which counterparts, taken together, shall constitute one and the same instrument.

IN WITNESS WHEREOF, the parties hereto have caused this Third Amendment to Credit and Security Agreement, Waiver of Defaults and Consents to be duly executed as of the date first written above.

WELLS FARGO BANK,
NATIONAL ASSOCIATION, acting through its
Wells Fargo Business Credit operating division

By: /s/ Melissa L. Dreifuerst
Melissa L. Dreifuerst, Vice President

ORION ENERGY SYSTEMS, LTD.

By: /s/ Neal R. Verfuerth
Neal R. Verfuerth, President

By: /s/ Eric von Estorff
Eric von Estorff, Secretary

GREAT LAKES ENERGY TECHNOLOGIES, LLC

By: /s/ Neal R. Verfuerth
Neal R. Verfuerth, Manager

FOURTH AMENDMENT TO CREDIT AND SECURITY AGREEMENT

THIS AMENDMENT, dated as of July 27, 2007, is made by and among ORION ENERGY SYSTEMS, LTD., a Wisconsin corporation ("Orion") and GREAT LAKES ENERGY TECHNOLOGIES, LLC, a Wisconsin limited liability company ("Great Lakes" and together with Orion, the "Borrowers" and each a "Borrower"), and WELLS FARGO BANK, NATIONAL ASSOCIATION ("Lender"), acting through its WELLS FARGO BUSINESS CREDIT operating division.

RECITALS

The Borrowers and the Lender are parties to a Credit and Security Agreement dated as of December 22, 2005, as amended, (the "Credit Agreement"). Capitalized terms used in these recitals have the meanings given to them in the Credit Agreement unless otherwise specified.

The Borrowers have requested that certain amendments be made to the Credit Agreement, which the Lender is willing to make pursuant to the terms and conditions set forth herein.

NOW, THEREFORE, in consideration of the premises and of the mutual covenants and agreements herein contained, it is agreed as follows:

1. Defined Terms. Capitalized terms used in this Amendment which are defined in the Credit Agreement shall have the same meanings as defined therein, unless otherwise defined herein.

2. Amendment of Section 6.2(c). Section 6.2(c) of the Credit Agreement is amended to read as follows:

(c) ***Capital Expenditures.*** The Borrowers will not incur or contract to incur Capital Expenditures of more than Four Million Dollars ($4,000,000) in the aggregate during any fiscal year ending on or after March 31, 2008 during the term hereof, with no more than One Million One Hundred Thousand Dollars ($1,100,000) in the aggregate to be paid from the Borrowers' working capital in any such fiscal year.

3. Amendment of Section 6.4. Section 6.4 of the Credit Agreement is amended to read as follows:

Section 6.4 Indebtedness. The Borrowers will not incur, create, assume or permit to exist any indebtedness or liability on account of deposits or advances or any indebtedness for borrowed money or letters of credit issued on the Borrowers' behalf, or any other indebtedness or liability evidenced by notes, bonds, debentures or similar obligations, except:

(a) The Indebtedness arising hereunder;

(b) Any indebtedness of any Borrower in existence on the date of this Agreement and listed in **Schedule 6.4** hereto;

(c) Any indebtedness relating to Permitted Liens;

(d) Any indebtedness subject to a debt subordination agreement in favor of the Lender and acceptable to the Lender in its sole discretion; and

(e) The indebtedness of any Borrower to General Electric Energy Financial Services, Inc. or an affiliate and Expansion Capital Partners or an affiliate under the Borrowers' Ten Million Five Hundred Thousand Dollars ($10,500,000.00) Subordinated Convertible Promissory Notes, provided such notes remain fully subordinated to the Indebtedness on terms acceptable to the Lender in its sole discretion.

4. No Other Changes. Except as explicitly amended by this Amendment, all of the terms and conditions of the Credit Agreement shall remain in full force and effect and shall apply to any advance or letter of credit thereunder.

5. Conditions Precedent. This Amendment shall be effective when the Lender shall have received an executed original hereof, together with the Acknowledgment and Agreement of Guarantor set forth at the end of this Amendment, duly executed by the Guarantor.

6. Representations and Warranties. Each Borrower (as to such Borrower) hereby represents and warrants to the Lender as follows:

(a) The Borrower has all requisite power and authority to execute this Amendment and to perform all of its obligations hereunder, and this Amendment has been duly executed and delivered by the Borrower and constitutes the legal, valid and binding obligation of the Borrower, enforceable in accordance with its terms.

(b) The execution, delivery and performance by the Borrower of this Amendment have been duly authorized by all necessary corporate or limited liability company action, as the case may be, and do not (i) require any authorization, consent or approval by any governmental department, commission, board, bureau, agency or instrumentality, domestic or foreign, (ii) violate any provision of any law, rule or regulation or of any order, writ, injunction or decree presently in effect, having applicability to the Borrower, or the Constituent Documents of the Borrower, or (iii) result in a breach of or constitute a default under any indenture or loan or credit

agreement or any other agreement, lease or instrument to which the Borrower is a party or by which it or its properties may be bound or affected.

(c) All of the representations and warranties contained in Article V of the Credit Agreement are correct on and as of the date hereof as though made on and as of such date, except to the extent that such representations and warranties relate solely to an earlier date.

7. References. All references in the Credit Agreement to "this Agreement" shall be deemed to refer to the Credit Agreement as amended hereby; and any and all references in the Security Documents to the Credit Agreement shall be deemed to refer to the Credit Agreement as amended hereby.

8. No Waiver. The execution of this Amendment and acceptance of any documents related hereto shall not be deemed to be a waiver of any Default or Event of Default under the Credit Agreement or breach, default or event of default under any Security Document or other document held by the Lender, whether or not known to the Lender and whether or not existing on the date of this Amendment.

9. Release. Each Borrower, and each Guarantor by signing the Acknowledgment and Agreement of Guarantors set forth below, each hereby absolutely and unconditionally releases and forever discharges the Lender, and any and all participants, parent corporations, subsidiary corporations, affiliated corporations, insurers, indemnitors, successors and assigns thereof, together with all of the present and former directors, officers, agents and employees of any of the foregoing, from any and all claims, demands or causes of action of any kind, nature or description, whether arising in law or equity or upon contract or tort or under any state or federal law or otherwise, which such Borrower or such Guarantor has had, now has or has made claim to have against any such person for or by reason of any act, omission, matter, cause or thing whatsoever arising from the beginning of time to and including the date of this Amendment, whether such claims, demands and causes of action are matured or unmatured or known or unknown.

10. Costs and Expenses. The Borrowers hereby reaffirm their agreement under the Credit Agreement to pay or reimburse the Lender on demand for all costs and expenses incurred by the Lender in connection with the Loan Documents, including without limitation all reasonable fees and disbursements of legal counsel. Without limiting the generality of the foregoing, the Borrowers specifically agree to pay all fees and disbursements of counsel to the Lender for the services performed by such counsel in connection with the preparation of this Amendment and the documents and instruments incidental hereto. The Borrowers hereby agree that the Lender may, at any time or from time to time in its sole discretion and without further authorization by the Borrowers, make a loan to the Borrowers under the Credit Agreement, or apply the proceeds of any loan, for the purpose of paying any such fees, disbursements, costs and expenses.

11. Miscellaneous. This Amendment and the Acknowledgment and Agreement of Guarantors may be executed in any number of counterparts, each of which when so executed

and delivered shall be deemed an original and all of which counterparts, taken together, shall constitute one and the same instrument.

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be duly executed as of the date first written above.

WELLS FARGO BANK,
NATIONAL ASSOCIATION, acting through its
Wells Fargo Business Credit operating division

By: /s/ Brian P. Bur
Brian P. Bur, Relationship Manager

ORION ENERGY SYSTEMS, LTD.

By: /s/ Neal R. Verfuerth
Neal R. Verfuerth, President

By: /s/ Eric von Estorff
Eric von Estorff, Secretary

GREAT LAKES ENERGY TECHNOLOGIES, LLC

By: /s/ Neal R. Verfuerth
Neal R. Verfuerth, Manager

ACKNOWLEDGMENT AND AGREEMENT OF GUARANTORS

Each of the undersigned, a guarantor of the indebtedness of Orion Energy Systems, Ltd., a Wisconsin corporation ("Orion") and Great Lakes Energy Technologies, LLC, a Wisconsin limited liability company ("Great Lakes" and together with Orion, the "Borrowers" and each a "Borrower") to Wells Fargo Bank, National Association (the "Lender"), through its Wells Fargo Business Credit operating division, pursuant to a Guaranty dated as of March 29, 2007, (the "Guaranty"), hereby (i) acknowledges receipt of the foregoing Amendment; (ii) consents to the terms (including without limitation the release set forth in paragraph 8 of the Amendment) and execution thereof; (iii) reaffirms its obligations to the Lender pursuant to the terms of its Guaranty; and (iv) acknowledges that the Lender may amend, restate, extend, renew or otherwise modify the Credit Agreement and any indebtedness or agreement of the Borrowers, or enter into any agreement or extend additional or other credit accommodations, without notifying or obtaining the consent of the undersigned and without impairing the liability of the undersigned under the Guaranty for all of the Borrowers' present and future indebtedness to the Lender.

CLEAN ENERGY SOLUTIONS, LLC

By: /s/ Neal R. Verfuerth
Neal R. Verfuerth, Manager

ENERGY CAPITAL PARTNERS, LLC

By: /s/ Neal R. Verfuerth
Neal R. Verfuerth, Manager

Exhibit 4.6

THIS NOTE HAS NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR ANY APPLICABLE STATE SECURITIES LAWS. THIS NOTE MAY NOT BE SOLD, OFFERED FOR SALE, PLEDGED OR HYPOTHECATED IN THE ABSENCE OF A REGISTRATION STATEMENT IN EFFECT WITH RESPECT TO THE SECURITIES UNDER SUCH ACT AND APPLICABLE LAWS OR SOME OTHER EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF SUCH ACT AND APPLICABLE LAWS OR AN OPINION OF COUNSEL SATISFACTORY TO THE COMPANY THAT SUCH REGISTRATION IS NOT REQUIRED.

THE SALE, PLEDGE, HYPOTHECATION, ASSIGNMENT OR TRANSFER OF THE SECURITIES REPRESENTED BY THIS CERTIFICATE IS SUBJECT TO THE TERMS AND CONDITIONS OF A CERTAIN FIRST OFFER AND CO-SALE AGREEMENT BY AND BETWEEN THE NOTE HOLDER, THE COMPANY AND CERTAIN HOLDERS OF NOTES AND/OR STOCK OF THE COMPANY. COPIES OF SUCH AGREEMENT MAY BE OBTAINED UPON WRITTEN REQUEST TO THE SECRETARY OF THE COMPANY.

CONVERTIBLE SUBORDINATED PROMISSORY NOTE

$8,000,000 August 3, 2007

ORION ENERGY SYSTEMS, INC., a Wisconsin corporation (the "Company"), the principal office of which is located at 1204 Pilgrim Road, Plymouth, Wisconsin 53073, for value received hereby promises to pay to GE Capital Equity Investments, Inc., a Delaware corporation (the "Holder"), the sum of $8,000,000, or such other amounts as shall then equal the outstanding principal amount hereof and any unpaid accrued interest hereon, as set forth below, which shall be due and payable on the Maturity Date. Payment for all amounts due hereunder shall be made in accordance with Section 2 hereof.

The following is a statement of the rights of the Holder of this Note and the conditions to which this Note is subject, and to which the Holder hereof, by the acceptance of this Note, agrees:

1. *Definitions*. As used in this Note, the following terms, unless the context otherwise requires, have the following meanings:

(i) "Articles of Incorporation" means the Company's Amended and Restated Articles of Incorporation dated July 31, 2006.

(ii) "Change in Control" means (a) the acquisition by any person or entity, or two or more persons or entities acting in concert, of beneficial ownership (within the meaning of Rule 13d-3 of the Securities and Exchange Commission under the Securities Exchange Act of 1934) of 50.1% or more of the

outstanding shares of either voting stock of Company or voting ownership interests of Company.

(iii) "Common Stock" means the Company's common stock.

(iv) "Company" includes any corporation that, to the extent permitted by this Note, shall succeed to or assume the obligations of the Company under this Note.

(v) "Existing Transaction Documents" means the Amended and Restated Investor Rights Agreement, the Amended and Restated Right of First Refusal and Co-Sale Agreement and the Note Purchase Agreement, in each case by and among the Company and the other parties a signatory thereto and dated effective as of August 3, 2007.

(vi) "Holder" when the context refers to a holder of this Note, shall mean any person who shall at the time be the registered holder of this Note.

(vii) "Holders" means all of the holders of the Notes.

(viii) "Independent Directors" means the members of the Board of Directors who are not employees of the Company and were not employees of the Company during the twenty-four (24) month period prior to the Original Issue Date.

(ix) "Maturity Date" means the earliest to occur of (a) when declared due and payable by the Holder upon the occurrence of an Event of Default (as defined below), or (b) August 3, 2012.

(x) "Notes" means each of the substantially identical Convertible Subordinated Promissory Notes sold pursuant to the Note Purchase Agreements.

(xi) "Note Purchase Agreement" means that certain Note Purchase Agreement among the Company, GE Capital Equity Investments, Inc., Clean Technology Fund II, LP, CapVest Venture Fund, LP, and Technology Transformation Venture Fund, LP dated August 3, 2007.

(xii) "Original Issue Date" means the date on which this Note was first issued.

(xiii) "QExit" means a merger or sale of at least a majority of the Company assets or stock resulting in consideration on a per share basis of a value, on or before August 3, 2009, of at least $11.23 per share, and after such date, of at least $13.47 per share (subject to appropriate adjustment for stock splits, stock dividends, combinations and other similar recapitalizations affecting such shares).

(xiv) "QIPO" means the closing of the sale of shares of Common Stock at a price to the public, on or before August 3, 2009, of at least $11.23 per share,

and after such date, of at least $13.47 per share (subject to appropriate adjustment for stock splits, stock dividends, combinations and other similar recapitalizations affecting such shares), in a firm-commitment underwritten public offering pursuant to an effective registration statement under the Securities Act of 1933, as amended, resulting in at least $30,000,000 of net proceeds to the Company after deduction of underwriters' commissions and expenses payable by the Company.

(xv) "Securities Act" means the Securities Act of 1933, as amended.

2. *Interest; Payment Upon Maturity Date*.

2.1 Interest Rates.

(i) Interest Rate. Prior to the Maturity Date, interest shall accrue on the aggregate unpaid principal amount outstanding under this Note at the rate of six percent (6%) per annum simple, allocated as follows: (A) 3.9% per annum shall accrete to the principal balance of the Note quarterly in arrears and (B) 2.1% per annum shall be payable in cash quarterly in arrears (collectively, the "Interest Rate").

(ii) Deferral Rate. If the Company is prohibited or otherwise restricted from paying any amounts owing to Holder due to obligations or restrictions related to its senior indebtedness or under applicable law, the Company shall have the right to defer any such payment(s); provided, however, that from the date of such deferral, the interest rate applicable to such deferred payment shall increase to eight percent (8%) per annum (3.9% accreting to principal and 4.1% payable in cash), compounding, until such payment is made.

(iii) Default Rate. If an Event of Default has occurred and is continuing, interest at the same rate as the Interest Rate plus four percent (4%) shall be payable, in cash, on the balance of any unpaid principal until such balance is paid.

(iv) Payments. All cash payments of interest provided pursuant to this Section 2.1 shall be payable by wire transfer to an account designated in writing by Holder. If the Note is converted into shares of Common Stock in accordance with Section 6, any unpaid cash interest shall be due and payable on the date of such conversion.

2.2 Payment Upon Maturity Date.

(i) Holder may elect to have the Company pay this Note in full by delivering written notice of such election to the Company, with a copy to the other Holders, one hundred and twenty (120) days in advance of the Maturity Date (or 120 days in advance of any other date after the Maturity Date), in which event the Company shall pay this Note (including all accrued and accreted interest) in three (3) semi-annual installments beginning on the Maturity Date or such later date.

(ii) All payments of principal and interest provided pursuant to this Section 2.2 shall be payable by wire transfer to an account designated in writing by Holder.

3. *Events of Default*. If any of the events specified in this Section 3 shall occur (herein individually referred to as an "Event of Default"), the Holder of the Note may, so long as such condition exists, declare the entire principal and unpaid accrued interest hereon immediately due and payable, by notice in writing to the Company:

(i) Default in the payment of the principal and unpaid accrued interest of this Note when due and payable if such default is not cured by the Company within ten (10) days after the Holder has given the Company written notice of such default;

(ii) Any breach by the Company of any representation, warranty, or covenant in the Note Purchase Agreement; provided, that, in the event of any such breach, to the extent such breach is susceptible to cure, such breach shall not have been cured by the Company within fifteen (15) days after the earliest to occur of (a) written notice to the Company of such breach, and (b) the Company's actual knowledge of such breach;

(iii) Any breach by the Company of any covenant in the Existing Transaction Documents; provided, that, in the event of any such breach, to the extent such breach is susceptible to cure, such breach shall not have been cured by the Company within fifteen (15) days after the earliest to occur of (a) written notice to the Company of such breach, and (b) the Company's actual knowledge of such breach;

(iv) The institution by the Company of proceedings to be adjudicated as bankrupt or insolvent, or the consent by it to institution of bankruptcy or insolvency proceedings against it or the filing by it of a petition or answer or consent seeking reorganization or release under the federal Bankruptcy Act, or any other applicable federal or state law, or the consent by it to the filing of any such petition or the appointment of a receiver, liquidator, assignee, trustee or other similar official of the Company, or of any substantial part of its property, or the making by it of an assignment for the benefit of creditors, or the taking of corporate action by the Company in furtherance of any such action (a "Voluntary Bankruptcy Proceeding");

(v) If, within sixty (60) days after the commencement of an action against the Company (and service of process in connection therewith on the Company) seeking any bankruptcy, insolvency, reorganization, liquidation, dissolution or similar relief under any present or future statute, law or regulation, such action shall not have been resolved in favor of the Company or all orders or proceedings thereunder affecting the operations or the business of the Company or of all or any substantial part of the properties of the Company, such

appointment shall not have been vacated (an "Involuntary Bankruptcy Proceeding");

(vi) Any Change in Control that is not a QIPO or QExit;

(vii) Company shall fail within thirty days to pay, bond or otherwise discharge any judgment or order for the payment of money in excess of $1,000,000 (or multiple judgments or orders for the payment of an aggregate amount in excess of $2,000,000) which is not stayed on appeal or otherwise being appropriately contested in good faith and as to which no enforcement actions have been commenced;

(viii) Delivery of a "Repurchase Notice" (as defined in the Articles of Incorporation);

(ix) Payment or declaration (but not the accrual) of any dividend to holders of Series C Preferred Stock or any other class of equity securities; or

(x) The occurrence of a "Deemed Liquidation Event" (as defined in the Articles of Incorporation) that is not a QIPO or QExit.

4. *Subordination*. The indebtedness evidenced by this Note is hereby expressly subordinated, to the extent and in the manner hereinafter set forth, in right of payment to the prior payment in full of all the Company's Senior Indebtedness, as hereinafter defined.

4.1 *Senior Indebtedness*. As used in this Note, the term "Senior Indebtedness" shall mean the principal of and unpaid accrued interest on: (i) all existing indebtedness of the Company to banks, commercial finance lenders, insurance companies or other financial institutions regularly engaged in the business of lending money, which is for money borrowed by the Company (whether or not secured); (ii) all indebtedness of the Company to banks, commercial finance lenders, insurance companies, or other financial institutions regularly engaged in the business of lending money, which may arise under any line of credit of the Company existing on the Original Issue Date (whether or not secured); (iii) indebtedness pursuant to a capital lease with Wells Fargo Equipment Finance, Inc. (or an affiliate) consistent with that certain lease proposal dated July 25, 2007, a copy of which has been provided to Holder, and (iv) any such indebtedness or any debentures, notes or other evidence of indebtedness issued in exchange for or to refinance such Senior Indebtedness, or any indebtedness arising from the satisfaction of such Senior Indebtedness by a guarantor.

4.2 *Default on Senior Indebtedness*. If there should occur any receivership, insolvency, assignment for the benefit of creditors, bankruptcy, reorganization or arrangements with creditors (whether or not pursuant to bankruptcy or other insolvency laws), sale of all or substantially all of the assets, dissolution, liquidation or any other marshalling of the assets and liabilities of the Company then (i) no amount shall be paid by the Company in respect of the principal of or interest on this Note at the time outstanding, unless and until the principal of and interest on the Senior Indebtedness

then outstanding shall be satisfied, and (ii) no claim or proof of claim shall be filed with the Company by or on behalf of the Holder of this Note that shall assert any right to receive any payments in respect of the principal of and interest on this Note, except subject to the satisfaction of the principal of and interest on all of the Senior Indebtedness then outstanding. If there occurs an event of default that has been declared in writing with respect to any Senior Indebtedness permitting the holder of such Senior Indebtedness to accelerate the maturity thereof, then, unless and until such event of default shall have been cured or waived or shall have ceased to exist, or all Senior Indebtedness shall have been satisfied, no payment shall be made in respect of the principal of or interest on this Note.

4.3 *Effect of Subordination*. Subject to the rights, if any, of the holders of Senior Indebtedness under this Section 4 to receive cash, securities or other properties otherwise payable or deliverable to the Holder of this Note, nothing contained in this Section 4 shall impair, as between the Company and the Holder, the obligation of the Company, subject to the terms and conditions hereof, to pay to the Holder the principal hereof and interest hereon as and when the same become due and payable, or shall prevent the Holder of this Note, upon default hereunder, from exercising all rights, powers and remedies otherwise provided herein or by applicable law.

4.4 *Undertaking*. By its acceptance of this Note, the Holder agrees to execute and deliver such documents as may be reasonably requested from time to time by the Company or the lender of any Senior Indebtedness in order to implement the foregoing provisions of this Section 4, at the expense of the Company.

5. *Prepayment*. The Company shall not be permitted to prepay any outstanding principal under this Note or interest thereon without Holder's prior written consent.

6. *Conversion*.

6.1 *Automatic Conversion*. The principal and accrued interest outstanding under this Note shall be converted, immediately, automatically and without election on the part of the Holder hereof, upon the closing of a QIPO or a QExit into shares of the Company's Common Stock at a conversion price equal to $4.49 per share (the "Base Conversion Price"). For each quarter in which interest accretes to the principal balance of this Note in accordance with Section 2.1(i)(A), the aggregate Base Conversion Price will increase by .975% of the original Base Conversion Price (on a quarterly basis) in order to ensure that this Note shall at all times be convertible into an aggregate of 1,781,737 shares of Common Stock (subject to anti-dilution adjustment as provided herein) (as adjusted, the "Conversion Price"). In connection with a conversion effectuated pursuant to this Section 6.1, the number of shares of Common Stock into which this Note may be converted shall be determined by dividing the aggregate outstanding principal (including, for the avoidance of doubt, any interest which has accreted to the principal balance as provided in Section 2.1(i)(A) but excluding any cash payments of interest paid to Holder as provided in Section 2.1) through the date of the conversion of the Note by the Conversion Price.

6.2 *Optional Conversion into Common Stock.* At any time, all but not less than all of the principal amount then outstanding under this Note (including, for the avoidance of doubt, any interest which has accreted to the principal balance as provided in Section 2.1(i)(A) but excluding any cash payments of interest paid to Holder as provided in Section 2.1) may, at the election of the Holder, be converted into Common Stock of the Company, with such conversion to be effected at the Conversion Price. The Holder shall exercise this optional conversion right, if at all, by giving notice thereof to the Company at least ten (10) days prior to the date of conversion.

6.3 *Notice Regarding QIPO or QExit*. At least ten (10) business days prior to the anticipated closing of a QIPO or transaction which would constitute a QExit, written notice shall be delivered to the Holder at the address last shown on the records of the Company for the Holder or given by the Holder to the Company for the purpose of notice or, if no such address appears or is given, at the place where the principal executive office of the Company is located, (1) notifying the Holder of the QIPO or QExit, (2) specifying (A) in the case of a QExit, the terms and conditions thereof, (B) the then outstanding principal amount of the Note, (C) the then outstanding amount of accreted interest as provided for in Section 2.1(i)(A), and (D) the date on which such transaction will close (which in no event shall be less than ten (10) business days following delivery of said notice), and, (3) if the Note is subject to automatic conversion pursuant to Section 6.1, calling upon such Holder to surrender the Note to the Company in the manner and at the place designated in such notice.

6.4 *Mechanics and Effect of Conversion*. No fractional shares of Common Stock shall be issued upon conversion of this Note. In lieu of the Company issuing any fractional shares to the Holder upon the conversion of this Note, the Company shall pay to the Holder the amount outstanding that is not so converted, such payment to be in made by Company check in an amount equal to the fractional share multiplied by the Conversion Price. At its expense, the Company shall, as soon as practicable following conversion of this Note and surrender of this Note to the Company, issue and deliver to the Holder at its principal office a certificate or certificates for the number of shares of Common Stock to which the Holder shall be entitled upon such conversion (bearing such legends as are required by any applicable purchase documents and applicable state and federal securities laws in the opinion of counsel to the Company), together with any other securities and property to which the Holder is entitled upon such conversion under the terms of this Note, including a check payable to the Holder for any cash amounts payable as described above. Upon conversion of this Note, the Company shall be forever released from all its obligations and liabilities under this Note, except that the Company shall be obligated to pay the Holder, within ten (10) days after the date of such conversion, the cash equivalent of any fractional shares that otherwise would have been issued upon such conversion, and no more.

6.5 *Reservation of Stock Issuable Upon Conversion*. The Company covenants and agrees that the Company shall reserve a sufficient number of shares of Common Stock to comply with the conversion provisions contained herein with respect to an amount equal to the principal outstanding under this Note and the accrued interest thereon.

7. *Adjustments to Conversion Price for Diluting Issues*.

7.1 *Special Definitions*. For purposes of this Section 7, the following definitions shall apply:

(i) "Option" shall mean rights, options or warrants to subscribe for, purchase or otherwise acquire Common Stock or Convertible Securities.

(ii) "Convertible Securities" shall mean any evidences of indebtedness, shares or other securities directly or indirectly convertible into or exchangeable for Common Stock, but excluding Options.

(iii) "Additional Shares of Common Stock" shall mean all shares of Common Stock issued (or, pursuant to Section 7.3 below, deemed to be issued) by the Company after the Original Issue Date, other than the following ("Exempted Securities"):

(1) shares of Common Stock issued or deemed issued as a dividend or distribution on, or upon conversion of, the shares of Series B Preferred Stock or Series C Preferred Stock outstanding on the Original Issue Date, or the Notes;

(2) shares of Common Stock issued upon exercise or conversion of any Options or Convertible Securities outstanding on the Original Issue Date;

(3) shares of Common Stock issued or issuable by reason of a dividend, stock split, split-up or other distribution on shares of Common Stock that is covered by Section 7.7(i) or (ii);

(4) up to an aggregate total of 100,000 shares of Common Stock or warrants to purchase Common Stock issued pursuant to any strategic partnership, in each case approved by a majority of the Independent Directors; or

(5) shares of Common Stock issued or issuable pursuant to Options authorized under existing stock option plans in effect as of the Original Issue Date, provided that any new grants under such existing stock option plans must be approved by the Independent Directors.

7.2 *No Adjustment of Conversion Price*. No adjustment in the Conversion Price shall be made as the result the issuance of Additional Shares of Common Stock if: (i) the consideration per share (determined pursuant to Section 7.5) for such Additional Share of Common Stock issued or deemed to be issued by the Company is equal to or greater than the Conversion Price in effect immediately prior to the issuance or deemed issuance of such Additional Shares of Common Stock, or (ii) prior to such issuance or deemed issuance, the Company receives written notice from the holders of Notes constituting a majority of the total indebtedness represented by the Notes, voting as a

single class and on an as-converted to Common Stock basis, agreeing that no such adjustment shall be made as the result of the issuance or deemed issuance of such Additional Shares of Common Stock.

7.3 *Issue of Securities Deemed Issue of Additional Shares of Common Stock*.

(i) If the Company at any time or from time to time after the Original Issue Date shall issue any Options or Convertible Securities (excluding Options or Convertible Securities which, upon exercise, conversion or exchange thereof, would entitle the holder thereof to receive Exempted Securities) or shall fix a record date for the determination of holders of any class of securities entitled to receive any such Options or Convertible Securities, then the maximum number of shares of Common Stock (as set forth in the instrument relating thereto without regard to any provision contained therein for a subsequent adjustment of such number) issuable upon the exercise of such Options or, in the case of Convertible Securities and Options therefor, the conversion or exchange of such Convertible Securities, shall be deemed to be Additional Shares of Common Stock issued as of the time of such issue or, in case such a record date shall have been fixed, as of the close of business on such record date.

(ii) If the terms of any Option or Convertible Security, the issuance of which resulted in an adjustment to the Conversion Price, as the case may be, pursuant to the terms of Section 7.4 below, are revised (either automatically pursuant to the provisions contained therein or as a result of an amendment to such terms) to provide for either (A) any increase or decrease in the number of shares of Common Stock issuable upon the exercise, conversion or exchange of any such Option or Convertible Security or (B) any increase or decrease in the consideration payable to the Company upon such exercise, conversion or exchange, then, effective upon such increase or decrease becoming effective, the Conversion Price computed upon the original issue of such Option or Convertible Security (or upon the occurrence of a record date with respect thereto) shall be readjusted to such Conversion Price as would have obtained had such revised terms been in effect upon the original date of issuance of such Option or Convertible Security. Notwithstanding the foregoing, no adjustment pursuant to this clause (ii) shall have the effect of increasing the Conversion Price to an amount which exceeds the lower of (1) the Conversion Price on the original adjustment date, or (2) the Conversion Price that would have resulted from any issuances of Additional Shares of Common Stock between the original adjustment date and such readjustment date.

(iii) If the terms of any Option or Convertible Security (excluding Options or Convertible Securities which, upon exercise, conversion or exchange thereof, would entitle the holder thereof to receive Exempted Securities), the issuance of which did not result in an adjustment to the Conversion Price pursuant to the terms of Section 7.4 below (either because the consideration per share (determined pursuant to Section 7.5 hereof) of the Additional Shares of Common Stock subject thereto was equal to or greater than the Conversion Price then in

effect, or because such Option or Convertible Security was issued before the Original Issue Date), are revised after the Original Issue Date (either automatically pursuant to the provisions contained therein or as a result of an amendment to such terms) to provide for either (1) any increase or decrease in the number of shares of Common Stock issuable upon the exercise, conversion or exchange of any such Option or Convertible Security or (2) any increase or decrease in the consideration payable to the Company upon such exercise, conversion or exchange, then such Option or Convertible Security, as so amended, and the Additional Shares of Common Stock subject thereto (determined in the manner provided in Section 7.3(i) above) shall be deemed to have been issued effective upon such increase or decrease becoming effective.

(iv) Upon the expiration or termination of any unexercised Option or unconverted or unexchanged Convertible Security which resulted (either upon its original issuance or upon a revision of its terms) in an adjustment to the Conversion Price pursuant to the terms of Section 7.4 below, the Conversion Price shall be readjusted to such Conversion Price as would have obtained had such Option or Convertible Security never been issued.

(v) No adjustment in the Conversion Price shall be made upon the issue of shares of Common Stock or Convertible Securities upon the exercise of Options or the issue of shares of Common Stock upon the conversion or exchange of Convertible Securities.

7.4 *Adjustment of Conversion Price Upon Issuance of Additional Shares of Common Stock*. In the event the Company shall at any time after the Original Issue Date issue Additional Shares of Common Stock (including Additional Shares of Common Stock deemed to be issued pursuant to Section 7.3), without consideration or for a consideration per share less than the Conversion Price in effect immediately prior to such issue, then the Conversion Price shall be reduced, concurrently with such issue, to a price (calculated to the nearest one-hundredth of a cent) determined by multiplying the Conversion Price by a fraction, (a) the numerator of which shall be (i) the number of shares of Common Stock outstanding immediately prior to such issue plus (ii) the number of shares of Common Stock which the aggregate consideration received or to be received by the Company for the total number of Additional Shares of Common Stock so issued would purchase at the Conversion Price and (b) the denominator of which shall be (i) the number of shares of Common Stock outstanding immediately prior to such issue plus (ii) the number of such Additional Shares of Common Stock so issued; provided that, for the purpose of this Section 7.4, all shares of Common Stock issuable upon exercise of Options outstanding immediately prior to such issue or upon conversion of Convertible Securities (including the Series C Preferred Stock and the shares into which this Note may be converted) outstanding immediately prior to such issue shall be deemed to be outstanding.

7.5 *Determination of Consideration*. For purposes of this Section 7, the consideration received by the Company for the issue of any Additional Shares of Common Stock shall be computed as follows:

(i) Cash and Property. Such consideration shall:

(1) insofar as it consists of cash, be computed at the aggregate amount of cash received by the Company, excluding amounts paid or payable for accrued interest;

(2) insofar as it consists of property other than cash, be computed at the fair market value thereof at the time of such issue, as determined in good faith by the Board of Directors of the Company; and

(3) in the event Additional Shares of Common Stock are issued together with other shares or securities or other assets of the Company for consideration which covers both, be the proportion of such consideration so received, computed as provided in clauses (1) and (2) above, as determined in good faith by the Board of Directors of the Company.

(ii) Options and Convertible Securities. The consideration per share received by the Company for Additional Shares of Common Stock deemed to have been issued pursuant to Section 7.3, relating to Options and Convertible Securities, shall be determined by dividing the total amount, if any, received or receivable by the Company as consideration for the issue of such Options or Convertible Securities, plus the minimum aggregate amount of additional consideration (as set forth in the instruments relating thereto, without regard to any provision contained therein for a subsequent adjustment of such consideration) payable to the Company upon the exercise of such Options or the conversion or exchange of such Convertible Securities, or in the case of Options for Convertible Securities, the exercise of such Options for Convertible Securities and the conversion or exchange of such Convertible Securities, by the maximum number of shares of Common Stock (as set forth in the instruments relating thereto, without regard to any provision contained therein for a subsequent adjustment of such number) issuable upon the exercise of such Options or the conversion or exchange of such Convertible Securities.

7.6 *Multiple Closing Dates*. In the event the Company shall issue on more than one date Additional Shares of Common Stock that are comprised of shares of the same series or class of Preferred Stock and that would result in an adjustment to Conversion Price pursuant to the terms of Section 7.4 above, and such issuance dates occur within a period of no more than forty-five (45) days from the first such issuance to the final such issuance, then, upon the final such issuance, the Conversion Price shall be readjusted to give effect to all such issuances as if they occurred on the date of the final such issuance (and without giving effect to any adjustments as a result of such prior issuances within such period).

7.7 *Adjustments*.

(i) Adjustment for Stock Splits and Combinations. If the Company shall at any time or from time to time after the Original Issue Date effect a

subdivision of the outstanding Common Stock, the Conversion Price in effect immediately before that subdivision or combination shall be proportionately decreased. If the Company shall at any time or from time to time after the Original Issue Date combine the outstanding shares of Common Stock, the Conversion Price in effect immediately before the combination or subdivision shall be proportionately increased. Any adjustment under this paragraph shall become effective at the close of business on the date the subdivision or combination becomes effective.

(ii) Adjustment for Certain Dividends and Distributions. In the event the Company at any time, or from time to time after the Original Issue Date shall make or issue, or fix a record date for the determination of holders of Common Stock entitled to receive, a dividend or other distribution payable in additional shares of Common Stock, then and in each such event the Conversion Price in effect immediately before such event shall be decreased as of the time of such issuance or, in the event such a record date shall have been fixed, as of the close of business on such record date, by multiplying the Conversion Price, as the case may be, then in effect by a fraction:

(1) the numerator of which shall be the total number of shares of Common Stock issued and outstanding immediately prior to the time of such issuance or the close of business on such record date, and

(2) the denominator of which shall be the total number of shares of Common Stock issued and outstanding immediately prior to the time of such issuance or the close of business on such record date plus the number of shares of Common Stock issuable in payment of such dividend or distribution; provided, however, that if such record date shall have been fixed and such dividend is not fully paid or if such distribution is not fully made on the date fixed therefor, the Conversion Price shall be recomputed accordingly as of the close of business on such record date and thereafter the Conversion Price shall be adjusted pursuant to this paragraph as of the time of actual payment of such dividends or distributions; and provided further, however, that no such adjustment shall be made if the holders of the Note simultaneously receive a dividend or other distribution of shares of Common Stock in a number equal to the number of shares of Common Stock as they would have received if the outstanding balance of this Note had been converted into Common Stock on the date of such event.

(iii) Adjustments for Other Dividends and Distributions. In the event the Company at any time or from time to time after the Original Issue Date shall make or issue, or fix a record date for the determination of holders of Common Stock entitled to receive, a dividend or other distribution payable in securities of the Company (other than shares of Common Stock) or in cash or other property, then and in each such event the holders of the Note shall receive, simultaneously with the distribution to the holders of Common Stock, a dividend or other distribution of such securities, cash or other property in an amount equal to the

amount of such securities, cash or other property as they would have received if the outstanding balance of the Note had been converted into Common Stock on the date of such event.

7.8 Certificate as to Adjustments. Upon the occurrence of each adjustment or readjustment of the Conversion Price pursuant to Section 7.7, the Company at its expense shall, as promptly as reasonably practicable but in any event not later than thirty (30) days thereafter, compute such adjustment or readjustment in accordance with the terms hereof and furnish to each holder of the Note a certificate setting forth such adjustment or readjustment (including the kind and amount of securities, cash or other property into which the Note is convertible) and showing in detail the facts upon which such adjustment or readjustment is based. The Company shall, as promptly as reasonably practicable after the written request at any time of any holder of the Note (but in any event not later than thirty (30) days thereafter), furnish or cause to be furnished to such holder a certificate setting forth (a) the Conversion Price then in effect, and (b) the number of shares of Common Stock and the amount, if any, of other securities, cash or property which then would be received upon the conversion of the Note.

7.9 *Notice of Record Date*. If:

(i) the Company shall take a record of the holders of its Common Stock (or other stock or securities at the time issuable upon conversion of the Note), for the purpose of entitling or enabling them to receive any dividend or other distribution, or to receive any right to subscribe for or purchase any shares of stock of any class or any other securities, or to receive any other right; or

(ii) of any capital reorganization of the Company, any reclassification of the Common Stock of the Company, any consolidation or merger of the Company with or into another corporation (other than a consolidation or merger in which the Company is the surviving entity and its Common Stock is not converted into or exchanged for any other securities or property), or any transfer of all or substantially all of the assets of the Company; or

(iii) of the voluntary or involuntary dissolution, liquidation or winding-up of the Company, then, and in each such case, the Company will send or cause to be sent to the holders of the Note a notice specifying, as the case may be, (a) the record date for such dividend, distribution or right, and the amount and character of such dividend, distribution or right, or (b) the effective date on which such reorganization, reclassification, consolidation, merger, transfer, dissolution, liquidation or winding-up is to take place, and the time, if any is to be fixed, as of which the holders of record of Common Stock (or such other stock or securities at the time issuable upon the conversion of the Note) shall be entitled to exchange their shares of Common Stock (or such other stock or securities) for securities or other property deliverable upon such reorganization, reclassification, consolidation, merger, transfer, dissolution, liquidation or winding-up, and the amount per share and character of such exchange applicable to the Series C Preferred Stock, the Notes and the Common Stock. Such notice shall be sent at

least ten (10) days prior to the record date or effective date for the event specified in such notice.

8. *Covenants*. Prior to the earlier to occur of the Maturity Date or conversion of this Note in accordance with Section 6, the Company shall not, either directly or indirectly by amendment, merger, consolidation or otherwise:

(i) consent to any liquidation, dissolution or winding up of the Company or to any Deemed Liquidation Event (as defined in the Articles of Incorporation);

(ii) commence or consent to any Voluntary Bankruptcy Proceeding or Involuntary Bankruptcy Proceeding;

(iii) recapitalize, create or authorize the creation of any additional class or series of shares of stock;

(iv) increase or decrease (other than by redemption or conversion) the authorized number of shares of Preferred Stock, Common Stock or shares of any additional class or series of shares of stock;

(v) create or authorize or issue (other than to the Company or a wholly owned subsidiary of the Company) any obligation or security convertible into shares of any class or series of stock;

(vi) purchase or redeem, or set aside any sums for the purchase or redemption of, or pay any dividend or make any distribution on, any shares of stock other than repurchases of Series C Preferred Stock in accordance with Section 3.9.6 of the Articles of Incorporation;

(vii) permit any subsidiary of the Company to issue or sell any equity securities of such subsidiary (other than to the Company or a wholly owned subsidiary of the Company);

(viii) make, or cause any subsidiary of the Company to make, any acquisition of the assets, stock or other equity securities of any other company or effect the same by way of a merger, consolidation or reorganization, except for acquisitions of assets for consideration of $10,000,000 or less in any single transaction or series of related transactions;

(ix) engage in any new line of business substantially outside of the business plan in the form approved by a majority of the Independent Directors or materially modifying such plan, unless approved in each case by a majority of the Independent Directors;

(x) merge with or into or consolidate, or permit any subsidiary to merge with or into or consolidate, with any other entity (other than a merger or

consolidation solely between the Company and one or more subsidiaries or among subsidiaries);

(xi) sell, lease, or otherwise dispose of any of the Company's material properties or assets; or

(xii) fail to maintain insurance, including officer and director insurance, at levels consistent with current coverage limits;

(xiii) Permit any of the Company's material assets to become subject to a lien or encumbrance (other than liens or encumbrances recorded prior to the Original Issue Date);

(xiv) Increase the size or composition of the Company's Board of Directors;

(xv) Materially increase the compensation payable to any management employee of the Company (above inflation);

(xvi) Prohibit Holder from reasonable access to inspect the properties, books, and records of the Company or fail to maintain such properties, books and records;

(xvii) Enter into any transaction between the Company and any of its affiliates; or

(xviii) incur any indebtedness (including purchase money security interest operating leases), or permit any subsidiary to incur any indebtedness (other than indebtedness of subsidiaries owed to the Company, indebtedness owed pursuant to the Notes, and indebtedness of the Company pursuant to that certain Credit and Security Agreement between the Company, Great Lakes Energy Technologies, LLC, and Wells Fargo Bank, National Association dated December 22, 2005) in excess of $10,000,000 in the aggregate.

9. *Successors and Assigns*. Subject to the restrictions on transfer described in Sections 11 and 12 below, the rights and obligations of the Company and the Holder of this Note shall be binding upon and benefit the successors, assigns, heirs, administrators and transferees of the parties.

10. *Waiver and Amendment*. Any provision of this Note may be amended, waived or modified upon the written consent of the Company and the holders of a majority in interest of the Notes; provided, however, that the approval of all holders of any portion of the Notes will be required to change the amount or time of any prepayment or payment of principal of the Notes, reduce the rate or change the time of payment or method of computation of interest or premium of the Notes and provided, further, the consent of an affected Holder shall be required to modify or otherwise change the Notes in a manner that adversely affects such Holder relative to any other.

11. *Transfer of this Note*. This Note or any Common Stock into which this Note is convertible (collectively, the "Securities") may not be transferred except as provided herein. At any time beginning two years after the issuance of the Note, Holder will have the right to transfer the Securities as long as (i) the transfer is not in violation of any law, (ii) the Securities are not transferred to a competitor of the Company (if a majority of the Independent Directors determines in good faith that the proposed transferee is a competitor of the Company and that such proposed transfer would not be in the best interests of the Company, such consent to transfer not to be unreasonably withheld), (iii) the transfer is after a right of first offer to the Company (if the Company would have a right of first refusal with respect to such transfer under Section 3 of the Amended and Restated Investors' Rights Agreement), and (iv) the transferee agrees to be bound by the terms, conditions, representations, and warranties set forth in the Existing Transaction Documents. Without limiting the foregoing, this Note may not be transferred in violation of any restrictive legend set forth hereon at any time. Notwithstanding the foregoing, Holder may, at any time upon written notice to the Company, transfer any or all of the Securities to an affiliate without being subject to the foregoing restrictions. All such restrictions on Holder's right of transfer shall terminate following an initial public offering or other registration of Company shares or a Change of Control. Each new note issued upon transfer of this Note shall bear a legend as to the applicable restrictions on transferability in order to ensure compliance with the Securities Act, unless in the opinion of counsel for the Company such legend is not required in order to ensure compliance with the Act. The Company may issue stop transfer instructions to its transfer agent in connection with such restrictions. Subject to the foregoing, transfers of this Note shall be registered upon registration books maintained for such purpose by or on behalf of the Company. Prior to presentation of this Note for registration of transfer, the Company shall treat the registered holder hereof as the owner and holder of this Note for the purpose of receiving all payments of principal and interest hereon and for all other purposes whatsoever, whether or not this Note shall be overdue and the Company shall not be affected by notice to the contrary.

12. *Assignment by the Company.* Neither this Note nor any of the rights, interests or obligations hereunder may be assigned in whole or in part by the Company without the prior written consent of the Holder.

13. *Treatment of Note*. To the extent permitted by generally accepted accounting principles, the Company will treat, account and report the Note as debt and not equity for accounting purposes and with respect to any returns filed with federal, state or local tax authorities.

14. *Notices*. Any notice, request or other communication required or permitted hereunder shall be in writing and shall be deemed to have been duly given if personally delivered, if faxed with confirmation of receipt, or if mailed by registered or certified mail or reputable overnight courier, postage prepaid, at the respective addresses of the parties as set forth herein and in the case of the Holder to the attention of Michael Donnelly and in the case of the Company to the attention of the Chief Executive Officer. Any party hereto may by notice so given change its address for future notice hereunder. Notice shall conclusively be deemed to have been given when personally delivered,

faxed, or when deposited in the mail in the manner set forth above and shall be deemed to have been received when delivered.

15. *Confidentiality*. The Holder agrees that such Holder will keep confidential and will not disclose, divulge or use for any purpose, other than to monitor its investment in the Company, any confidential information obtained from the Company pursuant to the terms of this Note, unless such confidential information (i) is known or becomes known to the public in general (other than as a result of a breach of this Section 15 by the Holder), (ii) is or has been independently developed or conceived by the Holder without use of the Company's confidential information or (iii) is or has been made known or disclosed to the Holder by a third party without a breach of any obligation of confidentiality such third party may have to the Company; provided, however, that the Holder may disclose confidential information (1) to its attorneys, accountants, consultants, and other professionals to the extent necessary to obtain their services in connection with monitoring its investment in the Company, or (2) as may otherwise be required by law or by the rules and regulations of any exchange or automated quotation system on which the Company's capital stock is listed or quoted, provided that the Holder takes reasonable steps to minimize the extent of any such required disclosure.

16. *Disclosure*. The Company shall have the right to disclose the Holder's investment in the Company to future prospective investors and/or strategic partners contemplating an investment in the Company, provided, that such recipient is subject to a non-disclosure agreement; provided, that the Company will provide prior written notice of such disclosure (together with the proposed text of such disclosure) to the Holder, and the disclosure made by the Company will reflect any comments provided to the Company by the Holder. Notwithstanding the foregoing, but subject to the requirement above to provide prior written notice of such disclosure as provided above, this Section 16 shall not prohibit any disclosure required by law or by the rules and regulations of any exchange or automated quotation system on which the Company's capital stock is listed or quoted.

17. *Governing Law*. This Agreement shall be governed by and construed in accordance with the laws of the State of New York, excluding that body of law relating to conflict of laws.

18. *Heading; References*. All headings used herein are used for convenience only and shall not be used to construe or interpret this Note. Except where otherwise indicated, all references herein to Sections refer to Sections hereof.

[remainder of page intentionally left blank]

IN WITNESS WHEREOF, the Company has caused this Note to be issued as of the date first above written.

ORION ENERGY SYSTEMS, INC.

By: /s/ Neal Verfuerth
Name: Neal Verfuerth
Title: President and Chief Executive Officer

Acknowledged and Agreed:

GE CAPITAL EQUITY INVESTMENTS, INC

By: /s/ Michael Donnelly
Name:
Title:
Address:

Signature Page to GE Capital Equity Investments, Inc.
Convertible Subordinated Promissory Note

Exhibit 4.7

THIS NOTE HAS NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR ANY APPLICABLE STATE SECURITIES LAWS. THIS NOTE MAY NOT BE SOLD, OFFERED FOR SALE, PLEDGED OR HYPOTHECATED IN THE ABSENCE OF A REGISTRATION STATEMENT IN EFFECT WITH RESPECT TO THE SECURITIES UNDER SUCH ACT AND APPLICABLE LAWS OR SOME OTHER EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF SUCH ACT AND APPLICABLE LAWS OR AN OPINION OF COUNSEL SATISFACTORY TO THE COMPANY THAT SUCH REGISTRATION IS NOT REQUIRED.

THE SALE, PLEDGE, HYPOTHECATION, ASSIGNMENT OR TRANSFER OF THE SECURITIES REPRESENTED BY THIS CERTIFICATE IS SUBJECT TO THE TERMS AND CONDITIONS OF A CERTAIN FIRST OFFER AND CO-SALE AGREEMENT BY AND BETWEEN THE NOTE HOLDER, THE COMPANY AND CERTAIN HOLDERS OF NOTES AND/OR STOCK OF THE COMPANY. COPIES OF SUCH AGREEMENT MAY BE OBTAINED UPON WRITTEN REQUEST TO THE SECRETARY OF THE COMPANY.

CONVERTIBLE SUBORDINATED PROMISSORY NOTE

$2,500,000 August 3, 2007

ORION ENERGY SYSTEMS, INC., a Wisconsin corporation (the "Company"), the principal office of which is located at 1204 Pilgrim Road, Plymouth, Wisconsin 53073, for value received hereby promises to pay to Clean Technology Fund II, LP, a Delaware limited partnership (the "Holder"), the sum of $2,500,000, or such other amounts as shall then equal the outstanding principal amount hereof and any unpaid accrued interest hereon, as set forth below, which shall be due and payable on the Maturity Date. Payment for all amounts due hereunder shall be made in accordance with Section 2 hereof.

The following is a statement of the rights of the Holder of this Note and the conditions to which this Note is subject, and to which the Holder hereof, by the acceptance of this Note, agrees:

1. *Definitions*. As used in this Note, the following terms, unless the context otherwise requires, have the following meanings:

(i) "Articles of Incorporation" means the Company's Amended and Restated Articles of Incorporation dated July 31, 2006.

(ii) "Change in Control" means (a) the acquisition by any person or entity, or two or more persons or entities acting in concert, of beneficial ownership (within the meaning of Rule 13d-3 of the Securities and Exchange Commission under the Securities Exchange Act of 1934) of 50.1% or more of the outstanding shares of either voting stock of Company or voting ownership interests of Company.

(iii) “Common Stock” means the Company’s common stock.

(iv) “Company” includes any corporation that, to the extent permitted by this Note, shall succeed to or assume the obligations of the Company under this Note.

(v) “Existing Transaction Documents” means the Amended and Restated Investor Rights Agreement, the Amended and Restated Right of First Refusal and Co-Sale Agreement and the Note Purchase Agreement, in each case by and among the Company and the other parties a signatory thereto and dated effective as of August 3, 2007.

(vi) “Holder” when the context refers to a holder of this Note, shall mean any person who shall at the time be the registered holder of this Note.

(vii) “Holders” means all of the holders of the Notes.

(viii) “Independent Directors” means the members of the Board of Directors who are not employees of the Company and were not employees of the Company during the twenty-four (24) month period prior to the Original Issue Date.

(ix) “Maturity Date” means the earliest to occur of (a) when declared due and payable by the Holder upon the occurrence of an Event of Default (as defined below), or (b) August 3, 2012.

(x) “Notes” means each of the substantially identical Convertible Subordinated Promissory Notes sold pursuant to the Note Purchase Agreements.

(xi) “Note Purchase Agreement” means that certain Note Purchase Agreement among the Company, GE Capital Equity Investments, Inc., Clean Technology Fund II, LP, CapVest Venture Fund, LP, and Technology Transformation Venture Fund, LP dated August 3, 2007.

(xii) “Original Issue Date” means the date on which this Note was first issued.

(xiii) “QExit” means a merger or sale of at least a majority of the Company assets or stock resulting in consideration on a per share basis of a value, on or before August 3, 2009, of at least $11.23 per share, and after such date, of at least $13.47 per share (subject to appropriate adjustment for stock splits, stock dividends, combinations and other similar recapitalizations affecting such shares).

(xiv) “QIPO” means the closing of the sale of shares of Common Stock at a price to the public, on or before August 3, 2009, of at least $11.23 per share, and after such date, of at least $13.47 per share (subject to appropriate adjustment for stock splits, stock dividends, combinations and other similar recapitalizations affecting such shares), in a firm-commitment underwritten public offering

pursuant to an effective registration statement under the Securities Act of 1933, as amended, resulting in at least $30,000,000 of net proceeds to the Company after deduction of underwriters' commissions and expenses payable by the Company.

(xv) "Securities Act" means the Securities Act of 1933, as amended.

2. *Interest; Payment Upon Maturity Date*.

2.1 Interest Rates.

(i) Interest Rate. Prior to the Maturity Date, interest shall accrue on the aggregate unpaid principal amount outstanding under this Note at the rate of six percent (6%) per annum simple, allocated as follows: (A) 3.9% per annum shall accrete to the principal balance of the Note quarterly in arrears and (B) 2.1% per annum shall be payable in cash quarterly in arrears (collectively, the "Interest Rate").

(ii) Deferral Rate. If the Company is prohibited or otherwise restricted from paying any amounts owing to Holder due to obligations or restrictions related to its senior indebtedness or under applicable law, the Company shall have the right to defer any such payment(s); provided, however, that from the date of such deferral, the interest rate applicable to such deferred payment shall increase to eight percent (8%) per annum (3.9% accreting to principal and 4.1% payable in cash), compounding, until such payment is made.

(iii) Default Rate. If an Event of Default has occurred and is continuing, interest at the same rate as the Interest Rate plus four percent (4%) shall be payable, in cash, on the balance of any unpaid principal until such balance is paid.

(iv) Payments. All cash payments of interest provided pursuant to this Section 2.1 shall be payable by wire transfer to an account designated in writing by Holder. If the Note is converted into shares of Common Stock in accordance with Section 6, any unpaid cash interest shall be due and payable on the date of such conversion.

2.2 Payment Upon Maturity Date.

(i) Holder may elect to have the Company pay this Note in full by delivering written notice of such election to the Company, with a copy to the other Holders, one hundred and twenty (120) days in advance of the Maturity Date (or 120 days in advance of any other date after the Maturity Date), in which event the Company shall pay this Note (including all accrued and accreted interest) in three (3) semi-annual installments beginning on the Maturity Date or such later date.

(ii) All payments of principal and interest provided pursuant to this Section 2.2 shall be payable by wire transfer to an account designated in writing by Holder.

3. *Events of Default*. If any of the events specified in this Section 3 shall occur (herein individually referred to as an "Event of Default"), the Holder of the Note may, so long as such condition exists, declare the entire principal and unpaid accrued interest hereon immediately due and payable, by notice in writing to the Company:

(i) Default in the payment of the principal and unpaid accrued interest of this Note when due and payable if such default is not cured by the Company within ten (10) days after the Holder has given the Company written notice of such default;

(ii) Any breach by the Company of any representation, warranty, or covenant in the Note Purchase Agreement; provided, that, in the event of any such breach, to the extent such breach is susceptible to cure, such breach shall not have been cured by the Company within fifteen (15) days after the earliest to occur of (a) written notice to the Company of such breach, and (b) the Company's actual knowledge of such breach;

(iii) Any breach by the Company of any covenant in the Existing Transaction Documents; provided, that, in the event of any such breach, to the extent such breach is susceptible to cure, such breach shall not have been cured by the Company within fifteen (15) days after the earliest to occur of (a) written notice to the Company of such breach, and (b) the Company's actual knowledge of such breach;

(iv) The institution by the Company of proceedings to be adjudicated as bankrupt or insolvent, or the consent by it to institution of bankruptcy or insolvency proceedings against it or the filing by it of a petition or answer or consent seeking reorganization or release under the federal Bankruptcy Act, or any other applicable federal or state law, or the consent by it to the filing of any such petition or the appointment of a receiver, liquidator, assignee, trustee or other similar official of the Company, or of any substantial part of its property, or the making by it of an assignment for the benefit of creditors, or the taking of corporate action by the Company in furtherance of any such action (a "Voluntary Bankruptcy Proceeding");

(v) If, within sixty (60) days after the commencement of an action against the Company (and service of process in connection therewith on the Company) seeking any bankruptcy, insolvency, reorganization, liquidation, dissolution or similar relief under any present or future statute, law or regulation, such action shall not have been resolved in favor of the Company or all orders or proceedings thereunder affecting the operations or the business of the Company or of all or any substantial part of the properties of the Company, such

appointment shall not have been vacated (an "Involuntary Bankruptcy Proceeding");

(vi) Any Change in Control that is not a QIPO or QExit;

(vii) Company shall fail within thirty days to pay, bond or otherwise discharge any judgment or order for the payment of money in excess of $1,000,000 (or multiple judgments or orders for the payment of an aggregate amount in excess of $2,000,000) which is not stayed on appeal or otherwise being appropriately contested in good faith and as to which no enforcement actions have been commenced;

(viii) Delivery of a "Repurchase Notice" (as defined in the Articles of Incorporation);

(ix) Payment or declaration (but not the accrual) of any dividend to holders of Series C Preferred Stock or any other class of equity securities; or

(x) The occurrence of a "Deemed Liquidation Event" (as defined in the Articles of Incorporation) that is not a QIPO or QExit.

4. *Subordination*. The indebtedness evidenced by this Note is hereby expressly subordinated, to the extent and in the manner hereinafter set forth, in right of payment to the prior payment in full of all the Company's Senior Indebtedness, as hereinafter defined.

4.1 *Senior Indebtedness*. As used in this Note, the term "Senior Indebtedness" shall mean the principal of and unpaid accrued interest on: (i) all existing indebtedness of the Company to banks, commercial finance lenders, insurance companies or other financial institutions regularly engaged in the business of lending money, which is for money borrowed by the Company (whether or not secured); (ii) all indebtedness of the Company to banks, commercial finance lenders, insurance companies, or other financial institutions regularly engaged in the business of lending money, which may arise under any line of credit of the Company existing on the Original Issue Date (whether or not secured); (iii) indebtedness pursuant to a capital lease with Wells Fargo Equipment Finance, Inc. (or an affiliate) consistent with that certain lease proposal dated July 25, 2007, a copy of which has been provided to Holder, and (iv) any such indebtedness or any debentures, notes or other evidence of indebtedness issued in exchange for or to refinance such Senior Indebtedness, or any indebtedness arising from the satisfaction of such Senior Indebtedness by a guarantor.

4.2 *Default on Senior Indebtedness*. If there should occur any receivership, insolvency, assignment for the benefit of creditors, bankruptcy, reorganization or arrangements with creditors (whether or not pursuant to bankruptcy or other insolvency laws), sale of all or substantially all of the assets, dissolution, liquidation or any other marshalling of the assets and liabilities of the Company then (i) no amount shall be paid by the Company in respect of the principal of or interest on this Note at the time outstanding, unless and until the principal of and interest on the Senior Indebtedness

then outstanding shall be satisfied, and (ii) no claim or proof of claim shall be filed with the Company by or on behalf of the Holder of this Note that shall assert any right to receive any payments in respect of the principal of and interest on this Note, except subject to the satisfaction of the principal of and interest on all of the Senior Indebtedness then outstanding. If there occurs an event of default that has been declared in writing with respect to any Senior Indebtedness permitting the holder of such Senior Indebtedness to accelerate the maturity thereof, then, unless and until such event of default shall have been cured or waived or shall have ceased to exist, or all Senior Indebtedness shall have been satisfied, no payment shall be made in respect of the principal of or interest on this Note.

4.3 *Effect of Subordination*. Subject to the rights, if any, of the holders of Senior Indebtedness under this Section 4 to receive cash, securities or other properties otherwise payable or deliverable to the Holder of this Note, nothing contained in this Section 4 shall impair, as between the Company and the Holder, the obligation of the Company, subject to the terms and conditions hereof, to pay to the Holder the principal hereof and interest hereon as and when the same become due and payable, or shall prevent the Holder of this Note, upon default hereunder, from exercising all rights, powers and remedies otherwise provided herein or by applicable law.

4.4 *Undertaking*. By its acceptance of this Note, the Holder agrees to execute and deliver such documents as may be reasonably requested from time to time by the Company or the lender of any Senior Indebtedness in order to implement the foregoing provisions of this Section 4, at the expense of the Company.

5. *Prepayment*. The Company shall not be permitted to prepay any outstanding principal under this Note or interest thereon without Holder’s prior written consent.

6. *Conversion*.

6.1 *Automatic Conversion*. The principal and accrued interest outstanding under this Note shall be converted, immediately, automatically and without election on the part of the Holder hereof, upon the closing of a QIPO or a QExit into shares of the Company’s Common Stock at a conversion price equal to $4.49 per share (the “Base Conversion Price”). For each quarter in which interest accretes to the principal balance of this Note in accordance with Section 2.1(i)(A), the aggregate Base Conversion Price will increase by .975% of the original Base Conversion Price (on a quarterly basis) in order to ensure that this Note shall at all times be convertible into an aggregate of 556,793 shares of Common Stock (subject to anti-dilution adjustment as provided herein) (as adjusted, the “Conversion Price”). In connection with a conversion effectuated pursuant to this Section 6.1, the number of shares of Common Stock into which this Note may be converted shall be determined by dividing the aggregate outstanding principal (including, for the avoidance of doubt, any interest which has accreted to the principal balance as provided in Section 2.1(i)(A) but excluding any cash payments of interest paid to Holder as provided in Section 2.1) through the date of the conversion of the Note by the Conversion Price.

6.2 *Optional Conversion into Common Stock.* At any time, all but not less than all of the principal amount then outstanding under this Note (including, for the avoidance of doubt, any interest which has accreted to the principal balance as provided in Section 2.1(i)(A) but excluding any cash payments of interest paid to Holder as provided in Section 2.1) may, at the election of the Holder, be converted into Common Stock of the Company, with such conversion to be effected at the Conversion Price. The Holder shall exercise this optional conversion right, if at all, by giving notice thereof to the Company at least ten (10) days prior to the date of conversion.

6.3 *Notice Regarding QIPO or QExit*. At least ten (10) business days prior to the anticipated closing of a QIPO or transaction which would constitute a QExit, written notice shall be delivered to the Holder at the address last shown on the records of the Company for the Holder or given by the Holder to the Company for the purpose of notice or, if no such address appears or is given, at the place where the principal executive office of the Company is located, (1) notifying the Holder of the QIPO or QExit, (2) specifying (A) in the case of a QExit, the terms and conditions thereof, (B) the then outstanding principal amount of the Note, (C) the then outstanding amount of accreted interest as provided for in Section 2.1(i)(A), and (D) the date on which such transaction will close (which in no event shall be less than ten (10) business days following delivery of said notice), and, (3) if the Note is subject to automatic conversion pursuant to Section 6.1, calling upon such Holder to surrender the Note to the Company in the manner and at the place designated in such notice.

6.4 *Mechanics and Effect of Conversion*. No fractional shares of Common Stock shall be issued upon conversion of this Note. In lieu of the Company issuing any fractional shares to the Holder upon the conversion of this Note, the Company shall pay to the Holder the amount outstanding that is not so converted, such payment to be in made by Company check in an amount equal to the fractional share multiplied by the Conversion Price. At its expense, the Company shall, as soon as practicable following conversion of this Note and surrender of this Note to the Company, issue and deliver to the Holder at its principal office a certificate or certificates for the number of shares of Common Stock to which the Holder shall be entitled upon such conversion (bearing such legends as are required by any applicable purchase documents and applicable state and federal securities laws in the opinion of counsel to the Company), together with any other securities and property to which the Holder is entitled upon such conversion under the terms of this Note, including a check payable to the Holder for any cash amounts payable as described above. Upon conversion of this Note, the Company shall be forever released from all its obligations and liabilities under this Note, except that the Company shall be obligated to pay the Holder, within ten (10) days after the date of such conversion, the cash equivalent of any fractional shares that otherwise would have been issued upon such conversion, and no more.

6.5 *Reservation of Stock Issuable Upon Conversion*. The Company covenants and agrees that the Company shall reserve a sufficient number of shares of Common Stock to comply with the conversion provisions contained herein with respect to an amount equal to the principal outstanding under this Note and the accrued interest thereon.

7. *Adjustments to Conversion Price for Diluting Issues*.

7.1 *Special Definitions*. For purposes of this Section 7, the following definitions shall apply:

(i) "Option" shall mean rights, options or warrants to subscribe for, purchase or otherwise acquire Common Stock or Convertible Securities.

(ii) "Convertible Securities" shall mean any evidences of indebtedness, shares or other securities directly or indirectly convertible into or exchangeable for Common Stock, but excluding Options.

(iii) "Additional Shares of Common Stock" shall mean all shares of Common Stock issued (or, pursuant to Section 7.3 below, deemed to be issued) by the Company after the Original Issue Date, other than the following ("Exempted Securities"):

(1) shares of Common Stock issued or deemed issued as a dividend or distribution on, or upon conversion of, the shares of Series B Preferred Stock or Series C Preferred Stock outstanding on the Original Issue Date, or the Notes;

(2) shares of Common Stock issued upon exercise or conversion of any Options or Convertible Securities outstanding on the Original Issue Date;

(3) shares of Common Stock issued or issuable by reason of a dividend, stock split, split-up or other distribution on shares of Common Stock that is covered by Section 7.7(i) or (ii);

(4) up to an aggregate total of 100,000 shares of Common Stock or warrants to purchase Common Stock issued pursuant to any strategic partnership, in each case approved by a majority of the Independent Directors; or

(5) shares of Common Stock issued or issuable pursuant to Options authorized under existing stock option plans in effect as of the Original Issue Date, provided that any new grants under such existing stock option plans must be approved by the Independent Directors.

7.2 *No Adjustment of Conversion Price*. No adjustment in the Conversion Price shall be made as the result the issuance of Additional Shares of Common Stock if: (i) the consideration per share (determined pursuant to Section 7.5) for such Additional Share of Common Stock issued or deemed to be issued by the Company is equal to or greater than the Conversion Price in effect immediately prior to the issuance or deemed issuance of such Additional Shares of Common Stock, or (ii) prior to such issuance or deemed issuance, the Company receives written notice from the holders of Notes constituting a majority of the total indebtedness represented by the Notes, voting as a

single class and on an as-converted to Common Stock basis, agreeing that no such adjustment shall be made as the result of the issuance or deemed issuance of such Additional Shares of Common Stock.

7.3 *Issue of Securities Deemed Issue of Additional Shares of Common Stock*.

(i) If the Company at any time or from time to time after the Original Issue Date shall issue any Options or Convertible Securities (excluding Options or Convertible Securities which, upon exercise, conversion or exchange thereof, would entitle the holder thereof to receive Exempted Securities) or shall fix a record date for the determination of holders of any class of securities entitled to receive any such Options or Convertible Securities, then the maximum number of shares of Common Stock (as set forth in the instrument relating thereto without regard to any provision contained therein for a subsequent adjustment of such number) issuable upon the exercise of such Options or, in the case of Convertible Securities and Options therefor, the conversion or exchange of such Convertible Securities, shall be deemed to be Additional Shares of Common Stock issued as of the time of such issue or, in case such a record date shall have been fixed, as of the close of business on such record date.

(ii) If the terms of any Option or Convertible Security, the issuance of which resulted in an adjustment to the Conversion Price, as the case may be, pursuant to the terms of Section 7.4 below, are revised (either automatically pursuant to the provisions contained therein or as a result of an amendment to such terms) to provide for either (A) any increase or decrease in the number of shares of Common Stock issuable upon the exercise, conversion or exchange of any such Option or Convertible Security or (B) any increase or decrease in the consideration payable to the Company upon such exercise, conversion or exchange, then, effective upon such increase or decrease becoming effective, the Conversion Price computed upon the original issue of such Option or Convertible Security (or upon the occurrence of a record date with respect thereto) shall be readjusted to such Conversion Price as would have obtained had such revised terms been in effect upon the original date of issuance of such Option or Convertible Security. Notwithstanding the foregoing, no adjustment pursuant to this clause (ii) shall have the effect of increasing the Conversion Price to an amount which exceeds the lower of (1) the Conversion Price on the original adjustment date, or (2) the Conversion Price that would have resulted from any issuances of Additional Shares of Common Stock between the original adjustment date and such readjustment date.

(iii) If the terms of any Option or Convertible Security (excluding Options or Convertible Securities which, upon exercise, conversion or exchange thereof, would entitle the holder thereof to receive Exempted Securities), the issuance of which did not result in an adjustment to the Conversion Price pursuant to the terms of Section 7.4 below (either because the consideration per share (determined pursuant to Section 7.5 hereof) of the Additional Shares of Common Stock subject thereto was equal to or greater than the Conversion Price then in

effect, or because such Option or Convertible Security was issued before the Original Issue Date), are revised after the Original Issue Date (either automatically pursuant to the provisions contained therein or as a result of an amendment to such terms) to provide for either (1) any increase or decrease in the number of shares of Common Stock issuable upon the exercise, conversion or exchange of any such Option or Convertible Security or (2) any increase or decrease in the consideration payable to the Company upon such exercise, conversion or exchange, then such Option or Convertible Security, as so amended, and the Additional Shares of Common Stock subject thereto (determined in the manner provided in Section 7.3(i) above) shall be deemed to have been issued effective upon such increase or decrease becoming effective.

(iv) Upon the expiration or termination of any unexercised Option or unconverted or unexchanged Convertible Security which resulted (either upon its original issuance or upon a revision of its terms) in an adjustment to the Conversion Price pursuant to the terms of Section 7.4 below, the Conversion Price shall be readjusted to such Conversion Price as would have obtained had such Option or Convertible Security never been issued.

(v) No adjustment in the Conversion Price shall be made upon the issue of shares of Common Stock or Convertible Securities upon the exercise of Options or the issue of shares of Common Stock upon the conversion or exchange of Convertible Securities.

7.4 *Adjustment of Conversion Price Upon Issuance of Additional Shares of Common Stock*. In the event the Company shall at any time after the Original Issue Date issue Additional Shares of Common Stock (including Additional Shares of Common Stock deemed to be issued pursuant to Section 7.3), without consideration or for a consideration per share less than the Conversion Price in effect immediately prior to such issue, then the Conversion Price shall be reduced, concurrently with such issue, to a price (calculated to the nearest one-hundredth of a cent) determined by multiplying the Conversion Price by a fraction, (a) the numerator of which shall be (i) the number of shares of Common Stock outstanding immediately prior to such issue plus (ii) the number of shares of Common Stock which the aggregate consideration received or to be received by the Company for the total number of Additional Shares of Common Stock so issued would purchase at the Conversion Price and (b) the denominator of which shall be (i) the number of shares of Common Stock outstanding immediately prior to such issue plus (ii) the number of such Additional Shares of Common Stock so issued; provided that, for the purpose of this Section 7.4, all shares of Common Stock issuable upon exercise of Options outstanding immediately prior to such issue or upon conversion of Convertible Securities (including the Series C Preferred Stock and the shares into which this Note may be converted) outstanding immediately prior to such issue shall be deemed to be outstanding.

7.5 *Determination of Consideration*. For purposes of this Section 7, the consideration received by the Company for the issue of any Additional Shares of Common Stock shall be computed as follows:

(i) Cash and Property. Such consideration shall:

(1) insofar as it consists of cash, be computed at the aggregate amount of cash received by the Company, excluding amounts paid or payable for accrued interest;

(2) insofar as it consists of property other than cash, be computed at the fair market value thereof at the time of such issue, as determined in good faith by the Board of Directors of the Company; and

(3) in the event Additional Shares of Common Stock are issued together with other shares or securities or other assets of the Company for consideration which covers both, be the proportion of such consideration so received, computed as provided in clauses (1) and (2) above, as determined in good faith by the Board of Directors of the Company.

(ii) Options and Convertible Securities. The consideration per share received by the Company for Additional Shares of Common Stock deemed to have been issued pursuant to Section 7.3, relating to Options and Convertible Securities, shall be determined by dividing the total amount, if any, received or receivable by the Company as consideration for the issue of such Options or Convertible Securities, plus the minimum aggregate amount of additional consideration (as set forth in the instruments relating thereto, without regard to any provision contained therein for a subsequent adjustment of such consideration) payable to the Company upon the exercise of such Options or the conversion or exchange of such Convertible Securities, or in the case of Options for Convertible Securities, the exercise of such Options for Convertible Securities and the conversion or exchange of such Convertible Securities, by the maximum number of shares of Common Stock (as set forth in the instruments relating thereto, without regard to any provision contained therein for a subsequent adjustment of such number) issuable upon the exercise of such Options or the conversion or exchange of such Convertible Securities.

7.6 *Multiple Closing Dates*. In the event the Company shall issue on more than one date Additional Shares of Common Stock that are comprised of shares of the same series or class of Preferred Stock and that would result in an adjustment to Conversion Price pursuant to the terms of Section 7.4 above, and such issuance dates occur within a period of no more than forty-five (45) days from the first such issuance to the final such issuance, then, upon the final such issuance, the Conversion Price shall be readjusted to give effect to all such issuances as if they occurred on the date of the final such issuance (and without giving effect to any adjustments as a result of such prior issuances within such period).

7.7 *Adjustments*.

(i) Adjustment for Stock Splits and Combinations. If the Company shall at any time or from time to time after the Original Issue Date effect a

subdivision of the outstanding Common Stock, the Conversion Price in effect immediately before that subdivision or combination shall be proportionately decreased. If the Company shall at any time or from time to time after the Original Issue Date combine the outstanding shares of Common Stock, the Conversion Price in effect immediately before the combination or subdivision shall be proportionately increased. Any adjustment under this paragraph shall become effective at the close of business on the date the subdivision or combination becomes effective.

(ii) Adjustment for Certain Dividends and Distributions. In the event the Company at any time, or from time to time after the Original Issue Date shall make or issue, or fix a record date for the determination of holders of Common Stock entitled to receive, a dividend or other distribution payable in additional shares of Common Stock, then and in each such event the Conversion Price in effect immediately before such event shall be decreased as of the time of such issuance or, in the event such a record date shall have been fixed, as of the close of business on such record date, by multiplying the Conversion Price, as the case may be, then in effect by a fraction:

(1) the numerator of which shall be the total number of shares of Common Stock issued and outstanding immediately prior to the time of such issuance or the close of business on such record date, and

(2) the denominator of which shall be the total number of shares of Common Stock issued and outstanding immediately prior to the time of such issuance or the close of business on such record date plus the number of shares of Common Stock issuable in payment of such dividend or distribution; provided, however, that if such record date shall have been fixed and such dividend is not fully paid or if such distribution is not fully made on the date fixed therefor, the Conversion Price shall be recomputed accordingly as of the close of business on such record date and thereafter the Conversion Price shall be adjusted pursuant to this paragraph as of the time of actual payment of such dividends or distributions; and provided further, however, that no such adjustment shall be made if the holders of the Note simultaneously receive a dividend or other distribution of shares of Common Stock in a number equal to the number of shares of Common Stock as they would have received if the outstanding balance of this Note had been converted into Common Stock on the date of such event.

(iii) Adjustments for Other Dividends and Distributions. In the event the Company at any time or from time to time after the Original Issue Date shall make or issue, or fix a record date for the determination of holders of Common Stock entitled to receive, a dividend or other distribution payable in securities of the Company (other than shares of Common Stock) or in cash or other property, then and in each such event the holders of the Note shall receive, simultaneously with the distribution to the holders of Common Stock, a dividend or other distribution of such securities, cash or other property in an amount equal to the

amount of such securities, cash or other property as they would have received if the outstanding balance of the Note had been converted into Common Stock on the date of such event.

7.8 Certificate as to Adjustments. Upon the occurrence of each adjustment or readjustment of the Conversion Price pursuant to Section 7.7, the Company at its expense shall, as promptly as reasonably practicable but in any event not later than thirty (30) days thereafter, compute such adjustment or readjustment in accordance with the terms hereof and furnish to each holder of the Note a certificate setting forth such adjustment or readjustment (including the kind and amount of securities, cash or other property into which the Note is convertible) and showing in detail the facts upon which such adjustment or readjustment is based. The Company shall, as promptly as reasonably practicable after the written request at any time of any holder of the Note (but in any event not later than thirty (30) days thereafter), furnish or cause to be furnished to such holder a certificate setting forth (a) the Conversion Price then in effect, and (b) the number of shares of Common Stock and the amount, if any, of other securities, cash or property which then would be received upon the conversion of the Note.

7.9 *Notice of Record Date*. If:

(i) the Company shall take a record of the holders of its Common Stock (or other stock or securities at the time issuable upon conversion of the Note), for the purpose of entitling or enabling them to receive any dividend or other distribution, or to receive any right to subscribe for or purchase any shares of stock of any class or any other securities, or to receive any other right; or

(ii) of any capital reorganization of the Company, any reclassification of the Common Stock of the Company, any consolidation or merger of the Company with or into another corporation (other than a consolidation or merger in which the Company is the surviving entity and its Common Stock is not converted into or exchanged for any other securities or property), or any transfer of all or substantially all of the assets of the Company; or

(iii) of the voluntary or involuntary dissolution, liquidation or winding-up of the Company, then, and in each such case, the Company will send or cause to be sent to the holders of the Note a notice specifying, as the case may be, (a) the record date for such dividend, distribution or right, and the amount and character of such dividend, distribution or right, or (b) the effective date on which such reorganization, reclassification, consolidation, merger, transfer, dissolution, liquidation or winding-up is to take place, and the time, if any is to be fixed, as of which the holders of record of Common Stock (or such other stock or securities at the time issuable upon the conversion of the Note) shall be entitled to exchange their shares of Common Stock (or such other stock or securities) for securities or other property deliverable upon such reorganization, reclassification, consolidation, merger, transfer, dissolution, liquidation or winding-up, and the amount per share and character of such exchange applicable to the Series C Preferred Stock, the Notes and the Common Stock. Such notice shall be sent at

least ten (10) days prior to the record date or effective date for the event specified in such notice.

8. *Covenants*. Prior to the earlier to occur of the Maturity Date or conversion of this Note in accordance with Section 6, the Company shall not, either directly or indirectly by amendment, merger, consolidation or otherwise:

(i) consent to any liquidation, dissolution or winding up of the Company or to any Deemed Liquidation Event (as defined in the Articles of Incorporation);

(ii) commence or consent to any Voluntary Bankruptcy Proceeding or Involuntary Bankruptcy Proceeding;

(iii) recapitalize, create or authorize the creation of any additional class or series of shares of stock;

(iv) increase or decrease (other than by redemption or conversion) the authorized number of shares of Preferred Stock, Common Stock or shares of any additional class or series of shares of stock;

(v) create or authorize or issue (other than to the Company or a wholly owned subsidiary of the Company) any obligation or security convertible into shares of any class or series of stock;

(vi) purchase or redeem, or set aside any sums for the purchase or redemption of, or pay any dividend or make any distribution on, any shares of stock other than repurchases of Series C Preferred Stock in accordance with Section 3.9.6 of the Articles of Incorporation;

(vii) permit any subsidiary of the Company to issue or sell any equity securities of such subsidiary (other than to the Company or a wholly owned subsidiary of the Company);

(viii) make, or cause any subsidiary of the Company to make, any acquisition of the assets, stock or other equity securities of any other company or effect the same by way of a merger, consolidation or reorganization, except for acquisitions of assets for consideration of $10,000,000 or less in any single transaction or series of related transactions;

(ix) engage in any new line of business substantially outside of the business plan in the form approved by a majority of the Independent Directors or materially modifying such plan, unless approved in each case by a majority of the Independent Directors;

(x) merge with or into or consolidate, or permit any subsidiary to merge with or into or consolidate, with any other entity (other than a merger or

consolidation solely between the Company and one or more subsidiaries or among subsidiaries);

(xi) sell, lease, or otherwise dispose of any of the Company's material properties or assets; or

(xii) fail to maintain insurance, including officer and director insurance, at levels consistent with current coverage limits;

(xiii) Permit any of the Company's material assets to become subject to a lien or encumbrance (other than liens or encumbrances recorded prior to the Original Issue Date);

(xiv) Increase the size or composition of the Company's Board of Directors;

(xv) Materially increase the compensation payable to any management employee of the Company (above inflation);

(xvi) Prohibit Holder from reasonable access to inspect the properties, books, and records of the Company or fail to maintain such properties, books and records;

(xvii) Enter into any transaction between the Company and any of its affiliates; or

(xviii) incur any indebtedness (including purchase money security interest operating leases), or permit any subsidiary to incur any indebtedness (other than indebtedness of subsidiaries owed to the Company, indebtedness owed pursuant to the Notes, and indebtedness of the Company pursuant to that certain Credit and Security Agreement between the Company, Great Lakes Energy Technologies, LLC, and Wells Fargo Bank, National Association dated December 22, 2005) in excess of $10,000,000 in the aggregate.

9. *Successors and Assigns.* Subject to the restrictions on transfer described in Sections 11 and 12 below, the rights and obligations of the Company and the Holder of this Note shall be binding upon and benefit the successors, assigns, heirs, administrators and transferees of the parties.

10. *Waiver and Amendment*. Any provision of this Note may be amended, waived or modified upon the written consent of the Company and the holders of a majority in interest of the Notes; provided, however, that the approval of all holders of any portion of the Notes will be required to change the amount or time of any prepayment or payment of principal of the Notes, reduce the rate or change the time of payment or method of computation of interest or premium of the Notes and provided, further, the consent of an affected Holder shall be required to modify or otherwise change the Notes in a manner that adversely affects such Holder relative to any other.

11. *Transfer of this Note*. This Note or any Common Stock into which this Note is convertible (collectively, the "Securities") may not be transferred except as provided herein. At any time beginning two years after the issuance of the Note, Holder will have the right to transfer the Securities as long as (i) the transfer is not in violation of any law, (ii) the Securities are not transferred to a competitor of the Company (if a majority of the Independent Directors determines in good faith that the proposed transferee is a competitor of the Company and that such proposed transfer would not be in the best interests of the Company, such consent to transfer not to be unreasonably withheld), (iii) the transfer is after a right of first offer to the Company (if the Company would have a right of first refusal with respect to such transfer under Section 3 of the Amended and Restated Investors' Rights Agreement), and (iv) the transferee agrees to be bound by the terms, conditions, representations, and warranties set forth in the Existing Transaction Documents. Without limiting the foregoing, this Note may not be transferred in violation of any restrictive legend set forth hereon at any time. Notwithstanding the foregoing, Holder may, at any time upon written notice to the Company, transfer any or all of the Securities to an affiliate without being subject to the foregoing restrictions. All such restrictions on Holder's right of transfer shall terminate following an initial public offering or other registration of Company shares or a Change of Control. Each new note issued upon transfer of this Note shall bear a legend as to the applicable restrictions on transferability in order to ensure compliance with the Securities Act, unless in the opinion of counsel for the Company such legend is not required in order to ensure compliance with the Act. The Company may issue stop transfer instructions to its transfer agent in connection with such restrictions. Subject to the foregoing, transfers of this Note shall be registered upon registration books maintained for such purpose by or on behalf of the Company. Prior to presentation of this Note for registration of transfer, the Company shall treat the registered holder hereof as the owner and holder of this Note for the purpose of receiving all payments of principal and interest hereon and for all other purposes whatsoever, whether or not this Note shall be overdue and the Company shall not be affected by notice to the contrary.

12. *Assignment by the Company.* Neither this Note nor any of the rights, interests or obligations hereunder may be assigned in whole or in part by the Company without the prior written consent of the Holder.

13. *Treatment of Note*. To the extent permitted by generally accepted accounting principles, the Company will treat, account and report the Note as debt and not equity for accounting purposes and with respect to any returns filed with federal, state or local tax authorities.

14. *Notices*. Any notice, request or other communication required or permitted hereunder shall be in writing and shall be deemed to have been duly given if personally delivered, if faxed with confirmation of receipt, or if mailed by registered or certified mail or reputable overnight courier, postage prepaid, at the respective addresses of the parties as set forth herein and in the case of the Holder to the attention of Bernardo H. Llovera and in the case of the Company to the attention of the Chief Executive Officer. Any party hereto may by notice so given change its address for future notice hereunder. Notice shall conclusively be deemed to have been given when personally

delivered, faxed, or when deposited in the mail in the manner set forth above and shall be deemed to have been received when delivered.

15. *Confidentiality*. The Holder agrees that such Holder will keep confidential and will not disclose, divulge or use for any purpose, other than to monitor its investment in the Company, any confidential information obtained from the Company pursuant to the terms of this Note, unless such confidential information (i) is known or becomes known to the public in general (other than as a result of a breach of this Section 15 by the Holder), (ii) is or has been independently developed or conceived by the Holder without use of the Company's confidential information or (iii) is or has been made known or disclosed to the Holder by a third party without a breach of any obligation of confidentiality such third party may have to the Company; provided, however, that the Holder may disclose confidential information (1) to its attorneys, accountants, consultants, and other professionals to the extent necessary to obtain their services in connection with monitoring its investment in the Company, or (2) as may otherwise be required by law or by the rules and regulations of any exchange or automated quotation system on which the Company's capital stock is listed or quoted, provided that the Holder takes reasonable steps to minimize the extent of any such required disclosure.

16. *Disclosure*. The Company shall have the right to disclose the Holder's investment in the Company to future prospective investors and/or strategic partners contemplating an investment in the Company, provided, that such recipient is subject to a non-disclosure agreement; provided, that the Company will provide prior written notice of such disclosure (together with the proposed text of such disclosure) to the Holder, and the disclosure made by the Company will reflect any comments provided to the Company by the Holder. Notwithstanding the foregoing, but subject to the requirement above to provide prior written notice of such disclosure as provided above, this Section 16 shall not prohibit any disclosure required by law or by the rules and regulations of any exchange or automated quotation system on which the Company's capital stock is listed or quoted.

17. *Governing Law*. This Agreement shall be governed by and construed in accordance with the laws of the State of New York, excluding that body of law relating to conflict of laws.

18. *Heading; References*. All headings used herein are used for convenience only and shall not be used to construe or interpret this Note. Except where otherwise indicated, all references herein to Sections refer to Sections hereof.

[remainder of page intentionally left blank]

IN WITNESS WHEREOF, the Company has caused this Note to be issued as of the date first above written.

ORION ENERGY SYSTEMS, INC.

By: /s/ Neal Verfuerth
Name: Neal Verfuerth
Title: President and Chief Executive Officer

Acknowledged and Agreed:

CLEAN TECHNOLOGY FUND II, LP

By: Expansion Capital Partners II, LP,
its General Partner

By: Expansion Capital Partners II General
Partner, LLC, its General Partner

By: /s/ Bernardo Llovera
Name:
Title:
Address:

Signature Page to Clean Technology Fund II, LP
Convertible Subordinated Promissory Note

Exhibit 4.8

THIS NOTE HAS NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR ANY APPLICABLE STATE SECURITIES LAWS. THIS NOTE MAY NOT BE SOLD, OFFERED FOR SALE, PLEDGED OR HYPOTHECATED IN THE ABSENCE OF A REGISTRATION STATEMENT IN EFFECT WITH RESPECT TO THE SECURITIES UNDER SUCH ACT AND APPLICABLE LAWS OR SOME OTHER EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF SUCH ACT AND APPLICABLE LAWS OR AN OPINION OF COUNSEL SATISFACTORY TO THE COMPANY THAT SUCH REGISTRATION IS NOT REQUIRED.

THE SALE, PLEDGE, HYPOTHECATION, ASSIGNMENT OR TRANSFER OF THE SECURITIES REPRESENTED BY THIS CERTIFICATE IS SUBJECT TO THE TERMS AND CONDITIONS OF A CERTAIN FIRST OFFER AND CO-SALE AGREEMENT BY AND BETWEEN THE NOTE HOLDER, THE COMPANY AND CERTAIN HOLDERS OF NOTES AND/OR STOCK OF THE COMPANY. COPIES OF SUCH AGREEMENT MAY BE OBTAINED UPON WRITTEN REQUEST TO THE SECRETARY OF THE COMPANY.

CONVERTIBLE SUBORDINATED PROMISSORY NOTE

$50,000 August 3, 2007

ORION ENERGY SYSTEMS, INC., a Wisconsin corporation (the "Company"), the principal office of which is located at 1204 Pilgrim Road, Plymouth, Wisconsin 53073, for value received hereby promises to pay to Capvest Venture Fund, LP, a Delaware limited partnership (the "Holder"), the sum of $50,000, or such other amounts as shall then equal the outstanding principal amount hereof and any unpaid accrued interest hereon, as set forth below, which shall be due and payable on the Maturity Date. Payment for all amounts due hereunder shall be made in accordance with Section 2 hereof.

The following is a statement of the rights of the Holder of this Note and the conditions to which this Note is subject, and to which the Holder hereof, by the acceptance of this Note, agrees:

1. *Definitions*. As used in this Note, the following terms, unless the context otherwise requires, have the following meanings:

(i) "Articles of Incorporation" means the Company's Amended and Restated Articles of Incorporation dated July 31, 2006.

(ii) "Change in Control" means (a) the acquisition by any person or entity, or two or more persons or entities acting in concert, of beneficial ownership (within the meaning of Rule 13d-3 of the Securities and Exchange Commission under the Securities Exchange Act of 1934) of 50.1% or more of the outstanding shares of either voting stock of Company or voting ownership interests of Company.

(iii) "Common Stock" means the Company's common stock.

(iv) "Company" includes any corporation that, to the extent permitted by this Note, shall succeed to or assume the obligations of the Company under this Note.

(v) "Existing Transaction Documents" means the Amended and Restated Investor Rights Agreement, the Amended and Restated Right of First Refusal and Co-Sale Agreement and the Note Purchase Agreement, in each case by and among the Company and the other parties a signatory thereto and dated effective as of August 3, 2007.

(vi) "Holder" when the context refers to a holder of this Note, shall mean any person who shall at the time be the registered holder of this Note.

(vii) "Holders" means all of the holders of the Notes.

(viii) "Independent Directors" means the members of the Board of Directors who are not employees of the Company and were not employees of the Company during the twenty-four (24) month period prior to the Original Issue Date.

(ix) "Maturity Date" means the earliest to occur of (a) when declared due and payable by the Holder upon the occurrence of an Event of Default (as defined below), or (b) August 3, 2012.

(x) "Notes" means each of the substantially identical Convertible Subordinated Promissory Notes sold pursuant to the Note Purchase Agreements.

(xi) "Note Purchase Agreement" means that certain Note Purchase Agreement among the Company, GE Capital Equity Investments, Inc., Clean Technology Fund II, L.P., CapVest Venture Fund, LP, and Technology Transformation Venture Fund, LP dated August 3, 2007.

(xii) "Original Issue Date" means the date on which this Note was first issued.

(xiii) "QExit" means a merger or sale of at least a majority of the Company assets or stock resulting in consideration on a per share basis of a value, on or before August 3, 2009, of at least $11.23 per share, and after such date, of at least $13.47 per share (subject to appropriate adjustment for stock splits, stock dividends, combinations and other similar recapitalizations affecting such shares).

(xiv) "QIPO" means the closing of the sale of shares of Common Stock at a price to the public, on or before August 3, 2009, of at least $11.23 per share, and after such date, of at least $13.47 per share (subject to appropriate adjustment for stock splits, stock dividends, combinations and other similar recapitalizations affecting such shares), in a firm-commitment underwritten public offering

pursuant to an effective registration statement under the Securities Act of 1933, as amended, resulting in at least $30,000,000 of net proceeds to the Company after deduction of underwriters' commissions and expenses payable by the Company.

(xv) "Securities Act" means the Securities Act of 1933, as amended.

2. *Interest; Payment Upon Maturity Date*.

2.1 Interest Rates.

(i) Interest Rate. Prior to the Maturity Date, interest shall accrue on the aggregate unpaid principal amount outstanding under this Note at the rate of six percent (6%) per annum simple, allocated as follows: (A) 3.9% per annum shall accrete to the principal balance of the Note quarterly in arrears and (B) 2.1% per annum shall be payable in cash quarterly in arrears (collectively, the "Interest Rate").

(ii) Deferral Rate. If the Company is prohibited or otherwise restricted from paying any amounts owing to Holder due to obligations or restrictions related to its senior indebtedness or under applicable law, the Company shall have the right to defer any such payment(s); provided, however, that from the date of such deferral, the interest rate applicable to such deferred payment shall increase to eight percent (8%) per annum (3.9% accreting to principal and 4.1% payable in cash), compounding, until such payment is made.

(iii) Default Rate. If an Event of Default has occurred and is continuing, interest at the same rate as the Interest Rate plus four percent (4%) shall be payable, in cash, on the balance of any unpaid principal until such balance is paid.

(iv) Payments. All cash payments of interest provided pursuant to this Section 2.1 shall be payable by wire transfer to an account designated in writing by Holder. If the Note is converted into shares of Common Stock in accordance with Section 6, any unpaid cash interest shall be due and payable on the date of such conversion.

2.2 Payment Upon Maturity Date.

(i) Holder may elect to have the Company pay this Note in full by delivering written notice of such election to the Company, with a copy to the other Holders, one hundred and twenty (120) days in advance of the Maturity Date (or 120 days in advance of any other date after the Maturity Date), in which event the Company shall pay this Note (including all accrued and accreted interest) in three (3) semi-annual installments beginning on the Maturity Date or such later date.

(ii) All payments of principal and interest provided pursuant to this Section 2.2 shall be payable by wire transfer to an account designated in writing by Holder.

3. *Events of Default*. If any of the events specified in this Section 3 shall occur (herein individually referred to as an "Event of Default"), the Holder of the Note may, so long as such condition exists, declare the entire principal and unpaid accrued interest hereon immediately due and payable, by notice in writing to the Company:

(i) Default in the payment of the principal and unpaid accrued interest of this Note when due and payable if such default is not cured by the Company within ten (10) days after the Holder has given the Company written notice of such default;

(ii) Any breach by the Company of any representation, warranty, or covenant in the Note Purchase Agreement; provided, that, in the event of any such breach, to the extent such breach is susceptible to cure, such breach shall not have been cured by the Company within fifteen (15) days after the earliest to occur of (a) written notice to the Company of such breach, and (b) the Company's actual knowledge of such breach;

(iii) Any breach by the Company of any covenant in the Existing Transaction Documents; provided, that, in the event of any such breach, to the extent such breach is susceptible to cure, such breach shall not have been cured by the Company within fifteen (15) days after the earliest to occur of (a) written notice to the Company of such breach, and (b) the Company's actual knowledge of such breach;

(iv) The institution by the Company of proceedings to be adjudicated as bankrupt or insolvent, or the consent by it to institution of bankruptcy or insolvency proceedings against it or the filing by it of a petition or answer or consent seeking reorganization or release under the federal Bankruptcy Act, or any other applicable federal or state law, or the consent by it to the filing of any such petition or the appointment of a receiver, liquidator, assignee, trustee or other similar official of the Company, or of any substantial part of its property, or the making by it of an assignment for the benefit of creditors, or the taking of corporate action by the Company in furtherance of any such action (a "Voluntary Bankruptcy Proceeding");

(v) If, within sixty (60) days after the commencement of an action against the Company (and service of process in connection therewith on the Company) seeking any bankruptcy, insolvency, reorganization, liquidation, dissolution or similar relief under any present or future statute, law or regulation, such action shall not have been resolved in favor of the Company or all orders or proceedings thereunder affecting the operations or the business of the Company or of all or any substantial part of the properties of the Company, such

appointment shall not have been vacated (an "Involuntary Bankruptcy Proceeding");

(vi) Any Change in Control that is not a QIPO or QExit;

(vii) Company shall fail within thirty days to pay, bond or otherwise discharge any judgment or order for the payment of money in excess of $1,000,000 (or multiple judgments or orders for the payment of an aggregate amount in excess of $2,000,000) which is not stayed on appeal or otherwise being appropriately contested in good faith and as to which no enforcement actions have been commenced;

(viii) Delivery of a "Repurchase Notice" (as defined in the Articles of Incorporation);

(ix) Payment or declaration (but not the accrual) of any dividend to holders of Series C Preferred Stock or any other class of equity securities; or

(x) The occurrence of a "Deemed Liquidation Event" (as defined in the Articles of Incorporation) that is not a QIPO or QExit.

4. *Subordination*. The indebtedness evidenced by this Note is hereby expressly subordinated, to the extent and in the manner hereinafter set forth, in right of payment to the prior payment in full of all the Company's Senior Indebtedness, as hereinafter defined.

4.1 *Senior Indebtedness*. As used in this Note, the term "Senior Indebtedness" shall mean the principal of and unpaid accrued interest on: (i) all existing indebtedness of the Company to banks, commercial finance lenders, insurance companies or other financial institutions regularly engaged in the business of lending money, which is for money borrowed by the Company (whether or not secured); (ii) all indebtedness of the Company to banks, commercial finance lenders, insurance companies, or other financial institutions regularly engaged in the business of lending money, which may arise under any line of credit of the Company existing on the Original Issue Date (whether or not secured); (iii) indebtedness pursuant to a capital lease with Wells Fargo Equipment Finance, Inc. (or an affiliate) consistent with that certain lease proposal dated July 25, 2007, a copy of which has been provided to Holder, and (iv) any such indebtedness or any debentures, notes or other evidence of indebtedness issued in exchange for or to refinance such Senior Indebtedness, or any indebtedness arising from the satisfaction of such Senior Indebtedness by a guarantor.

4.2 *Default on Senior Indebtedness*. If there should occur any receivership, insolvency, assignment for the benefit of creditors, bankruptcy, reorganization or arrangements with creditors (whether or not pursuant to bankruptcy or other insolvency laws), sale of all or substantially all of the assets, dissolution, liquidation or any other marshalling of the assets and liabilities of the Company then (i) no amount shall be paid by the Company in respect of the principal of or interest on this Note at the time outstanding, unless and until the principal of and interest on the Senior Indebtedness

then outstanding shall be satisfied, and (ii) no claim or proof of claim shall be filed with the Company by or on behalf of the Holder of this Note that shall assert any right to receive any payments in respect of the principal of and interest on this Note, except subject to the satisfaction of the principal of and interest on all of the Senior Indebtedness then outstanding. If there occurs an event of default that has been declared in writing with respect to any Senior Indebtedness permitting the holder of such Senior Indebtedness to accelerate the maturity thereof, then, unless and until such event of default shall have been cured or waived or shall have ceased to exist, or all Senior Indebtedness shall have been satisfied, no payment shall be made in respect of the principal of or interest on this Note.

4.3 *Effect of Subordination*. Subject to the rights, if any, of the holders of Senior Indebtedness under this Section 4 to receive cash, securities or other properties otherwise payable or deliverable to the Holder of this Note, nothing contained in this Section 4 shall impair, as between the Company and the Holder, the obligation of the Company, subject to the terms and conditions hereof, to pay to the Holder the principal hereof and interest hereon as and when the same become due and payable, or shall prevent the Holder of this Note, upon default hereunder, from exercising all rights, powers and remedies otherwise provided herein or by applicable law.

4.4 *Undertaking*. By its acceptance of this Note, the Holder agrees to execute and deliver such documents as may be reasonably requested from time to time by the Company or the lender of any Senior Indebtedness in order to implement the foregoing provisions of this Section 4, at the expense of the Company.

5. *Prepayment*. The Company shall not be permitted to prepay any outstanding principal under this Note or interest thereon without Holder's prior written consent.

6. *Conversion*.

6.1 *Automatic Conversion*. The principal and accrued interest outstanding under this Note shall be converted, immediately, automatically and without election on the part of the Holder hereof, upon the closing of a QIPO or a QExit into shares of the Company's Common Stock at a conversion price equal to $4.49 per share (the "Base Conversion Price"). For each quarter in which interest accretes to the principal balance of this Note in accordance with Section 2.1(i)(A), the aggregate Base Conversion Price will increase by .975% of the original Base Conversion Price (on a quarterly basis) in order to ensure that this Note shall at all times be convertible into an aggregate of 11,136 shares of Common Stock (subject to anti-dilution adjustment as provided herein) (as adjusted, the "Conversion Price"). In connection with a conversion effectuated pursuant to this Section 6.1, the number of shares of Common Stock into which this Note may be converted shall be determined by dividing the aggregate outstanding principal (including, for the avoidance of doubt, any interest which has accreted to the principal balance as provided in Section 2.1(i)(A) but excluding any cash payments of interest paid to Holder as provided in Section 2.1) through the date of the conversion of the Note by the Conversion Price.

6.2 *Optional Conversion into Common Stock.* At any time, all but not less than all of the principal amount then outstanding under this Note (including, for the avoidance of doubt, any interest which has accreted to the principal balance as provided in Section 2.1(i)(A) but excluding any cash payments of interest paid to Holder as provided in Section 2.1) may, at the election of the Holder, be converted into Common Stock of the Company, with such conversion to be effected at the Conversion Price. The Holder shall exercise this optional conversion right, if at all, by giving notice thereof to the Company at least ten (10) days prior to the date of conversion.

6.3 *Notice Regarding QIPO or QExit*. At least ten (10) business days prior to the anticipated closing of a QIPO or transaction which would constitute a QExit, written notice shall be delivered to the Holder at the address last shown on the records of the Company for the Holder or given by the Holder to the Company for the purpose of notice or, if no such address appears or is given, at the place where the principal executive office of the Company is located, (1) notifying the Holder of the QIPO or QExit, (2) specifying (A) in the case of a QExit, the terms and conditions thereof, (B) the then outstanding principal amount of the Note, (C) the then outstanding amount of accreted interest as provided for in Section 2.1(i)(A), and (D) the date on which such transaction will close (which in no event shall be less than ten (10) business days following delivery of said notice), and, (3) if the Note is subject to automatic conversion pursuant to Section 6.1, calling upon such Holder to surrender the Note to the Company in the manner and at the place designated in such notice.

6.4 *Mechanics and Effect of Conversion*. No fractional shares of Common Stock shall be issued upon conversion of this Note. In lieu of the Company issuing any fractional shares to the Holder upon the conversion of this Note, the Company shall pay to the Holder the amount outstanding that is not so converted, such payment to be in made by Company check in an amount equal to the fractional share multiplied by the Conversion Price. At its expense, the Company shall, as soon as practicable following conversion of this Note and surrender of this Note to the Company, issue and deliver to the Holder at its principal office a certificate or certificates for the number of shares of Common Stock to which the Holder shall be entitled upon such conversion (bearing such legends as are required by any applicable purchase documents and applicable state and federal securities laws in the opinion of counsel to the Company), together with any other securities and property to which the Holder is entitled upon such conversion under the terms of this Note, including a check payable to the Holder for any cash amounts payable as described above. Upon conversion of this Note, the Company shall be forever released from all its obligations and liabilities under this Note, except that the Company shall be obligated to pay the Holder, within ten (10) days after the date of such conversion, the cash equivalent of any fractional shares that otherwise would have been issued upon such conversion, and no more.

6.5 *Reservation of Stock Issuable Upon Conversion*. The Company covenants and agrees that the Company shall reserve a sufficient number of shares of Common Stock to comply with the conversion provisions contained herein with respect to an amount equal to the principal outstanding under this Note and the accrued interest thereon.

7. *Adjustments to Conversion Price for Diluting Issues*.

7.1 *Special Definitions*. For purposes of this Section 7, the following definitions shall apply:

(i) "Option" shall mean rights, options or warrants to subscribe for, purchase or otherwise acquire Common Stock or Convertible Securities.

(ii) "Convertible Securities" shall mean any evidences of indebtedness, shares or other securities directly or indirectly convertible into or exchangeable for Common Stock, but excluding Options.

(iii) "Additional Shares of Common Stock" shall mean all shares of Common Stock issued (or, pursuant to Section 7.3 below, deemed to be issued) by the Company after the Original Issue Date, other than the following ("Exempted Securities"):

(1) shares of Common Stock issued or deemed issued as a dividend or distribution on, or upon conversion of, the shares of Series B Preferred Stock or Series C Preferred Stock outstanding on the Original Issue Date, or the Notes;

(2) shares of Common Stock issued upon exercise or conversion of any Options or Convertible Securities outstanding on the Original Issue Date;

(3) shares of Common Stock issued or issuable by reason of a dividend, stock split, split-up or other distribution on shares of Common Stock that is covered by Section 7.7(i) or (ii);

(4) up to an aggregate total of 100,000 shares of Common Stock or warrants to purchase Common Stock issued pursuant to any strategic partnership, in each case approved by a majority of the Independent Directors; or

(5) shares of Common Stock issued or issuable pursuant to Options authorized under existing stock option plans in effect as of the Original Issue Date, provided that any new grants under such existing stock option plans must be approved by the Independent Directors.

7.2 *No Adjustment of Conversion Price*. No adjustment in the Conversion Price shall be made as the result the issuance of Additional Shares of Common Stock if: (i) the consideration per share (determined pursuant to Section 7.5) for such Additional Share of Common Stock issued or deemed to be issued by the Company is equal to or greater than the Conversion Price in effect immediately prior to the issuance or deemed issuance of such Additional Shares of Common Stock, or (ii) prior to such issuance or deemed issuance, the Company receives written notice from the holders of Notes constituting a majority of the total indebtedness represented by the Notes, voting as a

single class and on an as-converted to Common Stock basis, agreeing that no such adjustment shall be made as the result of the issuance or deemed issuance of such Additional Shares of Common Stock.

7.3 *Issue of Securities Deemed Issue of Additional Shares of Common Stock*.

(i) If the Company at any time or from time to time after the Original Issue Date shall issue any Options or Convertible Securities (excluding Options or Convertible Securities which, upon exercise, conversion or exchange thereof, would entitle the holder thereof to receive Exempted Securities) or shall fix a record date for the determination of holders of any class of securities entitled to receive any such Options or Convertible Securities, then the maximum number of shares of Common Stock (as set forth in the instrument relating thereto without regard to any provision contained therein for a subsequent adjustment of such number) issuable upon the exercise of such Options or, in the case of Convertible Securities and Options therefor, the conversion or exchange of such Convertible Securities, shall be deemed to be Additional Shares of Common Stock issued as of the time of such issue or, in case such a record date shall have been fixed, as of the close of business on such record date.

(ii) If the terms of any Option or Convertible Security, the issuance of which resulted in an adjustment to the Conversion Price, as the case may be, pursuant to the terms of Section 7.4 below, are revised (either automatically pursuant to the provisions contained therein or as a result of an amendment to such terms) to provide for either (A) any increase or decrease in the number of shares of Common Stock issuable upon the exercise, conversion or exchange of any such Option or Convertible Security or (B) any increase or decrease in the consideration payable to the Company upon such exercise, conversion or exchange, then, effective upon such increase or decrease becoming effective, the Conversion Price computed upon the original issue of such Option or Convertible Security (or upon the occurrence of a record date with respect thereto) shall be readjusted to such Conversion Price as would have obtained had such revised terms been in effect upon the original date of issuance of such Option or Convertible Security. Notwithstanding the foregoing, no adjustment pursuant to this clause (ii) shall have the effect of increasing the Conversion Price to an amount which exceeds the lower of (1) the Conversion Price on the original adjustment date, or (2) the Conversion Price that would have resulted from any issuances of Additional Shares of Common Stock between the original adjustment date and such readjustment date.

(iii) If the terms of any Option or Convertible Security (excluding Options or Convertible Securities which, upon exercise, conversion or exchange thereof, would entitle the holder thereof to receive Exempted Securities), the issuance of which did not result in an adjustment to the Conversion Price pursuant to the terms of Section 7.4 below (either because the consideration per share (determined pursuant to Section 7.5 hereof) of the Additional Shares of Common Stock subject thereto was equal to or greater than the Conversion Price then in

effect, or because such Option or Convertible Security was issued before the Original Issue Date), are revised after the Original Issue Date (either automatically pursuant to the provisions contained therein or as a result of an amendment to such terms) to provide for either (1) any increase or decrease in the number of shares of Common Stock issuable upon the exercise, conversion or exchange of any such Option or Convertible Security or (2) any increase or decrease in the consideration payable to the Company upon such exercise, conversion or exchange, then such Option or Convertible Security, as so amended, and the Additional Shares of Common Stock subject thereto (determined in the manner provided in Section 7.3(i) above) shall be deemed to have been issued effective upon such increase or decrease becoming effective.

(iv) Upon the expiration or termination of any unexercised Option or unconverted or unexchanged Convertible Security which resulted (either upon its original issuance or upon a revision of its terms) in an adjustment to the Conversion Price pursuant to the terms of Section 7.4 below, the Conversion Price shall be readjusted to such Conversion Price as would have obtained had such Option or Convertible Security never been issued.

(v) No adjustment in the Conversion Price shall be made upon the issue of shares of Common Stock or Convertible Securities upon the exercise of Options or the issue of shares of Common Stock upon the conversion or exchange of Convertible Securities.

7.4 *Adjustment of Conversion Price Upon Issuance of Additional Shares of Common Stock*. In the event the Company shall at any time after the Original Issue Date issue Additional Shares of Common Stock (including Additional Shares of Common Stock deemed to be issued pursuant to Section 7.3), without consideration or for a consideration per share less than the Conversion Price in effect immediately prior to such issue, then the Conversion Price shall be reduced, concurrently with such issue, to a price (calculated to the nearest one-hundredth of a cent) determined by multiplying the Conversion Price by a fraction, (a) the numerator of which shall be (i) the number of shares of Common Stock outstanding immediately prior to such issue plus (ii) the number of shares of Common Stock which the aggregate consideration received or to be received by the Company for the total number of Additional Shares of Common Stock so issued would purchase at the Conversion Price and (b) the denominator of which shall be (i) the number of shares of Common Stock outstanding immediately prior to such issue plus (ii) the number of such Additional Shares of Common Stock so issued; provided that, for the purpose of this Section 7.4, all shares of Common Stock issuable upon exercise of Options outstanding immediately prior to such issue or upon conversion of Convertible Securities (including the Series C Preferred Stock and the shares into which this Note may be converted) outstanding immediately prior to such issue shall be deemed to be outstanding.

7.5 *Determination of Consideration*. For purposes of this Section 7, the consideration received by the Company for the issue of any Additional Shares of Common Stock shall be computed as follows:

(i) Cash and Property. Such consideration shall:

(1) insofar as it consists of cash, be computed at the aggregate amount of cash received by the Company, excluding amounts paid or payable for accrued interest;

(2) insofar as it consists of property other than cash, be computed at the fair market value thereof at the time of such issue, as determined in good faith by the Board of Directors of the Company; and

(3) in the event Additional Shares of Common Stock are issued together with other shares or securities or other assets of the Company for consideration which covers both, be the proportion of such consideration so received, computed as provided in clauses (1) and (2) above, as determined in good faith by the Board of Directors of the Company.

(ii) Options and Convertible Securities. The consideration per share received by the Company for Additional Shares of Common Stock deemed to have been issued pursuant to Section 7.3, relating to Options and Convertible Securities, shall be determined by dividing the total amount, if any, received or receivable by the Company as consideration for the issue of such Options or Convertible Securities, plus the minimum aggregate amount of additional consideration (as set forth in the instruments relating thereto, without regard to any provision contained therein for a subsequent adjustment of such consideration) payable to the Company upon the exercise of such Options or the conversion or exchange of such Convertible Securities, or in the case of Options for Convertible Securities, the exercise of such Options for Convertible Securities and the conversion or exchange of such Convertible Securities, by the maximum number of shares of Common Stock (as set forth in the instruments relating thereto, without regard to any provision contained therein for a subsequent adjustment of such number) issuable upon the exercise of such Options or the conversion or exchange of such Convertible Securities.

7.6 *Multiple Closing Dates*. In the event the Company shall issue on more than one date Additional Shares of Common Stock that are comprised of shares of the same series or class of Preferred Stock and that would result in an adjustment to Conversion Price pursuant to the terms of Section 7.4 above, and such issuance dates occur within a period of no more than forty-five (45) days from the first such issuance to the final such issuance, then, upon the final such issuance, the Conversion Price shall be readjusted to give effect to all such issuances as if they occurred on the date of the final such issuance (and without giving effect to any adjustments as a result of such prior issuances within such period).

7.7 *Adjustments*.

(i) Adjustment for Stock Splits and Combinations. If the Company shall at any time or from time to time after the Original Issue Date effect a

subdivision of the outstanding Common Stock, the Conversion Price in effect immediately before that subdivision or combination shall be proportionately decreased. If the Company shall at any time or from time to time after the Original Issue Date combine the outstanding shares of Common Stock, the Conversion Price in effect immediately before the combination or subdivision shall be proportionately increased. Any adjustment under this paragraph shall become effective at the close of business on the date the subdivision or combination becomes effective.

(ii) Adjustment for Certain Dividends and Distributions. In the event the Company at any time, or from time to time after the Original Issue Date shall make or issue, or fix a record date for the determination of holders of Common Stock entitled to receive, a dividend or other distribution payable in additional shares of Common Stock, then and in each such event the Conversion Price in effect immediately before such event shall be decreased as of the time of such issuance or, in the event such a record date shall have been fixed, as of the close of business on such record date, by multiplying the Conversion Price, as the case may be, then in effect by a fraction:

(1) the numerator of which shall be the total number of shares of Common Stock issued and outstanding immediately prior to the time of such issuance or the close of business on such record date, and

(2) the denominator of which shall be the total number of shares of Common Stock issued and outstanding immediately prior to the time of such issuance or the close of business on such record date plus the number of shares of Common Stock issuable in payment of such dividend or distribution; provided, however, that if such record date shall have been fixed and such dividend is not fully paid or if such distribution is not fully made on the date fixed therefor, the Conversion Price shall be recomputed accordingly as of the close of business on such record date and thereafter the Conversion Price shall be adjusted pursuant to this paragraph as of the time of actual payment of such dividends or distributions; and provided further, however, that no such adjustment shall be made if the holders of the Note simultaneously receive a dividend or other distribution of shares of Common Stock in a number equal to the number of shares of Common Stock as they would have received if the outstanding balance of this Note had been converted into Common Stock on the date of such event.

(iii) Adjustments for Other Dividends and Distributions. In the event the Company at any time or from time to time after the Original Issue Date shall make or issue, or fix a record date for the determination of holders of Common Stock entitled to receive, a dividend or other distribution payable in securities of the Company (other than shares of Common Stock) or in cash or other property, then and in each such event the holders of the Note shall receive, simultaneously with the distribution to the holders of Common Stock, a dividend or other distribution of such securities, cash or other property in an amount equal to the

amount of such securities, cash or other property as they would have received if the outstanding balance of the Note had been converted into Common Stock on the date of such event.

7.8 Certificate as to Adjustments. Upon the occurrence of each adjustment or readjustment of the Conversion Price pursuant to Section 7.7, the Company at its expense shall, as promptly as reasonably practicable but in any event not later than thirty (30) days thereafter, compute such adjustment or readjustment in accordance with the terms hereof and furnish to each holder of the Note a certificate setting forth such adjustment or readjustment (including the kind and amount of securities, cash or other property into which the Note is convertible) and showing in detail the facts upon which such adjustment or readjustment is based. The Company shall, as promptly as reasonably practicable after the written request at any time of any holder of the Note (but in any event not later than thirty (30) days thereafter), furnish or cause to be furnished to such holder a certificate setting forth (a) the Conversion Price then in effect, and (b) the number of shares of Common Stock and the amount, if any, of other securities, cash or property which then would be received upon the conversion of the Note.

7.9 *Notice of Record Date*. If:

(i) the Company shall take a record of the holders of its Common Stock (or other stock or securities at the time issuable upon conversion of the Note), for the purpose of entitling or enabling them to receive any dividend or other distribution, or to receive any right to subscribe for or purchase any shares of stock of any class or any other securities, or to receive any other right; or

(ii) of any capital reorganization of the Company, any reclassification of the Common Stock of the Company, any consolidation or merger of the Company with or into another corporation (other than a consolidation or merger in which the Company is the surviving entity and its Common Stock is not converted into or exchanged for any other securities or property), or any transfer of all or substantially all of the assets of the Company; or

(iii) of the voluntary or involuntary dissolution, liquidation or winding-up of the Company, then, and in each such case, the Company will send or cause to be sent to the holders of the Note a notice specifying, as the case may be, (a) the record date for such dividend, distribution or right, and the amount and character of such dividend, distribution or right, or (b) the effective date on which such reorganization, reclassification, consolidation, merger, transfer, dissolution, liquidation or winding-up is to take place, and the time, if any is to be fixed, as of which the holders of record of Common Stock (or such other stock or securities at the time issuable upon the conversion of the Note) shall be entitled to exchange their shares of Common Stock (or such other stock or securities) for securities or other property deliverable upon such reorganization, reclassification, consolidation, merger, transfer, dissolution, liquidation or winding-up, and the amount per share and character of such exchange applicable to the Series C Preferred Stock, the Notes and the Common Stock. Such notice shall be sent at

least ten (10) days prior to the record date or effective date for the event specified in such notice.

8. *Covenants*. Prior to the earlier to occur of the Maturity Date or conversion of this Note in accordance with Section 6, the Company shall not, either directly or indirectly by amendment, merger, consolidation or otherwise:

(i) consent to any liquidation, dissolution or winding up of the Company or to any Deemed Liquidation Event (as defined in the Articles of Incorporation);

(ii) commence or consent to any Voluntary Bankruptcy Proceeding or Involuntary Bankruptcy Proceeding;

(iii) recapitalize, create or authorize the creation of any additional class or series of shares of stock;

(iv) increase or decrease (other than by redemption or conversion) the authorized number of shares of Preferred Stock, Common Stock or shares of any additional class or series of shares of stock;

(v) create or authorize or issue (other than to the Company or a wholly owned subsidiary of the Company) any obligation or security convertible into shares of any class or series of stock;

(vi) purchase or redeem, or set aside any sums for the purchase or redemption of, or pay any dividend or make any distribution on, any shares of stock other than repurchases of Series C Preferred Stock in accordance with Section 3.9.6 of the Articles of Incorporation;

(vii) permit any subsidiary of the Company to issue or sell any equity securities of such subsidiary (other than to the Company or a wholly owned subsidiary of the Company);

(viii) make, or cause any subsidiary of the Company to make, any acquisition of the assets, stock or other equity securities of any other company or effect the same by way of a merger, consolidation or reorganization, except for acquisitions of assets for consideration of $10,000,000 or less in any single transaction or series of related transactions;

(ix) engage in any new line of business substantially outside of the business plan in the form approved by a majority of the Independent Directors or materially modifying such plan, unless approved in each case by a majority of the Independent Directors;

(x) merge with or into or consolidate, or permit any subsidiary to merge with or into or consolidate, with any other entity (other than a merger or

consolidation solely between the Company and one or more subsidiaries or among subsidiaries);

(xi) sell, lease, or otherwise dispose of any of the Company's material properties or assets; or

(xii) fail to maintain insurance, including officer and director insurance, at levels consistent with current coverage limits;

(xiii) Permit any of the Company's material assets to become subject to a lien or encumbrance (other than liens or encumbrances recorded prior to the Original Issue Date);

(xiv) Increase the size or composition of the Company's Board of Directors;

(xv) Materially increase the compensation payable to any management employee of the Company (above inflation);

(xvi) Prohibit Holder from reasonable access to inspect the properties, books, and records of the Company or fail to maintain such properties, books and records;

(xvii) Enter into any transaction between the Company and any of its affiliates; or

(xviii) incur any indebtedness (including purchase money security interest operating leases), or permit any subsidiary to incur any indebtedness (other than indebtedness of subsidiaries owed to the Company, indebtedness owed pursuant to the Notes, and indebtedness of the Company pursuant to that certain Credit and Security Agreement between the Company, Great Lakes Energy Technologies, LLC, and Wells Fargo Bank, National Association dated December 22, 2005) in excess of $10,000,000 in the aggregate.

9. *Successors and Assigns.* Subject to the restrictions on transfer described in Sections 11 and 12 below, the rights and obligations of the Company and the Holder of this Note shall be binding upon and benefit the successors, assigns, heirs, administrators and transferees of the parties.

10. *Waiver and Amendment*. Any provision of this Note may be amended, waived or modified upon the written consent of the Company and the holders of a majority in interest of the Notes; provided, however, that the approval of all holders of any portion of the Notes will be required to change the amount or time of any prepayment or payment of principal of the Notes, reduce the rate or change the time of payment or method of computation of interest or premium of the Notes and provided, further, the consent of an affected Holder shall be required to modify or otherwise change the Notes in a manner that adversely affects such Holder relative to any other.

11. *Transfer of this Note*. This Note or any Common Stock into which this Note is convertible (collectively, the "Securities") may not be transferred except as provided herein. At any time beginning two years after the issuance of the Note, Holder will have the right to transfer the Securities as long as (i) the transfer is not in violation of any law, (ii) the Securities are not transferred to a competitor of the Company (if a majority of the Independent Directors determines in good faith that the proposed transferee is a competitor of the Company and that such proposed transfer would not be in the best interests of the Company, such consent to transfer not to be unreasonably withheld), (iii) the transfer is after a right of first offer to the Company (if the Company would have a right of first refusal with respect to such transfer under Section 3 of the Amended and Restated Investors' Rights Agreement), and (iv) the transferee agrees to be bound by the terms, conditions, representations, and warranties set forth in the Existing Transaction Documents. Without limiting the foregoing, this Note may not be transferred in violation of any restrictive legend set forth hereon at any time. Notwithstanding the foregoing, Holder may, at any time upon written notice to the Company, transfer any or all of the Securities to an affiliate without being subject to the foregoing restrictions. All such restrictions on Holder's right of transfer shall terminate following an initial public offering or other registration of Company shares or a Change of Control. Each new note issued upon transfer of this Note shall bear a legend as to the applicable restrictions on transferability in order to ensure compliance with the Securities Act, unless in the opinion of counsel for the Company such legend is not required in order to ensure compliance with the Act. The Company may issue stop transfer instructions to its transfer agent in connection with such restrictions. Subject to the foregoing, transfers of this Note shall be registered upon registration books maintained for such purpose by or on behalf of the Company. Prior to presentation of this Note for registration of transfer, the Company shall treat the registered holder hereof as the owner and holder of this Note for the purpose of receiving all payments of principal and interest hereon and for all other purposes whatsoever, whether or not this Note shall be overdue and the Company shall not be affected by notice to the contrary.

12. *Assignment by the Company.* Neither this Note nor any of the rights, interests or obligations hereunder may be assigned in whole or in part by the Company without the prior written consent of the Holder.

13. *Treatment of Note*. To the extent permitted by generally accepted accounting principles, the Company will treat, account and report the Note as debt and not equity for accounting purposes and with respect to any returns filed with federal, state or local tax authorities.

14. *Notices*. Any notice, request or other communication required or permitted hereunder shall be in writing and shall be deemed to have been duly given if personally delivered, if faxed with confirmation of receipt, or if mailed by registered or certified mail or reputable overnight courier, postage prepaid, at the respective addresses of the parties as set forth herein and in the case of the Holder to the attention of __________ and in the case of the Company to the attention of the Chief Executive Officer. Any party hereto may by notice so given change its address for future notice hereunder. Notice shall conclusively be deemed to have been given when personally

delivered, faxed, or when deposited in the mail in the manner set forth above and shall be deemed to have been received when delivered.

15. *Confidentiality.* The Holder agrees that such Holder will keep confidential and will not disclose, divulge or use for any purpose, other than to monitor its investment in the Company, any confidential information obtained from the Company pursuant to the terms of this Note, unless such confidential information (i) is known or becomes known to the public in general (other than as a result of a breach of this Section 15 by the Holder), (ii) is or has been independently developed or conceived by the Holder without use of the Company's confidential information or (iii) is or has been made known or disclosed to the Holder by a third party without a breach of any obligation of confidentiality such third party may have to the Company; provided, however, that the Holder may disclose confidential information (1) to its attorneys, accountants, consultants, and other professionals to the extent necessary to obtain their services in connection with monitoring its investment in the Company, or (2) as may otherwise be required by law or by the rules and regulations of any exchange or automated quotation system on which the Company's capital stock is listed or quoted, provided that the Holder takes reasonable steps to minimize the extent of any such required disclosure.

16. *Disclosure*. The Company shall have the right to disclose the Holder's investment in the Company to future prospective investors and/or strategic partners contemplating an investment in the Company, provided, that such recipient is subject to a non-disclosure agreement; provided, that the Company will provide prior written notice of such disclosure (together with the proposed text of such disclosure) to the Holder, and the disclosure made by the Company will reflect any comments provided to the Company by the Holder. Notwithstanding the foregoing, but subject to the requirement above to provide prior written notice of such disclosure as provided above, this Section 16 shall not prohibit any disclosure required by law or by the rules and regulations of any exchange or automated quotation system on which the Company's capital stock is listed or quoted.

17. *Governing Law*. This Agreement shall be governed by and construed in accordance with the laws of the State of New York, excluding that body of law relating to conflict of laws.

18. *Heading; References*. All headings used herein are used for convenience only and shall not be used to construe or interpret this Note. Except where otherwise indicated, all references herein to Sections refer to Sections hereof.

[remainder of page intentionally left blank]

IN WITNESS WHEREOF, the Company has caused this Note to be issued as of the date first above written.

ORION ENERGY SYSTEMS, INC.

By: /s/ Neal Verfuerth
Name: Neal Verfuerth
Title: President and Chief Executive Officer

Acknowledged and Agreed:

CAPVEST VENTURE FUND, LP

By: /s/

By:
Name:
Title:
Address:

Signature Page to Capvest Venture Fund, LP
Convertible Subordinated Promissory Note

Exhibit 4.9

THIS NOTE HAS NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR ANY APPLICABLE STATE SECURITIES LAWS. THIS NOTE MAY NOT BE SOLD, OFFERED FOR SALE, PLEDGED OR HYPOTHECATED IN THE ABSENCE OF A REGISTRATION STATEMENT IN EFFECT WITH RESPECT TO THE SECURITIES UNDER SUCH ACT AND APPLICABLE LAWS OR SOME OTHER EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF SUCH ACT AND APPLICABLE LAWS OR AN OPINION OF COUNSEL SATISFACTORY TO THE COMPANY THAT SUCH REGISTRATION IS NOT REQUIRED.

THE SALE, PLEDGE, HYPOTHECATION, ASSIGNMENT OR TRANSFER OF THE SECURITIES REPRESENTED BY THIS CERTIFICATE IS SUBJECT TO THE TERMS AND CONDITIONS OF A CERTAIN FIRST OFFER AND CO-SALE AGREEMENT BY AND BETWEEN THE NOTE HOLDER, THE COMPANY AND CERTAIN HOLDERS OF NOTES/AND OR STOCK OF THE COMPANY. COPIES OF SUCH AGREEMENT MAY BE OBTAINED UPON WRITTEN REQUEST TO THE SECRETARY OF THE COMPANY.

CONVERTIBLE SUBORDINATED PROMISSORY NOTE

$50,000 August 3, 2007

ORION ENERGY SYSTEMS, INC., a Wisconsin corporation (the "Company"), the principal office of which is located at 1204 Pilgrim Road, Plymouth, Wisconsin 53073, for value received hereby promises to pay to Technology Transformation Venture Fund, LP, a Delaware limited partnership (the "Holder"), the sum of $50,000, or such other amounts as shall then equal the outstanding principal amount hereof and any unpaid accrued interest hereon, as set forth below, which shall be due and payable on the Maturity Date. Payment for all amounts due hereunder shall be made in accordance with Section 2 hereof.

The following is a statement of the rights of the Holder of this Note and the conditions to which this Note is subject, and to which the Holder hereof, by the acceptance of this Note, agrees:

1. *Definitions*. As used in this Note, the following terms, unless the context otherwise requires, have the following meanings:

(i) "Articles of Incorporation" means the Company's Amended and Restated Articles of Incorporation dated July 31, 2006.

(ii) "Change in Control" means (a) the acquisition by any person or entity, or two or more persons or entities acting in concert, of beneficial ownership (within the meaning of Rule 13d-3 of the Securities and Exchange Commission under the Securities Exchange Act of 1934) of 50.1% or more of the outstanding shares of either voting stock of Company or voting ownership interests of Company.

(iii) "Common Stock" means the Company's common stock.

(iv) "Company" includes any corporation that, to the extent permitted by this Note, shall succeed to or assume the obligations of the Company under this Note.

(v) "Existing Transaction Documents" means the Amended and Restated Investor Rights Agreement, the Amended and Restated Right of First Refusal and Co-Sale Agreement and the Note Purchase Agreement, in each case by and among the Company and the other parties a signatory thereto and dated effective as of August 3, 2007.

(vi) "Holder" when the context refers to a holder of this Note, shall mean any person who shall at the time be the registered holder of this Note.

(vii) "Holders" means all of the holders of the Notes.

(viii) "Independent Directors" means the members of the Board of Directors who are not employees of the Company and were not employees of the Company during the twenty-four (24) month period prior to the Original Issue Date.

(ix) "Maturity Date" means the earliest to occur of (a) when declared due and payable by the Holder upon the occurrence of an Event of Default (as defined below), or (b) August 3, 2012.

(x) "Notes" means each of the substantially identical Convertible Subordinated Promissory Notes sold pursuant to the Note Purchase Agreements.

(xi) "Note Purchase Agreement" means that certain Note Purchase Agreement among the Company, GE Capital Equity Investments, Inc., Clean Technology Fund II, L.P., CapVest Venture Fund, LP, and Technology Transformation Venture Fund, LP dated August 3, 2007.

(xii) "Original Issue Date" means the date on which this Note was first issued.

(xiii) "QExit" means a merger or sale of at least a majority of the Company assets or stock resulting in consideration on a per share basis of a value, on or before August 3, 2009, of at least $11.23 per share, and after such date, of at least $13.47 per share (subject to appropriate adjustment for stock splits, stock dividends, combinations and other similar recapitalizations affecting such shares).

(xiv) "QIPO" means the closing of the sale of shares of Common Stock at a price to the public, on or before August 3, 2009, of at least $11.23 per share, and after such date, of at least $13.47 per share (subject to appropriate adjustment for stock splits, stock dividends, combinations and other similar recapitalizations affecting such shares), in a firm-commitment underwritten public offering

pursuant to an effective registration statement under the Securities Act of 1933, as amended, resulting in at least $30,000,000 of net proceeds to the Company after deduction of underwriters' commissions and expenses payable by the Company.

(xv) "Securities Act" means the Securities Act of 1933, as amended.

2. *Interest; Payment Upon Maturity Date*.

2.1 Interest Rates.

(i) Interest Rate. Prior to the Maturity Date, interest shall accrue on the aggregate unpaid principal amount outstanding under this Note at the rate of six percent (6%) per annum simple, allocated as follows: (A) 3.9% per annum shall accrete to the principal balance of the Note quarterly in arrears and (B) 2.1% per annum shall be payable in cash quarterly in arrears (collectively, the "Interest Rate").

(ii) Deferral Rate. If the Company is prohibited or otherwise restricted from paying any amounts owing to Holder due to obligations or restrictions related to its senior indebtedness or under applicable law, the Company shall have the right to defer any such payment(s); provided, however, that from the date of such deferral, the interest rate applicable to such deferred payment shall increase to eight percent (8%) per annum (3.9% accreting to principal and 4.1% payable in cash), compounding, until such payment is made.

(iii) Default Rate. If an Event of Default has occurred and is continuing, interest at the same rate as the Interest Rate plus four percent (4%) shall be payable, in cash, on the balance of any unpaid principal until such balance is paid.

(iv) Payments. All cash payments of interest provided pursuant to this Section 2.1 shall be payable by wire transfer to an account designated in writing by Holder. If the Note is converted into shares of Common Stock in accordance with Section 6, any unpaid cash interest shall be due and payable on the date of such conversion.

2.2 Payment Upon Maturity Date.

(i) Holder may elect to have the Company pay this Note in full by delivering written notice of such election to the Company, with a copy to the other Holders, one hundred and twenty (120) days in advance of the Maturity Date (or 120 days in advance of any other date after the Maturity Date), in which event the Company shall pay this Note (including all accrued and accreted interest) in three (3) semi-annual installments beginning on the Maturity Date or such later date.

(ii) All payments of principal and interest provided pursuant to this Section 2.2 shall be payable by wire transfer to an account designated in writing by Holder.

3. *Events of Default*. If any of the events specified in this Section 3 shall occur (herein individually referred to as an "Event of Default"), the Holder of the Note may, so long as such condition exists, declare the entire principal and unpaid accrued interest hereon immediately due and payable, by notice in writing to the Company:

(i) Default in the payment of the principal and unpaid accrued interest of this Note when due and payable if such default is not cured by the Company within ten (10) days after the Holder has given the Company written notice of such default;

(ii) Any breach by the Company of any representation, warranty, or covenant in the Note Purchase Agreement; provided, that, in the event of any such breach, to the extent such breach is susceptible to cure, such breach shall not have been cured by the Company within fifteen (15) days after the earliest to occur of (a) written notice to the Company of such breach, and (b) the Company's actual knowledge of such breach;

(iii) Any breach by the Company of any covenant in the Existing Transaction Documents; provided, that, in the event of any such breach, to the extent such breach is susceptible to cure, such breach shall not have been cured by the Company within fifteen (15) days after the earliest to occur of (a) written notice to the Company of such breach, and (b) the Company's actual knowledge of such breach;

(iv) The institution by the Company of proceedings to be adjudicated as bankrupt or insolvent, or the consent by it to institution of bankruptcy or insolvency proceedings against it or the filing by it of a petition or answer or consent seeking reorganization or release under the federal Bankruptcy Act, or any other applicable federal or state law, or the consent by it to the filing of any such petition or the appointment of a receiver, liquidator, assignee, trustee or other similar official of the Company, or of any substantial part of its property, or the making by it of an assignment for the benefit of creditors, or the taking of corporate action by the Company in furtherance of any such action (a "Voluntary Bankruptcy Proceeding");

(v) If, within sixty (60) days after the commencement of an action against the Company (and service of process in connection therewith on the Company) seeking any bankruptcy, insolvency, reorganization, liquidation, dissolution or similar relief under any present or future statute, law or regulation, such action shall not have been resolved in favor of the Company or all orders or proceedings thereunder affecting the operations or the business of the Company or of all or any substantial part of the properties of the Company, such

appointment shall not have been vacated (an "Involuntary Bankruptcy Proceeding");

(vi) Any Change in Control that is not a QIPO or QExit;

(vii) Company shall fail within thirty days to pay, bond or otherwise discharge any judgment or order for the payment of money in excess of $1,000,000 (or multiple judgments or orders for the payment of an aggregate amount in excess of $2,000,000) which is not stayed on appeal or otherwise being appropriately contested in good faith and as to which no enforcement actions have been commenced;

(viii) Delivery of a "Repurchase Notice" (as defined in the Articles of Incorporation);

(ix) Payment or declaration (but not the accrual) of any dividend to holders of Series C Preferred Stock or any other class of equity securities; or

(x) The occurrence of a "Deemed Liquidation Event" (as defined in the Articles of Incorporation) that is not a QIPO or QExit.

4. *Subordination*. The indebtedness evidenced by this Note is hereby expressly subordinated, to the extent and in the manner hereinafter set forth, in right of payment to the prior payment in full of all the Company's Senior Indebtedness, as hereinafter defined.

4.1 *Senior Indebtedness*. As used in this Note, the term "Senior Indebtedness" shall mean the principal of and unpaid accrued interest on: (i) all existing indebtedness of the Company to banks, commercial finance lenders, insurance companies or other financial institutions regularly engaged in the business of lending money, which is for money borrowed by the Company (whether or not secured); (ii) all indebtedness of the Company to banks, commercial finance lenders, insurance companies, or other financial institutions regularly engaged in the business of lending money, which may arise under any line of credit of the Company existing on the Original Issue Date (whether or not secured); (iii) indebtedness pursuant to a capital lease with Wells Fargo Equipment Finance, Inc. (or an affiliate) consistent with that certain lease proposal dated July 25, 2007, a copy of which has been provided to Holder, and (iv) any such indebtedness or any debentures, notes or other evidence of indebtedness issued in exchange for or to refinance such Senior Indebtedness, or any indebtedness arising from the satisfaction of such Senior Indebtedness by a guarantor.

4.2 *Default on Senior Indebtedness*. If there should occur any receivership, insolvency, assignment for the benefit of creditors, bankruptcy, reorganization or arrangements with creditors (whether or not pursuant to bankruptcy or other insolvency laws), sale of all or substantially all of the assets, dissolution, liquidation or any other marshalling of the assets and liabilities of the Company then (i) no amount shall be paid by the Company in respect of the principal of or interest on this Note at the time outstanding, unless and until the principal of and interest on the Senior Indebtedness

then outstanding shall be satisfied, and (ii) no claim or proof of claim shall be filed with the Company by or on behalf of the Holder of this Note that shall assert any right to receive any payments in respect of the principal of and interest on this Note, except subject to the satisfaction of the principal of and interest on all of the Senior Indebtedness then outstanding. If there occurs an event of default that has been declared in writing with respect to any Senior Indebtedness permitting the holder of such Senior Indebtedness to accelerate the maturity thereof, then, unless and until such event of default shall have been cured or waived or shall have ceased to exist, or all Senior Indebtedness shall have been satisfied, no payment shall be made in respect of the principal of or interest on this Note.

4.3 *Effect of Subordination*. Subject to the rights, if any, of the holders of Senior Indebtedness under this Section 4 to receive cash, securities or other properties otherwise payable or deliverable to the Holder of this Note, nothing contained in this Section 4 shall impair, as between the Company and the Holder, the obligation of the Company, subject to the terms and conditions hereof, to pay to the Holder the principal hereof and interest hereon as and when the same become due and payable, or shall prevent the Holder of this Note, upon default hereunder, from exercising all rights, powers and remedies otherwise provided herein or by applicable law.

4.4 *Undertaking*. By its acceptance of this Note, the Holder agrees to execute and deliver such documents as may be reasonably requested from time to time by the Company or the lender of any Senior Indebtedness in order to implement the foregoing provisions of this Section 4, at the expense of the Company.

5. *Prepayment*. The Company shall not be permitted to prepay any outstanding principal under this Note or interest thereon without Holder's prior written consent.

6. *Conversion*.

6.1 *Automatic Conversion*. The principal and accrued interest outstanding under this Note shall be converted, immediately, automatically and without election on the part of the Holder hereof, upon the closing of a QIPO or a QExit into shares of the Company's Common Stock at a conversion price equal to $4.49 per share (the "Base Conversion Price"). For each quarter in which interest accretes to the principal balance of this Note in accordance with Section 2.1(i)(A), the aggregate Base Conversion Price will increase by .975% of the original Base Conversion Price (on a quarterly basis) in order to ensure that this Note shall at all times be convertible into an aggregate of 11,136 shares of Common Stock (subject to anti-dilution adjustment as provided herein) (as adjusted, the "Conversion Price"). In connection with a conversion effectuated pursuant to this Section 6.1, the number of shares of Common Stock into which this Note may be converted shall be determined by dividing the aggregate outstanding principal (including, for the avoidance of doubt, any interest which has accreted to the principal balance as provided in Section 2.1(i)(A) but excluding any cash payments of interest paid to Holder as provided in Section 2.1) through the date of the conversion of the Note by the Conversion Price.

6.2 *Optional Conversion into Common Stock.* At any time, all but not less than all of the principal amount then outstanding under this Note (including, for the avoidance of doubt, any interest which has accreted to the principal balance as provided in Section 2.1(i)(A) but excluding any cash payments of interest paid to Holder as provided in Section 2.1) may, at the election of the Holder, be converted into Common Stock of the Company, with such conversion to be effected at the Conversion Price. The Holder shall exercise this optional conversion right, if at all, by giving notice thereof to the Company at least ten (10) days prior to the date of conversion.

6.3 *Notice Regarding QIPO or QExit*. At least ten (10) business days prior to the anticipated closing of a QIPO or transaction which would constitute a QExit, written notice shall be delivered to the Holder at the address last shown on the records of the Company for the Holder or given by the Holder to the Company for the purpose of notice or, if no such address appears or is given, at the place where the principal executive office of the Company is located, (1) notifying the Holder of the QIPO or QExit, (2) specifying (A) in the case of a QExit, the terms and conditions thereof, (B) the then outstanding principal amount of the Note, (C) the then outstanding amount of accreted interest as provided for in Section 2.1(i)(A), and (D) the date on which such transaction will close (which in no event shall be less than ten (10) business days following delivery of said notice), and, (3) if the Note is subject to automatic conversion pursuant to Section 6.1, calling upon such Holder to surrender the Note to the Company in the manner and at the place designated in such notice.

6.4 *Mechanics and Effect of Conversion*. No fractional shares of Common Stock shall be issued upon conversion of this Note. In lieu of the Company issuing any fractional shares to the Holder upon the conversion of this Note, the Company shall pay to the Holder the amount outstanding that is not so converted, such payment to be in made by Company check in an amount equal to the fractional share multiplied by the Conversion Price. At its expense, the Company shall, as soon as practicable following conversion of this Note and surrender of this Note to the Company, issue and deliver to the Holder at its principal office a certificate or certificates for the number of shares of Common Stock to which the Holder shall be entitled upon such conversion (bearing such legends as are required by any applicable purchase documents and applicable state and federal securities laws in the opinion of counsel to the Company), together with any other securities and property to which the Holder is entitled upon such conversion under the terms of this Note, including a check payable to the Holder for any cash amounts payable as described above. Upon conversion of this Note, the Company shall be forever released from all its obligations and liabilities under this Note, except that the Company shall be obligated to pay the Holder, within ten (10) days after the date of such conversion, the cash equivalent of any fractional shares that otherwise would have been issued upon such conversion, and no more.

6.5 *Reservation of Stock Issuable Upon Conversion*. The Company covenants and agrees that the Company shall reserve a sufficient number of shares of Common Stock to comply with the conversion provisions contained herein with respect to an amount equal to the principal outstanding under this Note and the accrued interest thereon.

7. *Adjustments to Conversion Price for Diluting Issues*.

7.1 *Special Definitions*. For purposes of this Section 7, the following definitions shall apply:

(i) "Option" shall mean rights, options or warrants to subscribe for, purchase or otherwise acquire Common Stock or Convertible Securities.

(ii) "Convertible Securities" shall mean any evidences of indebtedness, shares or other securities directly or indirectly convertible into or exchangeable for Common Stock, but excluding Options.

(iii) "Additional Shares of Common Stock" shall mean all shares of Common Stock issued (or, pursuant to Section 7.3 below, deemed to be issued) by the Company after the Original Issue Date, other than the following ("Exempted Securities"):

(1) shares of Common Stock issued or deemed issued as a dividend or distribution on, or upon conversion of, the shares of Series B Preferred Stock or Series C Preferred Stock outstanding on the Original Issue Date, or the Notes;

(2) shares of Common Stock issued upon exercise or conversion of any Options or Convertible Securities outstanding on the Original Issue Date;

(3) shares of Common Stock issued or issuable by reason of a dividend, stock split, split-up or other distribution on shares of Common Stock that is covered by Section 7.7(i) or (ii);

(4) up to an aggregate total of 100,000 shares of Common Stock or warrants to purchase Common Stock issued pursuant to any strategic partnership, in each case approved by a majority of the Independent Directors; or

(5) shares of Common Stock issued or issuable pursuant to Options authorized under existing stock option plans in effect as of the Original Issue Date, provided that any new grants under such existing stock option plans must be approved by the Independent Directors.

7.2 *No Adjustment of Conversion Price*. No adjustment in the Conversion Price shall be made as the result the issuance of Additional Shares of Common Stock if: (i) the consideration per share (determined pursuant to Section 7.5) for such Additional Share of Common Stock issued or deemed to be issued by the Company is equal to or greater than the Conversion Price in effect immediately prior to the issuance or deemed issuance of such Additional Shares of Common Stock, or (ii) prior to such issuance or deemed issuance, the Company receives written notice from the holders of Notes constituting a majority of the total indebtedness represented by the Notes, voting as a

single class and on an as-converted to Common Stock basis, agreeing that no such adjustment shall be made as the result of the issuance or deemed issuance of such Additional Shares of Common Stock.

7.3 *Issue of Securities Deemed Issue of Additional Shares of Common Stock*.

(i) If the Company at any time or from time to time after the Original Issue Date shall issue any Options or Convertible Securities (excluding Options or Convertible Securities which, upon exercise, conversion or exchange thereof, would entitle the holder thereof to receive Exempted Securities) or shall fix a record date for the determination of holders of any class of securities entitled to receive any such Options or Convertible Securities, then the maximum number of shares of Common Stock (as set forth in the instrument relating thereto without regard to any provision contained therein for a subsequent adjustment of such number) issuable upon the exercise of such Options or, in the case of Convertible Securities and Options therefor, the conversion or exchange of such Convertible Securities, shall be deemed to be Additional Shares of Common Stock issued as of the time of such issue or, in case such a record date shall have been fixed, as of the close of business on such record date.

(ii) If the terms of any Option or Convertible Security, the issuance of which resulted in an adjustment to the Conversion Price, as the case may be, pursuant to the terms of Section 7.4 below, are revised (either automatically pursuant to the provisions contained therein or as a result of an amendment to such terms) to provide for either (A) any increase or decrease in the number of shares of Common Stock issuable upon the exercise, conversion or exchange of any such Option or Convertible Security or (B) any increase or decrease in the consideration payable to the Company upon such exercise, conversion or exchange, then, effective upon such increase or decrease becoming effective, the Conversion Price computed upon the original issue of such Option or Convertible Security (or upon the occurrence of a record date with respect thereto) shall be readjusted to such Conversion Price as would have obtained had such revised terms been in effect upon the original date of issuance of such Option or Convertible Security. Notwithstanding the foregoing, no adjustment pursuant to this clause (ii) shall have the effect of increasing the Conversion Price to an amount which exceeds the lower of (1) the Conversion Price on the original adjustment date, or (2) the Conversion Price that would have resulted from any issuances of Additional Shares of Common Stock between the original adjustment date and such readjustment date.

(iii) If the terms of any Option or Convertible Security (excluding Options or Convertible Securities which, upon exercise, conversion or exchange thereof, would entitle the holder thereof to receive Exempted Securities), the issuance of which did not result in an adjustment to the Conversion Price pursuant to the terms of Section 7.4 below (either because the consideration per share (determined pursuant to Section 7.5 hereof) of the Additional Shares of Common Stock subject thereto was equal to or greater than the Conversion Price then in

effect, or because such Option or Convertible Security was issued before the Original Issue Date), are revised after the Original Issue Date (either automatically pursuant to the provisions contained therein or as a result of an amendment to such terms) to provide for either (1) any increase or decrease in the number of shares of Common Stock issuable upon the exercise, conversion or exchange of any such Option or Convertible Security or (2) any increase or decrease in the consideration payable to the Company upon such exercise, conversion or exchange, then such Option or Convertible Security, as so amended, and the Additional Shares of Common Stock subject thereto (determined in the manner provided in Section 7.3(i) above) shall be deemed to have been issued effective upon such increase or decrease becoming effective.

(iv) Upon the expiration or termination of any unexercised Option or unconverted or unexchanged Convertible Security which resulted (either upon its original issuance or upon a revision of its terms) in an adjustment to the Conversion Price pursuant to the terms of Section 7.4 below, the Conversion Price shall be readjusted to such Conversion Price as would have obtained had such Option or Convertible Security never been issued.

(v) No adjustment in the Conversion Price shall be made upon the issue of shares of Common Stock or Convertible Securities upon the exercise of Options or the issue of shares of Common Stock upon the conversion or exchange of Convertible Securities.

7.4 *Adjustment of Conversion Price Upon Issuance of Additional Shares of Common Stock*. In the event the Company shall at any time after the Original Issue Date issue Additional Shares of Common Stock (including Additional Shares of Common Stock deemed to be issued pursuant to Section 7.3), without consideration or for a consideration per share less than the Conversion Price in effect immediately prior to such issue, then the Conversion Price shall be reduced, concurrently with such issue, to a price (calculated to the nearest one-hundredth of a cent) determined by multiplying the Conversion Price by a fraction, (a) the numerator of which shall be (i) the number of shares of Common Stock outstanding immediately prior to such issue plus (ii) the number of shares of Common Stock which the aggregate consideration received or to be received by the Company for the total number of Additional Shares of Common Stock so issued would purchase at the Conversion Price and (b) the denominator of which shall be (i) the number of shares of Common Stock outstanding immediately prior to such issue plus (ii) the number of such Additional Shares of Common Stock so issued; provided that, for the purpose of this Section 7.4, all shares of Common Stock issuable upon exercise of Options outstanding immediately prior to such issue or upon conversion of Convertible Securities (including the Series C Preferred Stock and the shares into which this Note may be converted) outstanding immediately prior to such issue shall be deemed to be outstanding.

7.5 *Determination of Consideration*. For purposes of this Section 7, the consideration received by the Company for the issue of any Additional Shares of Common Stock shall be computed as follows:

(i) Cash and Property. Such consideration shall:

(1) insofar as it consists of cash, be computed at the aggregate amount of cash received by the Company, excluding amounts paid or payable for accrued interest;

(2) insofar as it consists of property other than cash, be computed at the fair market value thereof at the time of such issue, as determined in good faith by the Board of Directors of the Company; and

(3) in the event Additional Shares of Common Stock are issued together with other shares or securities or other assets of the Company for consideration which covers both, be the proportion of such consideration so received, computed as provided in clauses (1) and (2) above, as determined in good faith by the Board of Directors of the Company.

(ii) Options and Convertible Securities. The consideration per share received by the Company for Additional Shares of Common Stock deemed to have been issued pursuant to Section 7.3, relating to Options and Convertible Securities, shall be determined by dividing the total amount, if any, received or receivable by the Company as consideration for the issue of such Options or Convertible Securities, plus the minimum aggregate amount of additional consideration (as set forth in the instruments relating thereto, without regard to any provision contained therein for a subsequent adjustment of such consideration) payable to the Company upon the exercise of such Options or the conversion or exchange of such Convertible Securities, or in the case of Options for Convertible Securities, the exercise of such Options for Convertible Securities and the conversion or exchange of such Convertible Securities, by the maximum number of shares of Common Stock (as set forth in the instruments relating thereto, without regard to any provision contained therein for a subsequent adjustment of such number) issuable upon the exercise of such Options or the conversion or exchange of such Convertible Securities.

7.6 *Multiple Closing Dates*. In the event the Company shall issue on more than one date Additional Shares of Common Stock that are comprised of shares of the same series or class of Preferred Stock and that would result in an adjustment to Conversion Price pursuant to the terms of Section 7.4 above, and such issuance dates occur within a period of no more than forty-five (45) days from the first such issuance to the final such issuance, then, upon the final such issuance, the Conversion Price shall be readjusted to give effect to all such issuances as if they occurred on the date of the final such issuance (and without giving effect to any adjustments as a result of such prior issuances within such period).

7.7 *Adjustments*.

(i) Adjustment for Stock Splits and Combinations. If the Company shall at any time or from time to time after the Original Issue Date effect a

subdivision of the outstanding Common Stock, the Conversion Price in effect immediately before that subdivision or combination shall be proportionately decreased. If the Company shall at any time or from time to time after the Original Issue Date combine the outstanding shares of Common Stock, the Conversion Price in effect immediately before the combination or subdivision shall be proportionately increased. Any adjustment under this paragraph shall become effective at the close of business on the date the subdivision or combination becomes effective.

(ii) Adjustment for Certain Dividends and Distributions. In the event the Company at any time, or from time to time after the Original Issue Date shall make or issue, or fix a record date for the determination of holders of Common Stock entitled to receive, a dividend or other distribution payable in additional shares of Common Stock, then and in each such event the Conversion Price in effect immediately before such event shall be decreased as of the time of such issuance or, in the event such a record date shall have been fixed, as of the close of business on such record date, by multiplying the Conversion Price, as the case may be, then in effect by a fraction:

(1) the numerator of which shall be the total number of shares of Common Stock issued and outstanding immediately prior to the time of such issuance or the close of business on such record date, and

(2) the denominator of which shall be the total number of shares of Common Stock issued and outstanding immediately prior to the time of such issuance or the close of business on such record date plus the number of shares of Common Stock issuable in payment of such dividend or distribution; provided, however, that if such record date shall have been fixed and such dividend is not fully paid or if such distribution is not fully made on the date fixed therefor, the Conversion Price shall be recomputed accordingly as of the close of business on such record date and thereafter the Conversion Price shall be adjusted pursuant to this paragraph as of the time of actual payment of such dividends or distributions; and provided further, however, that no such adjustment shall be made if the holders of the Note simultaneously receive a dividend or other distribution of shares of Common Stock in a number equal to the number of shares of Common Stock as they would have received if the outstanding balance of this Note had been converted into Common Stock on the date of such event.

(iii) Adjustments for Other Dividends and Distributions. In the event the Company at any time or from time to time after the Original Issue Date shall make or issue, or fix a record date for the determination of holders of Common Stock entitled to receive, a dividend or other distribution payable in securities of the Company (other than shares of Common Stock) or in cash or other property, then and in each such event the holders of the Note shall receive, simultaneously with the distribution to the holders of Common Stock, a dividend or other distribution of such securities, cash or other property in an amount equal to the

amount of such securities, cash or other property as they would have received if the outstanding balance of the Note had been converted into Common Stock on the date of such event.

7.8 Certificate as to Adjustments. Upon the occurrence of each adjustment or readjustment of the Conversion Price pursuant to Section 7.7, the Company at its expense shall, as promptly as reasonably practicable but in any event not later than thirty (30) days thereafter, compute such adjustment or readjustment in accordance with the terms hereof and furnish to each holder of the Note a certificate setting forth such adjustment or readjustment (including the kind and amount of securities, cash or other property into which the Note is convertible) and showing in detail the facts upon which such adjustment or readjustment is based. The Company shall, as promptly as reasonably practicable after the written request at any time of any holder of the Note (but in any event not later than thirty (30) days thereafter), furnish or cause to be furnished to such holder a certificate setting forth (a) the Conversion Price then in effect, and (b) the number of shares of Common Stock and the amount, if any, of other securities, cash or property which then would be received upon the conversion of the Note.

7.9 *Notice of Record Date*. If:

(i) the Company shall take a record of the holders of its Common Stock (or other stock or securities at the time issuable upon conversion of the Note), for the purpose of entitling or enabling them to receive any dividend or other distribution, or to receive any right to subscribe for or purchase any shares of stock of any class or any other securities, or to receive any other right; or

(ii) of any capital reorganization of the Company, any reclassification of the Common Stock of the Company, any consolidation or merger of the Company with or into another corporation (other than a consolidation or merger in which the Company is the surviving entity and its Common Stock is not converted into or exchanged for any other securities or property), or any transfer of all or substantially all of the assets of the Company; or

(iii) of the voluntary or involuntary dissolution, liquidation or winding-up of the Company, then, and in each such case, the Company will send or cause to be sent to the holders of the Note a notice specifying, as the case may be, (a) the record date for such dividend, distribution or right, and the amount and character of such dividend, distribution or right, or (b) the effective date on which such reorganization, reclassification, consolidation, merger, transfer, dissolution, liquidation or winding-up is to take place, and the time, if any is to be fixed, as of which the holders of record of Common Stock (or such other stock or securities at the time issuable upon the conversion of the Note) shall be entitled to exchange their shares of Common Stock (or such other stock or securities) for securities or other property deliverable upon such reorganization, reclassification, consolidation, merger, transfer, dissolution, liquidation or winding-up, and the amount per share and character of such exchange applicable to the Series C Preferred Stock, the Notes and the Common Stock. Such notice shall be sent at

least ten (10) days prior to the record date or effective date for the event specified in such notice.

8. *Covenants*. Prior to the earlier to occur of the Maturity Date or conversion of this Note in accordance with Section 6, the Company shall not, either directly or indirectly by amendment, merger, consolidation or otherwise:

(i) consent to any liquidation, dissolution or winding up of the Company or to any Deemed Liquidation Event (as defined in the Articles of Incorporation);

(ii) commence or consent to any Voluntary Bankruptcy Proceeding or Involuntary Bankruptcy Proceeding;

(iii) recapitalize, create or authorize the creation of any additional class or series of shares of stock;

(iv) increase or decrease (other than by redemption or conversion) the authorized number of shares of Preferred Stock, Common Stock or shares of any additional class or series of shares of stock;

(v) create or authorize or issue (other than to the Company or a wholly owned subsidiary of the Company) any obligation or security convertible into shares of any class or series of stock;

(vi) purchase or redeem, or set aside any sums for the purchase or redemption of, or pay any dividend or make any distribution on, any shares of stock other than repurchases of Series C Preferred Stock in accordance with Section 3.9.6 of the Articles of Incorporation;

(vii) permit any subsidiary of the Company to issue or sell any equity securities of such subsidiary (other than to the Company or a wholly owned subsidiary of the Company);

(viii) make, or cause any subsidiary of the Company to make, any acquisition of the assets, stock or other equity securities of any other company or effect the same by way of a merger, consolidation or reorganization, except for acquisitions of assets for consideration of $10,000,000 or less in any single transaction or series of related transactions;

(ix) engage in any new line of business substantially outside of the business plan in the form approved by a majority of the Independent Directors or materially modifying such plan, unless approved in each case by a majority of the Independent Directors;

(x) merge with or into or consolidate, or permit any subsidiary to merge with or into or consolidate, with any other entity (other than a merger or

consolidation solely between the Company and one or more subsidiaries or among subsidiaries);

(xi) sell, lease, or otherwise dispose of any of the Company's material properties or assets; or

(xii) fail to maintain insurance, including officer and director insurance, at levels consistent with current coverage limits;

(xiii) Permit any of the Company's material assets to become subject to a lien or encumbrance (other than liens or encumbrances recorded prior to the Original Issue Date);

(xiv) Increase the size or composition of the Company's Board of Directors;

(xv) Materially increase the compensation payable to any management employee of the Company (above inflation);

(xvi) Prohibit Holder from reasonable access to inspect the properties, books, and records of the Company or fail to maintain such properties, books and records;

(xvii) Enter into any transaction between the Company and any of its affiliates; or

(xviii) incur any indebtedness (including purchase money security interest operating leases), or permit any subsidiary to incur any indebtedness (other than indebtedness of subsidiaries owed to the Company, indebtedness owed pursuant to the Notes, and indebtedness of the Company pursuant to that certain Credit and Security Agreement between the Company, Great Lakes Energy Technologies, LLC, and Wells Fargo Bank, National Association dated December 22, 2005) in excess of $10,000,000 in the aggregate.

9. *Successors and Assigns.* Subject to the restrictions on transfer described in Sections 11 and 12 below, the rights and obligations of the Company and the Holder of this Note shall be binding upon and benefit the successors, assigns, heirs, administrators and transferees of the parties.

10. *Waiver and Amendment*. Any provision of this Note may be amended, waived or modified upon the written consent of the Company and the holders of a majority in interest of the Notes; provided, however, that the approval of all holders of any portion of the Notes will be required to change the amount or time of any prepayment or payment of principal of the Notes, reduce the rate or change the time of payment or method of computation of interest or premium of the Notes and provided, further, the consent of an affected Holder shall be required to modify or otherwise change the Notes in a manner that adversely affects such Holder relative to any other.

11. *Transfer of this Note*. This Note or any Common Stock into which this Note is convertible (collectively, the "Securities") may not be transferred except as provided herein. At any time beginning two years after the issuance of the Note, Holder will have the right to transfer the Securities as long as (i) the transfer is not in violation of any law, (ii) the Securities are not transferred to a competitor of the Company (if a majority of the Independent Directors determines in good faith that the proposed transferee is a competitor of the Company and that such proposed transfer would not be in the best interests of the Company, such consent to transfer not to be unreasonably withheld), (iii) the transfer is after a right of first offer to the Company (if the Company would have a right of first refusal with respect to such transfer under Section 3 of the Amended and Restated Investors' Rights Agreement), and (iv) the transferee agrees to be bound by the terms, conditions, representations, and warranties set forth in the Existing Transaction Documents. Without limiting the foregoing, this Note may not be transferred in violation of any restrictive legend set forth hereon at any time. Notwithstanding the foregoing, Holder may, at any time upon written notice to the Company, transfer any or all of the Securities to an affiliate without being subject to the foregoing restrictions. All such restrictions on Holder's right of transfer shall terminate following an initial public offering or other registration of Company shares or a Change of Control. Each new note issued upon transfer of this Note shall bear a legend as to the applicable restrictions on transferability in order to ensure compliance with the Securities Act, unless in the opinion of counsel for the Company such legend is not required in order to ensure compliance with the Act. The Company may issue stop transfer instructions to its transfer agent in connection with such restrictions. Subject to the foregoing, transfers of this Note shall be registered upon registration books maintained for such purpose by or on behalf of the Company. Prior to presentation of this Note for registration of transfer, the Company shall treat the registered holder hereof as the owner and holder of this Note for the purpose of receiving all payments of principal and interest hereon and for all other purposes whatsoever, whether or not this Note shall be overdue and the Company shall not be affected by notice to the contrary.

12. *Assignment by the Company.* Neither this Note nor any of the rights, interests or obligations hereunder may be assigned in whole or in part by the Company without the prior written consent of the Holder.

13. *Treatment of Note*. To the extent permitted by generally accepted accounting principles, the Company will treat, account and report the Note as debt and not equity for accounting purposes and with respect to any returns filed with federal, state or local tax authorities.

14. *Notices*. Any notice, request or other communication required or permitted hereunder shall be in writing and shall be deemed to have been duly given if personally delivered, if faxed with confirmation of receipt, or if mailed by registered or certified mail or reputable overnight courier, postage prepaid, at the respective addresses of the parties as set forth herein and in the case of the Holder to the attention of __________ and in the case of the Company to the attention of the Chief Executive Officer. Any party hereto may by notice so given change its address for future notice hereunder. Notice shall conclusively be deemed to have been given when personally

delivered, faxed, or when deposited in the mail in the manner set forth above and shall be deemed to have been received when delivered.

15. _*Confidentiality.*_ The Holder agrees that such Holder will keep confidential and will not disclose, divulge or use for any purpose, other than to monitor its investment in the Company, any confidential information obtained from the Company pursuant to the terms of this Note, unless such confidential information (i) is known or becomes known to the public in general (other than as a result of a breach of this Section 15 by the Holder), (ii) is or has been independently developed or conceived by the Holder without use of the Company's confidential information or (iii) is or has been made known or disclosed to the Holder by a third party without a breach of any obligation of confidentiality such third party may have to the Company; provided, however, that the Holder may disclose confidential information (1) to its attorneys, accountants, consultants, and other professionals to the extent necessary to obtain their services in connection with monitoring its investment in the Company, or (2) as may otherwise be required by law or by the rules and regulations of any exchange or automated quotation system on which the Company's capital stock is listed or quoted, provided that the Holder takes reasonable steps to minimize the extent of any such required disclosure.

16. *Disclosure*. The Company shall have the right to disclose the Holder's investment in the Company to future prospective investors and/or strategic partners contemplating an investment in the Company, provided, that such recipient is subject to a non-disclosure agreement; provided, that the Company will provide prior written notice of such disclosure (together with the proposed text of such disclosure) to the Holder, and the disclosure made by the Company will reflect any comments provided to the Company by the Holder. Notwithstanding the foregoing, but subject to the requirement above to provide prior written notice of such disclosure as provided above, this Section 16 shall not prohibit any disclosure required by law or by the rules and regulations of any exchange or automated quotation system on which the Company's capital stock is listed or quoted.

17. *Governing Law*. This Agreement shall be governed by and construed in accordance with the laws of the State of New York, excluding that body of law relating to conflict of laws.

18. *Heading; References*. All headings used herein are used for convenience only and shall not be used to construe or interpret this Note. Except where otherwise indicated, all references herein to Sections refer to Sections hereof.

[remainder of page intentionally left blank]

IN WITNESS WHEREOF, the Company has caused this Note to be issued as of the date first above written.

ORION ENERGY SYSTEMS, INC.

By: /s/ Neal Verfuerth
Name: Neal Verfuerth
Title: President and Chief Executive Officer

Acknowledged and Agreed:

TECHNOLOGY TRANSFORMATION VENTURE FUND, LP

By: ____________________

____

By: /s/
Name:
Title:
Address:

Signature Page to Technology Transformation Venture Fund, LP Convertible Subordinated Promissory Note

Exhibit 10.1

Employment Agreement

AGREEMENT made this 1st day of October, 2005 by and between Orion Energy Systems, Ltd., a Wisconsin corporation (Orion") and Bruce Wadman ("Employee"),

WHEREAS, Orion desires to continue to employ Employee and Employee desires to continue that employment, upon the terms and conditions contained herein:

NOW, THEREFORE, in consideration of the mutual covenants and conditions hereinafter set forth, the parties agree as follows:

1. Term. The term shall be for a period of twenty-four (24) months from the date of this Agreement. The Agreement shall continue on a year to year basis after the 24 month period, unless one of the parties notifies the other at least 30 days prior to the expiration date.

2. Employee's Duties. The Employee is engaged to act as Vice President, Chief Operating Officer and CFO for Orion and all of its subsidiaries. Employee shall devote his entire time, attention and energies to the business of Orion and shall not, during the term of this Agreement, be engaged in any other non-personal business activity pursued for gain, profit or other pecuniary advantage. The Employee may invest his assets in such form or manner as will not require any significant services which conflict with Employee's duties to Orion, provided that such investment is with a business, person or entity which is not in competition with Orion,

3. Compensation.

A. Base Salary. During the first twelve (12) months of this Agreement, the Employee's base salary shall be $14,583.00 per month. A performance review shall be conducted at the end of the first twelve (12) months and an adjustment in salary may be made in the discretion of Orion.

B. Bonus. Employee shall be eligible for a bonus equal to 30% of base salary. The material components of the bonus program will be one that is substantially the same for all senior executives shall be reviewed prior to the end of Orion's fiscal year and may be adjusted in the discretion of Orion. Subject to the agreement of the parties, the bonus program may provide that such amounts be paid or awarded on a current or deferred basis and may be paid or awarded in the form of cash or other consideration as mutually agreed upon. Bonus compensation earned shall be paid or awarded within ninety (90) days of the close of the bonus computation period.

4. Severance Pay. If the Employee's employment is involuntarily terminated by Orion other than for "cause," the Employee shall be entitled to receive his current monthly salary under Section 3A and family health benefits both paid in full for a period of one (1) year after such termination of employment, and a prorated bonus under Section 3B. Employee shall be entitled to a pro rated bonus, but not to salary continuation, if employment is terminated voluntarily by Employee or is terminated by Orion for "cause." For the purposes of this Agreement, "cause" shall mean fraud, intentional misconduct or the conviction of a felony by the

Employee that, in the sole determination of the Orion Board of Directors, would have a material and negative effect Orion.

5. Employee Benefits. Employee shall be entitled to such fringe benefits as provided other employees in the same or similar positions. Vacation shall be three weeks per year. Orion will pay Employee a car allowance of $ 1,000 a month and will provide Employee with a cellular phone and pager.

Employee shall be entitled to options to purchase 100,000 shares of Orion stock with 50,000 being granted on employees original date of employment which shall vest over the normal five year vesting period and the balance will vest at the end of a full five years of employment. These options are subject to the terms and conditions of Orion stock option plans. The number of option shares, exercise price, vesting schedule and all other terms and conditions affecting the option shares shall be set forth in stock option agreements.

6. Noncompetition.

A. Employee acknowledges that Orion is engaged in the conduct of a highly specialized and competitive business and that the restrictive covenants contained herein are necessary to protect Orion and that these covenants are made in consideration of the compensation and benefits provided Employee.

B. For a period of twelve (12) months immediately following the termination of Employee's employment with Orion, however caused, Employee shall not, indirectly or directly, own, manage, operate, control or participate in or be connected with as an officer, director, stockholder, employee, consultant, partner, proprietor, broker or otherwise, whether in a paid or unpaid position, engage in a business which is competitive with Employee at the time of termination. The term "Business" shall include the range of products, product categories and subject matter that Orion is selling or marketing or is in the process of developing at the time that Employee's employment terminates.

C. During said twelve (12) months, Employee will not, directly or indirectly: (i) use confidential information to solicit or attempt to solicit business from any of Orion's customers, vendors and/or suppliers; or (ii) refer or recommend that any of Orion's customers, vendors and/or suppliers, patronize any other business in direct or indirect competition with the Employer.

D. During said twelve (12) months, Employee will not, directly or indirectly, solicit, raid, entice or induce any person who is, or at anytime during the term hereof shall be, an employee or consultant of Employer to become employed, as an employee, consultant or contractor, by any other person, firm or corporation in any business in competition with Orion.

7. Confidentiality. During Employee's employment with Orion, Employee may be exposed to Orion trade secrets; as such trade secrets are protected by law. Trade secrets are Confidential Information which derive actual or potential economic value to Employer from not being generally known, or readily ascertainable, by competitors of Orion, which information gives, or has the potential of giving, Employer an advantage over its competitors of Employer, which Employer has taken, and will continue to take, reasonable steps to maintain confidential

vis-à-vis its competitor for so long as any such trade secret is maintained as a trade secret by Orion.

During Employee's employment at Orion and for a period of five (5) years thereafter, Employee agrees that all Confidential Information received from Orion and all Notes shall be kept and maintained in the strictest confidence and shall not be disclosed or made available or used by Employee or any third party. Employee further agrees to take all measures necessary to safeguard and protect Orion's Confidential information and the Notes.

The restrictions and conditions of this section shall not apply where Employee can demonstrate that such information is:

(a) in or comes into the public domain at any time, or is made available to the general public without restrictions by Orion:

(b) independently developed by Employee without reference to or use of the disclosed Confidential Information.

(c) rightfully received from a third party without restriction and without breach of this Agreement; or

(d) required to be disclosed in satisfaction of any Court order, subpoena, regulation, or legislative enactment.

8. Intellectual Property Work Product. For purposes of this Agreement, the term "Intellectual Property Work Product" means all writings, documents, inventions, ideas, drawings, artwork, research, processes, procedures, techniques, designs, technologies, computer hardware or software, programming code, templates, forms, formulas, discoveries, products, marketing and business plans and all improvements, know-how, data, rights and claims related to those items and all work product of any type, whether or not copyrightable or patentable, which the Employee makes, conceives, discovers or develops, either solely or jointly with any other person or persons, at any time during his employment with Orion, whether during working hours or at Orion's facilities or at any other location at the request or upon the suggestion of Orion or otherwise which relate to or are otherwise in any way useful in connection with any business now or hereafter carried on or contemplated by Orion, including developments or expansions of its present fields of operations.

Orion's Intellectual Property Work Product shall be the sole and exclusive property of Orion and shall, upon its creation be owned by Orion. The Employee acknowledges and agrees that all Intellectual Property Work Product that is copyrightable shall be considered a work made for hire under the Copyright Act, 17 U.S.C. Sec. 101 et seq. The Employee agrees to make full disclosure to Orion of all such Intellectual Property Work Product and agrees to do everything necessary or desirable to vest absolute title thereto in Orion and to protect Orion's right in the Intellectual Property Work Product. The Employee will assist Orion (at Orion's expense) to obtain and enforce patents, copyrights or other rights or registrations relating to or arising out of the Intellectual Property Work Product and this obligation shall continue after the Employee's termination of his employment with Orion (regardless of whether the termination is voluntary or involuntary). To the extent that the Employee may be entitled to claim any ownership in any

such Intellectual Property Work Product, he hereby irrevocably assigns and transfers to Orion all rights, title and interest in an to such Intellectual Property Work Product under patent, copyright, trade secret and trademark law developed during the term of the Agreement.

9. Injunctive Relief. In addition to any other remedies provided by law, if Employee breaches any of the provisions of Article 5, 6 or 7, Orion shall be entitled to injunctive relief against Employee. In the event that either party breaches this Agreement, the non-breaching party shall be entitled to recover from the breaching party all costs incurred by the non-breaching party in enforcing his Agreement, including attorney's fees.

10. Other Agreements. The covenants and obligations of Employee and Orion under this Agreement shall not in any way limit, abrogate, of modify the rights and obligations of the parties under any other agreement to which they are a party.

11. Modification of Agreement. The terms of this Agreement, including terms pertaining to base salary and bonuses, may be modified in writing upon the mutual consent of the parties.

12. Severability. All agreements and covenants herein are severable, and if any of them is held invalid by a court of competent jurisdiction, this Agreement shall be interpreted as if such invalid agreement or covenant was not contained herein. The parties hereby agree to negotiate any modification or reformation of this Agreement to the extent necessary to render it valid and enforceable under the law of any interested jurisdiction.

13. Notification to Subsequent Employers. For the period of twelve (12) months immediately following the end of Employee's employment by Orion, Employee will inform each new employer, prior to accepting employment, of the existence of this Agreement and provide that employer with a copy of the Agreement. In addition, Employee hereby authorizes Orion to forward a copy of this Agreement to any actual or prospective new employer. If employee is not terminated for cause, Employer will provide a positive reference and/or letter of recommendation.

14. Waiver. No delay or failure by Orion in exercising any right under this Agreement shall constitute a waiver of that or any other right.

15. Assignments. This Agreement shall inure to the benefit of and shall be Enforceable by Orion, its successors and assigns. This Agreement is personal to Employee and Employee may not delegate any of his obligations hereunder without obtaining prior written consent of Orion's Board of Directors.

16. Applicable Law. This Agreement shall interpreted under the laws of the State of Wisconsin.

17. Binding Arbitration.

A. Except as provided in Section 17, B, the parties agree to binding arbitration of any dispute concerning this Agreement using the applicable rules of the American

Arbitration Association; provided, however, any arbitrator chosen shall be a member of the National Academy of Arbitrators.

B. Provided, however, Orion may seek injunctive relief under Section 9.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date first written above.

ORION:

By: /s/

Its: Chairman

Date: 10/1/05

EMPLOYEE:

/s/ Bruce Wadman

Bruce Wadman

Date: 10/1/05

Exhibit 10.2

EMPLOYMENT AGREEMENT

AGREEMENT made as of the first day of April 2005 by and between Orion Energy Systems, Ltd., a Wisconsin corporation (the "Employer"), and Neal R. Verfuerth (the "Employee").

WHEREAS, Employee currently serves as President and CEO of the Employer;

WHEREAS, the Employer desires to continue to employ Employee, and Employee desires to continue employment, upon the terms and conditions contained herein;

NOW, THEREFORE, in consideration of the mutual covenants and conditions hereinafter set forth, the parties agree as follows:

1. Employment. Employee's employment with the Employer is hereby continued upon the terms and conditions hereinafter set forth.

2. Term. Employer's employment of the Employee shall be for a period of thirty-six (36) months from the date of this Agreement with two optional one-year extensions (the "Term). Such extensions shall be automatic unless either party notifies the other of its or his option to cancel such extension at least one hundred twenty (120) days in advance. During the term of this Agreement, Employee's employment with Employer shall be "at-will," which means either the Employer or the Employee may terminate this Agreement for any reason or no reason at all, with or without notice. However, if termination is for "cause," then Employee shall not be entitled to certain benefits as further provided in this Agreement. For purposes of this Agreement, "cause" shall mean fraud or intentional misconduct by the Employee that, in the determination of the Board of Directors of the Employer (the "Board"), would have a material and negative effect on Employer.

3. Employee's Duties. The Employee is engaged to act as the Employer's President and CEO. Employee shall perform such duties as set forth in the Employer's By-Laws for the office of President and as determined by the Board. Employee shall devote his entire time, attention, and energies to the business of Employer and shall not, during the term of this Agreement, be engaged in any other non-personal business activity pursued for gain, profit or other pecuniary advantage, except as otherwise may be permitted in this Agreement or by the Board in writing. The Employee may invest his assets in such form or manner as will not require any significant services which conflict with Employee's duties to Employer; provided that such investment is with a business, person, or entity which is not in competition with Employer.

4. Compensation.

A. Base Salary. During the first twelve (12) months of this Agreement, the Employee's base annual salary shall be $250,000.00. Each year thereafter, so long as Employee remains employed, Employee's base salary shall increase by eight percent (8%) per year.

B. Bonus. Based on the following schedule, and contingent on the Employee's employment during the fiscal year for which the bonus is awarded, the Employee shall receive a bonus equaling up to 100% of the base salary for that fiscal year:

Bonus Schedule	Fiscal Year 06		Fiscal Year 07		Fiscal Year 08		Fiscal Year 09		Fiscal Year 10	
Gross Revenue										
Goal	$	40MM	$	70MM	$	100MM	$	130MM	$	160MM
Importance		40%		35%		35%		35%		35%
EBITDA										
Goal	$	3.5MM	$	12MM	$	18MM	$	24MM	$	30MM
Importance		30%		35%		40%		40%		40%
Equity										
Goal	$	10MM	$	20MM	$	25MM	$	30MM	$	35MM
Importance		15%		15%		10%		10%		10%
Common Stock										
Goal	$	6	$	10	$	14	$	18	$	22
Importance		15%		15%		15%		15%		15%

If 75% but not 100% of any of the above goals are met, the Board of Directors in its sole discretion may award a bonus related to that goal of up to 60% of the amount otherwise due upon meeting the goal. The bonus may be paid either in cash, equity, or a combination of the two as determined from year to year by the Board after consultation with Employee.

C. Debt Forgiveness. As of April 1, 2005, Employee will be indebted to the Employer in the amount of $110,827.61. Unless otherwise agreed or unless Employee is terminated for cause (as defined in Section 2), Employer shall forgive one third of this balance and all accrued interest on April 1st of the next three years beginning in 2006.

D. Fringe Benefits. Employee shall be entitled to such fringe benefits as other employees in the same or similar positions are provided. The Employer shall provide additional fringe benefits to Employee, if necessary, so that the Employee will receive the following benefits at no cost to the Employee: (1) term life insurance policy with a face amount not less than the initial base pay under Section 4.A., (ii) family health coverage under an insurance policy, (iii) ninety (90) days sick pay per year with no carry over; (iv) long term disability policy with the maximum level of benefit permitted by the underwriting rules of the insurance company from which the policy is purchased. All benefits to be provided hereunder shall be subject to the Employee's insurability under the standard underwriting policies of the insurance company from which the policies are purchased. The Employer shall also pay Employee a car allowance of $1,000 per month and shall provide the Employee with a cellular phone and pager with the associated expenses paid for by Employer.

E. Loan Guarantee. In the event that Employee personally guarantees any debt of the Employer, the Employee shall receive compensation from the Employer in an amount of cash and/or equity agreed upon by the parties; but in no event shall such cash

compensation exceed one percent (1.0%) of the amount of the guaranty determined on an annual basis, or a percentage equal to that paid to other shareholders providing similar guarantees. Employer will purchase and maintain a life insurance policy in an amount at least equal to the amount of such Employee's guarantees, the proceeds of which upon Employee's death will be first applied to any Employer or related entity debt guaranteed by the Employee.

5. Severance. In the event that Employee's employment with the Employer terminates for any reason other than for "cause" under Section 2, the Employee shall be entitled to receive: (i) one hundred fifty percent (150%) of his base salary under Section 4.A. at the time of termination of employment, and (ii) a prorated bonus under Section 4.B. determined with respect to the stub bonus period ending on his date of termination. Unless otherwise agreed by the parties, severance pay described in clause (i) of the preceding sentence shall be paid within thirty (30) days of such termination and the severance pay described in clause (ii) of the preceding sentence shall be paid within ninety (90) days of the close of the otherwise applicable bonus period. In the event that Employee's employment with the Employer terminates for "cause" under Section 2, Employee shall be entitled to receive (i) any pro rata salary, bonus and other benefits accrued prior to the date of such termination of employment, and (ii) any other salary, bonus and benefits deemed appropriate by the Board in its sole discretion considering the prior contributions by Employee as well as the reasons for such termination.

6. Confidentiality and Non-competition Agreement.

A. Acknowledgements. The Employee knows and has been informed that (a) the Employer's customer relationships and customer goodwill are valuable assets of the Employer which have been developed by the Employer's substantial investment of time, effort and expense and (b) that the Employer has invested much time, effort and expense in developing the confidential business information referred to below which is vital to the success of the Employer's business. The Employee acknowledges that his employment with the Employer will place him in a personal relationship with the Employer's customers and will result in the Employee having access to the Employer's confidential business information. The Employee further acknowledges that the Employer has a legitimate interest in protecting its customer relationships, customer goodwill, and confidential business information by means of the enforcement of this agreement.

B. Non-competition. The Employee agrees that he will not during the term of his employment with the Employer and for a period of two (2) years immediately following the termination of his employment with the Employer (regardless of whether the termination is voluntary or involuntary), directly or indirectly (through partners, agents, employers, employees or any other persons acting for, with or on behalf of the Employee) solicit or in any way contact any customer of the Employer for the purpose of selling to the customer any goods or services in competition with the Employer or accept any orders or business from any customer for goods or services, in competition with the Employer, unless expressly approved by resolution of the Board. For purposes of this subsection, the term "customer" shall be specifically limited to individuals and entities of any type who received any goods or services supplied by or on behalf of the Employer at any time within two (2) years preceding the date of the Employee's termination of employment. The term "customer" shall be further limited to those customers of the Employer with whom the Employee transacted business on behalf of the

Employer any time during the two (2) years preceding the date of termination and customers of the Employer with whom another employee of the Employer transacted business on behalf of the Employer under the Employee's direct or indirect supervision at any time within (2) years preceding the date of termination. Payment to Employee of all amounts due under Section 5 are subject to compliance with the provisions of this section.

C. Confidentiality. The Employee agrees that he will not, during his employment and for a period of two (2) years after the termination of his employment with the Employer (regardless of whether the termination is voluntary or involuntary), directly or indirectly, unless authorized in writing by the Board, use in competition with the Employer or disclose to any individual or entity of any type any of the Employer's bona fide confidential business information including, but not limited to, customer lists, lists of customer prospects, methods of operation, methods of pricing, business systems, business plans, marketing and advertising strategies, information relating to transactions between the Employer and its customers (such as types and quantities of goods/services purchased by a customer, dates of purchases, pricing strategies, prices paid and costs of sales), information relating to transactions between the Employer and its vendors (such as types and quantities of goods/services purchased from a vendor, dates of purchases and prices paid to a vendor), product data, new product development plans, business development and acquisition plans, engineering information, formulas, technical data, personnel information, and financial information. Upon termination of employment (regardless of whether the termination is voluntary or involuntary), the Employee agrees to promptly deliver to the Employer the originals and all copies of all documents, records, and property of any nature whatsoever which are the property of the Employer or which relate to the business activities of the Employer and which are in the Employee's possession or control at the time of the termination of employment. This provision is not intended to prevent Employee from being gainfully employed, but soley to prevent Employee from using the Employer's confidential business information for the advantage of someone or some entity that is not the Employer. Additionally, the prohibition provided by this paragraph is not intended to limit in any manner, Employee's obligations to comply with any applicable State's trade secret laws.

7. Intellectual Property Work Product.

For purposes of this agreement, the term "Intellectual Property Work Product" means all writings, documents, inventions, ideas, drawings, artwork, research, processes, procedures, techniques, designs, technologies, computer, hardware or software, programming code, templates, forms, formulas, discoveries, products, marketing and business plans and all improvements, know-how, data, rights and claims related to those items and all work product of any type, whether or not copyrightable or patentable, which the Employee makes, conceives, discovers or develops at any time during the Term. Employee's work on such Intellectual Property Work Product shall be considered permitted personal and not Employer business activity. The Employee's Intellectual Property Work Product shall initially be the property of the Employee upon its creation, but thereafter the Employer shall have the option to acquire and own all such Employee's Intellectual Property Work Product pursuant to an Intellectual Property Assignment Agreement. The Employee agrees to make full disclosure to the Employer of all such Intellectual Property Work Product and agrees to do everything necessary or desirable to transfer absolute title thereto in the Employer and to protect the Employer's rights in the Intellectual Property Work Product should the Employer exercise its option to acquire any such

Work Product. The Employee will assist the Employer (at the Employer's expense) to obtain and enforce patents, copyrights or other rights or registrations relating to or arising out of any Intellectual Property Work Product so transferred and this obligation shall continue after the Employee's termination of his employment with the Employer (regardless of whether the termination is voluntary or involuntary). To the extent that the Employee is transferring such Intellectual Property Work Product, he hereby irrevocably agrees to assign and transfer to the Employer all rights, title and interest in and to such Intellectual Property Work Product under patent, copyright, trade secret and trademark law developed during the term of the Agreement on accordance with the Intellectual Property Assignment Agreement entered into contemporaneously with this Agreement.

8. Remedies. In addition to any other remedies provided by law, if a party breaches this Agreement, the other party shall be entitled to injunctive relief against the breaching party.

9. Modification of Agreement. The terms of this Agreement, including terms pertaining to base salary and bonuses, may be modified only in writing upon the mutual consent of the parties hereto.

10. Severability. All agreements and covenants herein are severable, and if any of them is held invalid by a court of competent jurisdiction, this Agreement shall be interpreted as if such invalid agreement or covenant was not contained herein. The parties hereby agree to negotiate any modification or reformation of Sections 6, 8, and 17 of this Agreement to the extent necessary to render it valid and enforceable under the law of any interested jurisdiction.

11. Notification to Subsequent Employers. For the period of twenty-four (24) months immediately following the end of the Employee's employment by Employer, Employee will inform each new employer, prior to accepting employment, of the existence of non-compete and confidentiality provisions contained in this Agreement and provide that employer with a copy of those provisions to the new employer. In addition, Employee hereby authorizes Employer to forward a copy of this Agreement or any portion of this Agreement to any actual or prospective new employer.

12. Notices. Any notice required or permitted to be given under this Agreement shall be sufficient if in writing and hand delivered or sent by registered mail to his residence in the case of Employee, or to its principal office in the case of the Employer.

13. Waiver. No delay or failure by the Employer in exercising any right under this Agreement shall constitute a waiver of that or any other right.

14. Assignment. This Agreement shall inure to the benefit of and shall be enforceable by the Employer, its successors and assigns. This Agreement is personal to the Employee and Employee may not delegate any of his obligations hereunder without first obtaining prior written consent of the Board.

15. Applicable Law. This Agreement shall be interpreted under the laws of the State of Wisconsin.

16. Entire Agreement. This Agreement constitutes the entire agreement of the parties. This Agreement supersedes any and all other prior agreements, both verbal and written, between the parties hereto with respect to the Employee's employment including, but not limited to, the employment agreement dated October 1, 2001.

17. Binding Arbitration.

A. Except as provided in Section 17.B., the parties agree to binding arbitration of any dispute concerning the terms of this Agreement or any instrument entered into in connection with this Agreement on such terms as the parties agree, and, if no other agreement, then using the applicable rules of the American Arbitration Association.

B. Either party may seek injunctive relief against the other party in any court of proper jurisdiction with respect to any breach of Sections 6 or 7 of this Agreement.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date first above written.

EMPLOYER:

By: Patrick Trotter

Its: Chairman

EMPLOYEE:

/s Neal R. Verfuerth

Neal R. Verfuerth

INTELLECTUAL PROPERTY ASSIGNMENT AGREEMENT

For good and valuable consideration set forth below, the receipt and sufficiency of which are hereby acknowledged, Neal Verfuerth, an adult resident of the state of Wisconsin (hereinafter referred to as "ASSIGNOR"), has agreed pursuant to that certain Employment Agreement dated April 1, 2005 (the "Employment Agreement") to offer to sell, assign, and transfer unto Orion Energy Systems, Ltd., a Wisconsin corporation having offices at 1204 Pilgrim Road, Plymouth, Wisconsin 53073, its successors and assigns (hereinafter collectively referred to as "ASSIGNEE"), the full and exclusive right, title and interest for the United States, its territories and possessions, and all foreign countries in and to any part of the Intellectual Property Work Product (as that term is defined in the Employment Agreement) requested by Assignee, including the right to sue for past infringement, such right, title, and interest to be held and enjoyed by ASSIGNEE, its successors and assigns, including the right to sue for damages for infringement of any of the Intellectual Property Work Product occurring prior to the date of this assignment, to the full end of the term or terms for the Intellectual Property Work Product as fully and entirely as would have been held and enjoyed by ASSIGNOR had this Assignment not been made.

As consideration for such assignment, for each Intellectual Property Work Product developed after the date hereof for which ASSIGNOR has or intends to have a patent filed, for which ASSIGNOR submits to ASSIGNEE an Invention Disclosure Form in the form attached hereto as Exhibit 1, and for which ASSIGNEE elects in writing to exercise its option to purchase, ASSIGNEE shall pay to ASSIGNOR an amount to be agreed upon in writing by ASSIGNOR and ASSIGNEE (but in no event more than $1,500 per month per Intellectual Property Work Product) from the time of exercise for as long as such Intellectual Property Work Product is significantly used or relied upon by ASSIGNEE (as determined by ASSIGNEE, in its sole discretion), but not after abandonment, rejection, determination of invalidity or expiration of any applicable patent filing therefore; provided, however, that ASSIGNEE shall not be required to make any such payment in the event of the earlier to occur of (i) ASSIGNEE electing not to actively pursue the filing of such patent or (ii) ASSIGNEE providing ASSIGNOR written notice that ASSIGNEE will not be actively relying upon such Intellectual Property Work Product. For any and all other Intellectual Property Work Product for which ASSIGNOR does not intend to have a patent filed and that Assignee elects to purchase, the price shall be an aggregated flat fee of $1,000. To insure payment when due, ASSIGNOR may be granted a security interest in any such transferred Intellectual Property Work Product if he so requests.

ASSIGNOR hereby agrees (a) to communicate to ASSIGNEE or its representative or agents, all facts and information known or available to ASSIGNOR respecting the Intellectual Property Work Product, improvements, and modifications including evidence for interference, reexamination, reissue, opposition, revocation, extension, or infringement purposes or other legal, judicial, or administrative proceedings, whenever requested by ASSIGNEE; (b) to testify in person or by affidavit as required by ASSIGNEE in any such proceeding in the United States or a country foreign thereto; (c) to execute and deliver, upon request by ASSIGNEE, all lawful papers including, but not limited to, original, divisional, continuation, and reissue applications, renewals, assignments, powers of attorney, oaths, affidavits, and declarations, depositions; and

(d) to provide all reasonable assistance to ASSIGNEE in obtaining and enforcing proper title in and protection for the Intellectual Property Work Product, improvements, and modifications under the intellectual property laws of the United States and countries foreign thereto after any such Intellectual Property Work Product is acquired by ASSIGNEE.

ASSIGNOR hereby represents and warrants that ASSIGNOR has the full and unencumbered right to sell, assign, and transfer any interests to be sold, assigned, and transferred herein, and that ASSIGNOR has not executed and will not execute any document or instrument in conflict herewith.

ASSIGNOR hereby grants to the law firm of Foley & Lardner LLP the power and authority to insert in this Assignment or any future transfer documentation any further identification which may be necessary or desirable to comply with the rules of the U.S. Patent and Trademark Office for recordation of this Assignment or the other transfer documents.

ASSIGNOR understands and agrees that the attorneys and agents of the law firm of Foley & Lardner LLP do not personally represent ASSIGNOR OR ASSIGNOR's legal interests in this matter, but instead represent the interests of ASSIGNEE; since said attorneys and agents cannot provide legal advice to ASSIGNOR with respect to this Assignment, ASSIGNOR acknowledges its right to seek its own independent legal counsel.

Executed this ___day of ___, 2005.

ASSIGNOR

____
Neal Verfuerth

State of Wisconsin)
) ss.
County of__________)

On this ___day of ___, 2005, before me, a notary public in and for said county, appeared Neal Verfuerth who is personally known to me to be the same person whose name is subscribed to the foregoing instrument, and he acknowledged that he signed, sealed, and delivered the said instrument as his free and voluntary act for the uses and purposes therein set forth.

____
Notary Public
My Commission Expires:__________

(Seal)

ORION ENERGY SYSTEMS, LTD.
("ASSIGNEE")

____
By: ____________________________________
Name: ____________________________________
Title: ____________________________________

State of Wisconsin)
) ss.
County of__________)

On this ___day of ___, 2005, before me, a notary public in and for said county, appeared ___, who is personally known to me to be the same person whose name is subscribed to the foregoing instrument, and he/she acknowledged that he/she signed, sealed, and delivered the said instrument as his/her free and voluntary act for the uses and purposes therein set forth.

____
Notary Public
My Commission Expires:__________

(Seal)

Exhibit 1

CONFIDENTIAL and PROPRIETARY

ORION ENERGY SYSTEMS, LTD.
INVENTION DISCLOSURE

TITLE OF INVENTION: ____

PRODUCT NAME (IF APPLICABLE): ____________________

MODEL NUMBER (IF APPLICABLE): ____________________

BRIEF DESCRIPTION OF INVENTION ____________________

____

____

The undersigned person prepared this Invention Disclosure. It is believed to be accurate and complete.

Signature: ______________________________

Printed Name: ______________________________

Date: ______________________________

Exhibit 10.5

[LOGO]

Light Years Ahead.

June 2, 2006

Mr. John Scribante

Dear John,

As you know, we must significantly increase sales if we are to continue to maximize profits and increase the share value of our stock. As of April 16, 2006, your new compensation plan details are as follow:

Job Title:	Senior Vice President — Business Development
Base Salary:	$150,000
Travel expenses:	Ordinary, customary and usual business expenses reimbursed using expense reporting procedure in compliance with company policy. The vehicle allowance terminated as of May 15, 2006. As of May 16, 2006, actual mileage will be paid at the rate of 40.5¢ per mile.
Benefits:	Continued reimbursement of actual costs of maintaining private FSA, health insurance and disability insurance in lieu of participating in the similar plans sponsored by Orion not to exceed costs of participation in the Orion sponsored plans. Participation in all other employee benefit plans subject to meeting eligibility requirements. Three weeks of vacation per year continues.
Stock options:	Additional 100,000 options at $2.50 per share, subject to standard five year vesting schedule, issued post April 1, 2006 two for one stock split.
Fiscal year incentive	Up to 100% of base salary payable July 31 following the end of the fiscal year if the following company sales performance goals are attained for the fiscal years ending March 31:

	2007	2008	2009
Sales	$70MM	$100MM	$130MM

If 75%, but not 100%, of the above sales goals are met, the Board of Directors, in it sole discretion, may award a bonus of up to 60% of the amount otherwise due upon meeting that goal.

Confidentiality, Intellectual Property & Non Compete	Compensation program is contingent upon your execution of the enclosed agreement

ORION ENERGY SERVICES

1204 Pilgrim Road Plymouth, Wisconsin 53073 www.oriones.com PM 800 660 9340 FX 877 811 9350

To be eligible and remain eligible for this bonus, you must comply with company policies related to pricing and margins, calendar management and daily activity reports as well as other management expectations as established and communicated from time-to-time. If you do not comply with such requirements and expectations, you may not qualify for this bonus.

All prior commission plans will be replaced with this new plan.

This program does not alter your status as an Employee at Will of Orion Energy Systems, Ltd. Should your employment terminate for any reason, you will not participate in this bonus arrangement.

Provided you have completed 12 months of continuous service at Orion, you will be paid any unused vacation upon resignation (with at least 2 weeks notice to the company), lay off, retirement or death. You will not receive pay for any unused vacation if you do not give at least a 2-week notice upon resignation or retirement or are discharged.

Please acknowledge receipt of this program by your signature below.

/s/ Neal Verfuerth	5/31/06
Neal Verfuerth Orion Energy Systems, Ltd.	Date

/s/ John Scribante	5/31/06
John Scribante	Date

Exhibit 10.6

ORION ENERGY SYSTEMS, LTD.
2003 STOCK OPTION PLAN

The purpose of the Orion Energy Systems, Ltd. 2003 Stock Option Plan (the "Plan") is to provide (i) designated employees and officers of Orion Energy Systems, Ltd. (the "Company") and its subsidiaries, (ii) certain consultants and advisors who perform services for the Company or its subsidiaries and (iii) non-employee members of the Board of Directors of the Company (the "Board") with the opportunity to receive grants of nonqualified stock options. The Company believes that the Plan will encourage the participants to contribute materially to the growth of the Company, thereby benefiting the Company's shareholders, and will align the economic interests of the participants with those of the shareholders.

1. Administration

(a) Committee. The Plan shall be administered and interpreted by the Board or by a committee appointed by the Board (the "Committee"). After an initial public offering of the Company's stock as described in Section 20(b) (a "Public Offering"), the Plan shall be administered by a Committee, which may consist of "outside directors" as defined under section 162(m) of the Internal Revenue Code of 1986, as amended (the "Code"), and related Treasury regulations and "non-employee directors" as defined under Rule 16b-3 under the Securities Exchange Act of 1934, as amended (the "Exchange Act"). However, the Board may ratify or approve any grants as it deems appropriate. If the Board administers the Plan, references in the Plan to the "Committee" shall be deemed to refer to the Board.

(b) Committee Authority. The Committee shall have the sole authority to (i) determine the individuals to whom grants shall be made under the Plan, (ii) determine the type, size and terms of the grants to be made to each such individual, (iii) determine the time when the grants will be made and the duration of any applicable exercise or restriction period, including the criteria for exercisability and the acceleration of exercisability and (iv) deal with any other matters arising under the Plan.

(c) Committee Determinations. The Committee shall have full power and authority to administer and interpret the Plan, to make factual determinations and to adopt or amend such rules, regulations, agreements and instruments for implementing the Plan and for the conduct of its business as it deems necessary or advisable, in its sole discretion. The Committee's interpretations of the Plan and all determinations made by the Committee pursuant to the powers vested in it hereunder shall be conclusive and binding on all persons having any interest in the Plan or in any awards granted hereunder. All powers of the Committee shall be executed in its sole discretion, in the best interest of the Company, not as a fiduciary, and in keeping with the objectives of the Plan and need not be uniform as to similarly situated individuals.

2. Grants

Awards under the Plan may consist of grants of nonqualified stock options as described in Section 5 and Section 6 ("Options" or "Grants"). All Grants shall be subject to the terms and conditions set forth herein and to such other terms and conditions consistent with this Plan as the Committee deems appropriate and as are specified in writing by the Committee to the individual in a grant instrument or an amendment to the grant instrument (the "Grant Instrument"). The Committee shall approve the form and provisions of each Grant Instrument. Grants need not be uniform as among the grantees.

3. Shares Subject to the Plan

(a) Shares Authorized. Subject to adjustment as described in subsection (b) below, the aggregate number of shares of common stock of the Company ("Company Stock") that may be issued or transferred under the Plan is three million five hundred thousand (3,500,000) shares. After a Public Offering, the maximum aggregate number of shares of Company Stock that shall be subject to Grants made under the Plan to any individual during any calendar year shall be 250,000 shares, subject to adjustment as described below. The shares may be authorized but unissued shares of Company Stock or reacquired shares of Company Stock, including shares purchased by the Company on the open market for purposes of the Plan. If and to the extent Options authorized under this subsection (a) terminate, expire, or are canceled, forfeited, exchanged or surrendered without having been exercised, the shares subject to such Grants shall again be available for purposes of the Plan.

(b) Adjustments. If there is any change in the number or kind of shares of Company Stock outstanding (i) by reason of a stock dividend, spin-off, recapitalization, stock split, or combination or exchange of shares, (ii) by reason of a merger, reorganization or consolidation in which the Company is the surviving corporation, (iii) by reason of a reclassification or change in par value, or (iv) by reason of any other extraordinary or unusual event affecting the outstanding Company Stock as a class without the Company's receipt of consideration, or if the value of outstanding shares of Company Stock is substantially reduced as a result of a spin-off or the Company's payment of an extraordinary dividend or distribution, the maximum number of shares of Company Stock available for Grants, the maximum number of shares of Company Stock that any individual participating in the Plan may be granted in any year, the number of shares covered by outstanding Grants, the kind of shares issued under the Plan, and the price per share or the applicable market value of such Grants shall be appropriately adjusted by the Committee to reflect any increase or decrease in the number of, or change in the kind or value of, issued shares of Company Stock to preclude, to the extent practicable, the enlargement or dilution of rights and benefits under such Grants; provided, however, that any fractional shares resulting from such adjustment shall be eliminated. Any adjustments determined by the Committee shall be final, binding and conclusive.

4. Eligibility for Participation

(a) Eligible Persons. All employees of the Company and its subsidiaries ("Employees"), including Employees who are officers or members of the Board, and members of

the Board who are not Employees (“Non-Employee Directors”) shall be eligible to participate in the Plan. Non-Employee Directors shall be eligible to receive Grants only under Section 6 of the Plan. Consultants and advisors who perform services to the Company or any of its subsidiaries (“Key Advisors”) shall be eligible to participate in the Plan if the Key Advisors render bona fide services and such services are not in connection with the offer or sale of securities in a capital-raising transaction.

(b) Selection of Grantees. The Committee shall select the Employees, Non-Employee Directors and Key Advisors to receive Grants and shall determine the number of shares of Company Stock subject to a particular Grant in such manner as the Committee determines. Employees, Key Advisors and Non-Employee Directors who receive Grants under this Plan shall hereinafter be referred to as “Grantees”.

5. Granting of Options

(a) Number of Shares. The Committee shall determine the number of shares of Company Stock that will be subject to each Grant of Options to Employees, Non-Employee Directors and Key Advisors.

(b) Type of Option and Price.

(i) The Committee may grant Nonqualified Stock Options that are not intended to qualify as “incentive stock options” within the meaning of section 422 of the Code in accordance with the terms and conditions set forth herein. Nonqualified Stock Options may be granted to Employees, Non-Employee Directors and Key Advisors.

(ii) The purchase price (the “Exercise Price”) of Company Stock subject to an Option shall be determined by the Committee and may be equal to, greater than, or less than the Fair Market Value (as defined below) of a share of Company Stock on the date the Option is granted; provided, however, that the Exercise Price shall not be less than $1.375 per share.

(iii) If the Company Stock is publicly traded, then the Fair Market Value per share shall be determined as follows: (x) if the principal trading market for the Company Stock is a national securities exchange or the NASDAQ National Market, the last reported sale price thereof on the relevant date or (if there were no trades on that date) the latest preceding date upon which a sale was reported, or (y) if the Company Stock is not principally traded on such exchange or market, the mean between the last reported “bid” and “asked” prices of Company Stock on the relevant date, as reported on NASDAQ or, if not so reported, as reported by the National Daily Quotation Bureau, Inc. or as reported in a customary financial reporting service, as applicable and as the Committee determines. If the Company Stock is not publicly traded or, if publicly traded, is not subject to reported transactions or “bid” or “asked” quotations as set forth above, the Fair Market Value per share shall be as determined by the Committee.

(c) Option Term. The Committee shall determine the term of each Option. The term of any Option shall not exceed ten (10) years from the date of grant.

(d) Exercisability of Options. Options shall become exercisable in accordance with such terms and conditions, consistent with the Plan, as may be determined by the Committee and specified in the Grant Instrument. The Committee may accelerate the exercisability of any or all outstanding Options at any time for any reason.

(e) Termination of Employment, Disability or Death.

(i) Except as provided below, an Option may only be exercised while the Grantee is employed by, or providing service to, the Company as an Employee, Key Advisor or member of the Board. In the event that a Grantee ceases to be employed by, or provide service to, the Company for any reason other than a “disability”, death, or termination for “cause”, any Option which is otherwise exercisable by the Grantee shall terminate unless exercised within 90 days after the date on which the Grantee ceases to be employed by, or provide service to, the Company (or within such other period of time as may be specified by the Committee), but in any event no later than the date of expiration of the Option term. Except as otherwise provided by the Committee, any of the Grantee’s Options that are not otherwise exercisable as of the date on which the Grantee ceases to be employed by, or provide service to, the Company shall terminate as of such date.

(ii) In the event the Grantee ceases to be employed by, or provide service to, the Company on account of a termination for “cause” by the Company, any Option held by the Grantee shall terminate as of the date the Grantee ceases to be employed by, or provide service to, the Company. In addition, notwithstanding any other provisions of this Section 5, if the Committee determines that the Grantee has engaged in conduct that constitutes “cause” at any time while the Grantee is employed by, or providing service to, the Company or after the Grantee’s termination of employment or service, any Option held by the Grantee shall immediately terminate and the Grantee shall automatically forfeit all shares underlying any exercised portion of an Option for which the Company has not yet delivered the share certificates, upon refund by the Company of the exercise Price paid by the Grantee for such shares. Upon any exercise of an Option, the Company may withhold delivery of share certificates pending resolution of an inquiry that could lead to a finding resulting in a forfeiture.

(iii) In the event the Grantee ceases to be employed by, or provide service to, the Company because the Grantee is “disabled”, all Options shall become fully exercisable by the Grantee and shall terminate unless exercised within one year after the date on which the Grantee ceases to be employed by, or provide service to, the Company (or within such other period of time as may be specified by the Committee), but in any event no later than the date of expiration of the Option term.

(iv) If the Grantee dies while employed by, or providing service to, the Company or within 90 days after the date on which the Grantee ceases to be employed or provide service on account of a termination specified in Section 5(e)(i) above (or within such other period of time as may be specified by the Committee), all Options shall become fully exercisable by the Grantee and shall terminate unless exercised within one year after the date on which the Grantee ceases to be employed by, or provide service to, the Company (or within such

other period of time as may be specified by the Committee), but in any event no later than the date of expiration of the Option term.

(v) For purposes of this Section 5(e) and Section 6:

(A) The term "Company" shall mean the Company and its parent and subsidiary corporations.

(B) "Employed by, or provide service to, the Company" shall mean employment or service as an Employee, Key Advisor or member of the Board (so that, for purposes of exercising Options, a Grantee shall not be considered to have terminated employment or service until the Grantee ceases to be an Employee, Key Advisor and member of the Board), unless the Committee determines otherwise.

(C) "Disability" shall mean a Grantee's becoming disabled within the meaning of section 22(e)(3) of the Code.

(D) "Cause" shall mean, except to the extent specified otherwise by the Committee, a finding by the Committee that the Grantee (i) has breached his or her employment or service contract with the Company, (ii) has engaged in disloyalty to the Company, including, without limitation, fraud, embezzlement, theft, commission of a felony or proven dishonesty in the course of his or her employment or service, (iii) has disclosed trade secrets or confidential information of the Company to persons not entitled to receive such information or (iv) has engaged in such other behavior detrimental to the interests of the Company as the Committee determines.

(f) Exercise of Options. A Grantee may exercise an Option that has become exercisable, in whole or in part, by delivering a notice of exercise to the Company with payment of the Exercise Price. The Grantee shall pay the Exercise Price for an Option as specified by the Committee (x) in cash, (y) with the approval of the Committee, by delivering shares of Company Stock owned by the Grantee (including Company Stock acquired in connection with the exercise of an Option, subject to such restrictions as the Committee deems appropriate) and having a Fair Market Value on the date of exercise equal to the Exercise Price or (z) by such other method as the Committee may approve, including, after a Public Offering, payment through a broker in accordance with procedures permitted by Regulation T of the Federal Reserve Board. The Committee may authorize loans by the Company to Grantees in connection with the exercise of an Option, upon such terms and conditions as the Committee, in its sole discretion, deems appropriate. Shares of Company Stock used to exercise an Option shall have been held by the Grantee for the requisite period of time to avoid adverse accounting consequences to the Company with respect to the Option. The Grantee shall pay the Exercise Price and the amount of any withholding tax due (pursuant to Section 8) at the time of exercise.

6. Formula Option Grants to Non-Employee Directors

A Non-Employee Director shall be entitled to receive Nonqualified Stock Options in accordance with this Section 6 in addition to such other Grants, as the Committee deems appropriate.

(a) Annual Grants. On each date that the Company holds its annual meeting of shareholders, commencing with the 2002 annual meeting, each Non-Employee Director, who first becomes a member of the Board after the effective date of this Plan (as specified in Section 20) who is in office immediately after the annual election of directors (other than a director who is first elected to the Board at such meeting) shall receive a grant of a Nonqualified Stock Option to purchase 2,500 shares of Company Stock. The number of options granted shall be pro rated for the portion of the previous fiscal year in which the Director was in office. The date of grant of each such annual Grant shall be the date of the annual meeting of the Company's shareholders.

(b) Exercise Price. The Exercise Price per share of Company Stock subject to an Option granted under this Section 6 shall be equal to the Fair Market Value of a share of Company Stock on the date of grant.

(c) Option Term and Exercisability. The term of each Option granted pursuant to this Section 6 shall be ten (10) years. Options granted under this Section 6 shall be fully exercisable as of the date of grant.

(d) Applicability of Plan Provisions. Except as otherwise provided in this Section 6, Nonqualified Stock Options granted to Non-Employee Directors shall be subject to the provisions of this Plan applicable to Nonqualified Stock Options granted to other persons.

(e) Insufficient Shares. If at any time there are not sufficient shares available under the Plan to permit an automatic Grant as described in this Section 6, the Grant shall be reduced pro rata (to zero, if necessary) so as not to exceed the number of shares then available under the Plan.

7. Deferrals

The Committee may permit or require a Grantee to defer receipt of the delivery of shares that would otherwise be due to such Grantee in connection with any Option. If any such deferral election is permitted or required, the Committee shall, in its sole discretion, establish rules and procedures for such deferrals.

8. Withholding of Taxes

(a) Required Withholding. All Grants under the Plan shall be subject to applicable federal (including FICA), state and local tax withholding requirements. The Company shall have the right to deduct from other wages paid to the Grantee, any federal, state or local taxes required by law to be withheld with respect to such Grants. The Company may require the Grantee or other person receiving or exercising Grants to pay to the Company the amount of any such taxes that the Company is required to withhold with respect to such Grants, or the Company

may deduct from other wages paid by the Company the amount of any withholding taxes due with respect to such Grants.

(b) Election to Withhold Shares. If the Committee so permits, a Grantee may elect to satisfy the Company's income tax withholding obligation with respect to an Option by having shares withheld up to an amount that does not exceed the Grantee's minimum applicable withholding tax rate for federal (including FICA), state and local tax liabilities. The election must be in a form and manner prescribed by the Committee and shall be subject to the prior approval of the Committee.

9. Transferability of Grants

(a) Nontransferability of Grants. Except as provided below, only the Grantee may exercise rights under a Grant during the Grantee's lifetime. A Grantee may not transfer those rights except by will or by the laws of descent and distribution or if permitted in any specific case by the Committee, pursuant to a domestic relations order. When a Grantee dies, the personal representative or other person entitled to succeed to the rights of the Grantee ("Successor Grantee") may exercise such rights. A Successor Grantee must furnish proof satisfactory to the Company of his or her right to receive the Grant under the Grantee's will or under the applicable laws of descent and distribution.

(b) Transfer of Nonqualified Stock Options. Notwithstanding the foregoing, the Committee may provide, in a Grant Instrument, that a Grantee may transfer Nonqualified Stock Options to family members, or one or more trusts or other entities for the benefit of or owned by family members, consistent with applicable securities laws, according to such terms as the Committee may determine; provided that the Grantee receives no consideration for the transfer of an Option and the transferred Option shall continue to be subject to the same terms and conditions as were applicable to the Option immediately before the transfer.

10. Right of First Refusal

(a) Offer. Prior to a Public Offering, if at any time an individual desires to sell, encumber, or otherwise dispose of shares of Company Stock that were distributed to him or her under this Plan and that are transferable, the individual shall first offer the shares to the Company by giving the Company written notice disclosing: (a) the name of the proposed transferee of the Company Stock; (b) the certificate number and number of shares of Company Stock proposed to be transferred or encumbered; (c) the proposed price; (d) all other terms of the proposed transfer; and (e) a written copy of the proposed offer. Within 60 days after receipt of such notice, the Company shall have the option to purchase all or part of such Company Stock at the then current Fair Market Value (as defined in Section 5(b)) and may pay such price in installments over a period not to exceed four years, at the discretion of the Committee.

(b) Sale. In the event the Company (or a shareholder, as described below) does not exercise the option to purchase Company Stock, as provided above, the individual shall have the right to sell, encumber, or otherwise dispose of his shares of Company Stock on the terms of the transfer set forth in the written notice to the Company, provided such transfer is effected within

15 days after the expiration of the option period. If the transfer is not effected within such period, the Company must again be given an option to purchase, as provided above.

(c) Pass Through of Rights. The Board, in its sole discretion, may waive the Company's right of first refusal pursuant to this Section and the Company's repurchase right pursuant to Section 11 below. If the Company's right of first refusal or repurchase right is so waived, the Board may, in its sole discretion, pass through such right to the remaining shareholders of the Company in the same proportion that each shareholder's stock ownership bears to the stock ownership of all the shareholders of the Company, as determined by the Board. To the extent that a shareholder has been given such right and does not purchase his or her allotment, the other shareholders shall have the right to purchase such allotment on the same basis.

(d) Public Offering. On and after a Public Offering, the Company shall have no further right to purchase shares of Company Stock under this Section 10 and Section 11 below, and their limitations shall be null and void.

(e) Shareholder's Agreement. Notwithstanding the foregoing, the Committee may require that a Grantee execute a shareholder's agreement, with such terms as the Committee deems appropriate, with respect to any Company Stock distributed pursuant to this Plan, in which case the provisions of this Section 10 and Section 11 below shall not apply to such Company Stock.

11. Purchase by the Company

Prior to a Public Offering, if a Grantee ceases to be employed by, or provide service to, the Company, the Company shall have the right to purchase all or part of any Company Stock distributed to him or her under this Plan at its then current Fair Market Value (as defined in Section 5(b)) (or at such other price as may be established in the Grant Instrument); provided, however, that such repurchase shall be made in accordance with applicable accounting rules to avoid adverse accounting treatment.

12. Change of Control of the Company

As used herein, a "Change of Control" shall be deemed to have occurred as a result of any of the following:

(a) Any "person" (as such term is used in sections 13(d) and 14(d) of the Securities Exchange Act of 1934 (the "Exchange Act")) becomes a "beneficial owner" (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of securities of the Company representing more than 50% of the voting power of the then outstanding securities of the Company; provided that a Change of Control shall not be deemed to occur as a result of a transaction in which the Company becomes a subsidiary of another corporation and in which the stockholders of the Company, immediately prior to the transaction, will beneficially own, immediately after the transaction, securities of the parent representing more than 50% of the voting power of the then outstanding securities of the parent; and provided further that a Change of Control shall not be

deemed to occur as a result of a change of ownership resulting from the death of a shareholder; and provided further that a Change in Control shall not be deemed to occur as a result of a change in ownership resulting from any public or private offering of the Company's securities.

(b) The stockholders of the Company approve (or, if stockholder approval is not required, the Board approves) an agreement providing for (i) the merger or consolidation of the Company with another entity where the stockholders of the Company, immediately prior to the merger or consolidation, will not beneficially own, immediately after the merger or consolidation, securities of the survivor representing more than 50% of the voting power of the then outstanding securities of the surviving entity, (ii) the sale or other disposition of all or substantially all of the assets of the Company, or (iii) a liquidation or dissolution of the Company.

(c) Any person has commenced a tender offer or exchange offer for 30% or more of the voting power of the then outstanding shares of the Company.

(d) After the effective date of this Agreement, directors are elected such that a majority of the members of the Board shall have been members of the Board for less than two years, unless the election or nomination for election of each new director who was not a director at the beginning of such two-year period was approved by a vote of at least two-thirds of the directors then still in office who were directors at the beginning of such period.

13. Consequences of a Change of Control

(a) Assumption of Grants. Upon a Change of Control where the Company is not the surviving corporation (or survives only as a subsidiary of another corporation), unless the Committee determines otherwise, all outstanding Options that are not exercised shall be assumed by, or replaced with comparable options by the surviving corporation (or a parent of the surviving corporation), and other outstanding Grants shall be converted to similar grants of the surviving corporation (or a parent of the surviving corporation).

(b) Other Alternatives. Notwithstanding the foregoing, in the event of a Change of Control, the Committee may, but shall not be obligated to, take any of the following actions with respect to any or all outstanding Grants: the Committee may (i) determine that outstanding Options shall automatically accelerate and become fully exercisable, (ii) require that Grantees surrender their outstanding Options in exchange for a payment by the Company, in cash or Company Stock as determined by the Committee, in an amount equal to the amount by which the then Fair Market Value of the shares of Company Stock subject to the Grantee's unexercised Options exceeds the Exercise Price of the Options or (iii) after giving Grantees an opportunity to exercise their outstanding Options, terminate any or all unexercised Options at such time as the Committee deems appropriate. Such surrender, termination or settlement shall take place as of the date of the Change of Control or such other date as the Committee may specify. The Committee shall have no obligation to take any of the foregoing actions, and, in the absence of any such actions, outstanding Grants shall continue in effect according to their terms (subject to any assumption pursuant to Subsection (a)).

(c) Committee. The Committee making the determinations under this Section 13 following a Change of Control must be comprised of the same members as those on the Committee immediately before the Change of Control. If the Committee members do not meet this requirement, the automatic provisions of Subsections (a) and (b) shall apply, and the Committee shall not have discretion to vary them.

(d) Limitations. Notwithstanding anything in the Plan to the contrary, in the event of a Change of Control, the Committee shall not have the right to take any actions described in the Plan (including without limitation actions described in Subsection (b) above) that would make the Change of Control ineligible for pooling of interests accounting treatment or that would make the Change of Control ineligible for desired tax treatment if, in the absence of such right, the Change of Control would qualify for such treatment and the Company intends to use such treatment with respect to the Change of Control.

14. Requirements for Issuance or Transfer of Shares

(a) Shareholder's Agreement. The Committee may require that a Grantee execute a shareholder's agreement, with such terms as the Committee deems appropriate, with respect to any Company Stock issued or distributed pursuant to this Plan.

(b) Limitations on Issuance or Transfer of Shares. No Company Stock shall be issued or transferred in connection with any Grant hereunder unless and until all legal requirements applicable to the issuance or transfer of such Company Stock have been complied with to the satisfaction of the Committee. The Committee shall have the right to condition any Grant made to any Grantee hereunder on such Grantee's undertaking in writing to comply with such restrictions on his or her subsequent disposition of such shares of Company Stock as the Committee shall deem necessary or advisable, and certificates representing such shares may be legended to reflect any such restrictions. Certificates representing shares of Company Stock issued or transferred under the Plan will be subject to such stop-transfer orders and other restrictions as may be required by applicable laws, regulations and interpretations, including any requirement that a legend be placed thereon.

(c) Lock-Up Period. If so requested by the Company or any representative of the underwriters (the "Managing Underwriter") in connection with any underwritten offering of securities of the Company under the Securities Act of 1933, as amended (the "Securities Act"), a Grantee (including any successors or assigns) shall not sell or otherwise transfer any shares or other securities of the Company during the 30-day period preceding and the 120-day period following the effective date of a registration statement of the Company filed under the Securities Act for such underwriting (or such shorter period as may be requested by the Managing Underwriter and agreed to by the Company) (the "Market Standoff Period"). The Company may impose stop-transfer instructions with respect to securities subject to the foregoing restrictions until the end of such Market Standoff Period.

15. Amendment and Termination of the Plan

(a) Amendment. The Board may amend or terminate the Plan at any time; provided, however, that the Board shall not amend the Plan without shareholder approval if such approval is required by law or applicable stock exchange requirements.

(b) Termination of Plan. The Plan shall terminate on the day immediately preceding the tenth anniversary of its effective date, unless the Plan is terminated earlier by the Board or is extended by the Board with the approval of the shareholders.

(c) Termination and Amendment of Outstanding Grants. A termination or amendment of the Plan that occurs after a Grant is made shall not materially impair the rights of a Grantee unless the Grantee consents or unless the Committee acts under Section 21(b). The termination of the Plan shall not impair the power and authority of the Committee with respect to an outstanding Grant. Whether or not the Plan has terminated, an outstanding Grant may be terminated or amended under Section 21(b) or may be amended by agreement of the Company and the Grantee consistent with the Plan.

(d) Governing Document. The Plan shall be the controlling document. No other statements, representations, explanatory materials or examples, oral or written, may amend the Plan in any manner. The Plan shall be binding upon and enforceable against the Company and its successors and assigns.

16. Funding of the Plan

This Plan shall be unfunded. The Company shall not be required to establish any special or separate fund or to make any other segregation of assets to assure the payment of any Grants under this Plan. In no event shall interest be paid or accrued on any Grant, including unpaid installments of Grants.

17. Rights of Participants

Nothing in this Plan shall entitle any Employee, Key Advisor, Non-Employee Director or other person to any claim or right to be granted a Grant under this Plan, [except as provided in Section 6]. Neither this Plan nor any action taken hereunder shall be construed as giving any individual any rights to be retained by or in the employ of the Company or any other employment rights.

18. No Fractional Shares

No fractional shares of Company Stock shall be issued or delivered pursuant to the Plan or any Grant. The Committee shall determine whether cash, other awards or other property shall be issued or paid in lieu of such fractional shares or whether such fractional shares or any rights thereto shall be forfeited or otherwise eliminated.

19. Headings

Section headings are for reference only. In the event of a conflict between a title and the content of a Section, the content of the Section shall control.

20. Effective Date of the Plan

(a) Effective Date. The Plan supersedes and replaces in its entirety that certain Orion Lighting, Ltd. 2002 Stock Option Plan. This Plan shall be effective on October 1, 2003.

(b) Public Offering. The provisions of the Plan that refer to a Public Offering, or that refer to, or are applicable to persons subject to, section 16 of the Exchange Act or section 162(m) of the Code, shall be effective, if at all, upon the initial registration of the Company Stock under section 12(g) of the Exchange Act, and shall remain effective thereafter for so long as such stock is so registered.

21. Miscellaneous

(a) Grants in Connection with Corporate Transactions and Otherwise. Nothing contained in this Plan shall be construed to (i) limit the right of the Committee to make Grants under this Plan in connection with the acquisition, by purchase, lease, merger, consolidation or otherwise, of the business or assets of any corporation, firm or association, including Grants to employees thereof who become Employees of the Company, or for other proper corporate purposes, or (ii) limit the right of the Company to grant stock options or make other awards outside of this Plan. Without limiting the foregoing, the Committee may make a Grant to an employee of another corporation who becomes an Employee by reason of a corporate merger, consolidation, acquisition of stock or property, reorganization or liquidation involving the Company or any of its subsidiaries in substitution for a stock option or restricted stock grant made by such corporation. The terms and conditions of the substitute grants may vary from the terms and conditions required by the Plan and from those of the substituted stock incentives. The Committee shall prescribe the provisions of the substitute grants.

(b) Compliance with Law. The Plan, the exercise of Options and the obligations of the Company to issue or transfer shares of Company Stock under Grants shall be subject to all applicable laws and to approvals by any governmental or regulatory agency as may be required. With respect to persons subject to section 16 of the Exchange Act, after a Public Offering it is the intent of the Company that the Plan and all transactions under the Plan comply with all applicable provisions of Rule l6b-3 or its successors under the Exchange Act. In addition, it is the intent of the Company that the Plan and applicable Grants under the Plan comply with the applicable provisions of section 162(m) of the Code after a Public Offering. To the extent that any legal requirement of section 16 of the Exchange Act or section 162(m) of the Code as set forth in the Plan ceases to be required under section 16 of the Exchange Act or section 162(m) of the Code, that Plan provision shall cease to apply. The Committee may revoke any Grant if it is contrary to law or modify a Grant to bring it into compliance with any valid and mandatory government regulation. The Committee may also adopt rules regarding the withholding of taxes on payments to Grantees. The Committee may, in its sole discretion, agree to limit its authority under this Section.

(c) Governing Law. The validity, construction, interpretation and effect of the Plan and Grant Instruments issued under the Plan shall exclusively be governed by and determined in accordance with the law of the state of Wisconsin.

Exhibit A-1

AMENDMENT NUMBER ONE
ORION ENERGY SYSTEMS, LTD. 2003 STOCK OPTION PLAN

1. Adoption and Effective Date of Amendment. This amendment of the Orion Energy Systems, Ltd. 2003 Stock Option Plan (the "Plan") is adopted to expand its eligibility provisions. This amendment shall be effective as of October 1, 2003.

2. Supersession of Inconsistent Provisions. This amendment shall supersede the provisions of the Plan to the extent those provisions are inconsistent with the provisions of this amendment.

3. Defined Terms. Except as otherwise defined in this amendment, the capitalized terms in this amendment shall have the same meaning as such terms have in the Plan.

4. Scope. Pursuant to Section 15(b) of the Plan, Sections 4 is amended in its entirety to read as follows:

Section 4. Eligibility for Participation

(a) Eligible Persons. All active and former employees of the Company and its subsidiaries ("Employees"), including Employees who are or were officers or members of the Board, and all active and former members of the Board who are not Employees ("Non-Employee Directors") shall be eligible to participate in the Plan. Non-Employee Directors shall be eligible to receive Grants only under Section 6 of the Plan. Active and former consultants and advisors who perform or performed services to the Company or any of its subsidiaries ("Key Advisors") shall be eligible to participate in the Plan if the Key Advisors render or rendered bona fide services and such services are or were not in connection with the offer or sale of securities in a capital-raising transaction.

5. Effect. Except as otherwise provided herein, the provisions of the Plan shall continue in full force and effect on and after the effective date of this amendment.

Exhibit 10.7

STOCK OPTION AGREEMENT
ORION ENERGY SYSTEMS, LTD.
2003 STOCK OPTION PLAN

This AGREEMENT dated as of this ___day of ___, 2007, by and between Orion Energy Systems, Ltd., a Wisconsin corporation (the "Company"), and ___(the "Grantee").

WHEREAS, the Company has adopted the Orion Energy Systems, Ltd. 2003 Stock Option Plan (the "Plan") to permit nonqualified stock options to purchase shares of the Company's common stock ("Stock") to be granted to certain employees, officers and directors of the Company and its subsidiaries, and to other eligible participants, as determined by and through the Board of Directors of the Company (the "Board") in its discretion; and

WHEREAS, the Company desires the Grantee to remain motivated and dedicated to making valuable contributions to the long-term success of the Company by providing him with a means to acquire or to increase his proprietary interest in the Company's equity.

NOW, THEREFORE, in consideration of the premises and of the covenants and agreements herein set forth, the parties hereby mutually covenant and agree as follows:

1. Option Grant. Subject to the terms and conditions of the Plan, a copy of which is attached hereto and made a part hereof, and this Agreement, the Company grants to the Grantee the option to purchase from the Company all or any part of an aggregate number of ___shares of Stock of the Company (such shares of Stock are referred to as the "Optioned Shares", and the option to purchase the Optioned Shares is referred to as the "Option"). The Option is not intended to qualify as an "incentive stock option" within the meaning of Section 422 of the Internal Revenue Code.

2. Exercise Price. The exercise price to be paid by the Grantee for the Optioned Shares is $ per share.

3. Vesting. Subject to the conditions stated herein and in the Plan, the right to exercise the Option shall vest in and become exercisable by the Grantee as of the dates and as to the number of Optioned Shares as set forth below.

Date	# of Optioned Shares Exercisable	Total # of Optioned Shares Exercisable

4. Exercise.

(a) In the event that the Grantee ceases to be employed by, or provide service to, the Company for any reason other than a "disability", death, or termination for "cause" (as defined in the Plan), the Option may be exercised, to the extent of the number of Optioned Shares exercisable by the Grantee at the date of such termination, in whole or in part, within 90 days after the date on which the Grantee ceases to be employed by, or provide service to, the Company, and not thereafter, but in no event shall the date of

exercise be any later than the date of expiration of the Option term. The portion of the Option that is not vested in the Grantee, and therefore not exercisable, as of the date on which the Grantee ceases to be employed by, or provide service to, the Company shall terminate as of such date.

(b) In the event the Grantee ceases to be employed by, or provide service to, the Company on account of a termination for "cause," the Option shall forthwith terminate as of the date the Grantee ceases to be employed by, or provide service to, the Company. In addition, the Grantee shall automatically forfeit all Optioned Shares underlying any exercised portion of the Option for which the Company has not yet delivered the share certificates, upon refund by the Company of the exercise price paid by the Grantee for such shares. Upon any exercise of an Option, the Company may withhold delivery of share certificates pending resolution of an inquiry that could lead to a finding resulting in a forfeiture.

(c) In the event that the Grantee ceases to be employed by, or provide service to, the Company on account of a "disability", or death, the Option shall remain exercisable pursuant to the terms of the Plan.

5. Exercise of Option and Method of Payment. The Grantee may exercise his/her Option only upon written notice as provided in the Plan. Payment of the exercise price of the Optioned Shares being purchased is due in full upon such exercise in cash or by check or in any other manner permitted by the Plan with the consent of the Board or by a committee appointed by the Board as permitted under the terms of the Plan (the "Committee").

6. Withholding. The exercise of the Option shall be subject to applicable federal (including FICA), state and local tax withholding requirements. The Company shall have the right to deduct from other wages paid to the Grantee, any federal, state or local taxes required by law to be withheld with respect to the Option. The Company may require the Grantee or other person exercising the Option to pay to the Company the amount of any such taxes that the Company is required to withhold, or the Company may deduct from other wages paid by the Company the amount of any withholding taxes due.

7. Committee Determinations. As a condition of the granting of the Option, the Grantee agrees that the Committee shall have full power and authority to administer and interpret the Plan and this Agreement, to make factual determinations and to adopt or amend such rules, regulations, agreements and instruments for implementing the Plan and for the conduct of its business as it deems necessary or advisable, in its sole discretion. Further, the Grantee agrees that the Committee's interpretations of the Plan and this Agreement and all determinations made by the Committee shall be final, binding, and conclusive on all persons having any interest in the Plan or this Agreement. All powers of the Committee shall be executed in its sole discretion, in the best interest of the Company, not as a fiduciary, and in keeping with the objectives of the Plan and need not be uniform as to similarly situated individuals.

8. Transferability of Option.

(a) Nontransferability of Option. Except as provided below, only the Grantee may exercise rights under this Option during Grantee's lifetime. A Grantee may not transfer those rights except by will or by the laws of descent and distribution, or if permitted in any specific case by the Committee pursuant to a domestic relations order. When a Grantee dies, the personal representative or other person entitled to succeed to the rights of the Grantee ("Successor Grantee") may exercise such rights. A Successor Grantee must furnish proof satisfactory to the Company of his or her right to succeed to the Option (but only to the extent of the number of Optioned Shares exercisable hereunder) under the Grantee's will or under the applicable laws of descent and distribution.

(b) Transfer of Option. Notwithstanding the foregoing, a Grantee may transfer the Option to family members, or one or more trusts or other entities for the benefit of or owned by family members, consistent with applicable securities laws; provided that the Grantee receives no consideration for the transfer of the Option and the transferred Option shall continue to be subject to the same terms and conditions as were applicable to the Option immediately before the transfer.

9. Term. This Option may not be exercised more than ten (10) years from the date of its grant, and may be exercised during such term only in accordance with the terms of the Plan and this Agreement.

10. Whole Shares. The Option may be exercised for whole shares of Stock only.

11. Limitations on Issuance, Transfer or Sale of Shares. The issuance of shares upon exercise of the Option and the subsequent transfer and sale of such shares are limited by the terms of the Plan.

12. Governing Plan Document. This Option is subject to all the provisions of the Plan, the provisions of which are hereby made a part of this Option, and is further subject to all interpretations, amendments, rules and regulations which may from time to time be promulgated and adopted pursuant to the Plan.

13. Applicable Laws. The grant of the Option and the issuance of shares of Stock pursuant to this Agreement and the subsequent transfer of such shares are subject to all applicable laws, statutes, rules and regulations and to such approvals by governmental agencies or national securities exchanges as may be required.

14. Binding Effect. The provisions of this Agreement shall be binding upon and shall inure to the benefit of the Grantee and the Company and their respective heirs, personal representatives, successors and assigns.

15. Entire Agreement. This Agreement constitutes the entire agreement of the parties. Except as specifically set forth in Schedule A attached hereto, this Agreement supersedes any and all other agreements, both verbal and written, between the parties hereto with respect to options to purchase the Company's Stock or any other security of the Company.

Grantee represents and warrants that, except as specifically set forth in Schedule A, Grantee has no other outstanding options to purchase any Company Stock or other security of the Company other than the Options that are described in this Agreement or any similar agreement of even date, and hereby releases Company from any and all claims and liabilities relating thereto.

ORION ENERGY SYSTEMS, LTD.

By: ______________________________

Its: President

By: ______________________________

Its: Secretary

The Grantee acknowledges receipt of a copy of the Plan, a copy of which is annexed hereto, and represents that he is familiar with the terms and provisions thereof. The Grantee hereby accepts this Option subject to all the terms and provisions of the Plan.

GRANTEE

____

SSN:______________________________

ADDRESS:

____

____

____

Exhibit 10.9

ORION ENERGY SYSTEMS, INC.
2004 STOCK AND INCENTIVE AWARDS PLAN
As Amended and Restated Effective __________, 2007 [IPO Date]

Section 1. Purpose

This 2004 Stock and Incentive Awards Plan, previously called the Equity Incentive Plan (the "Plan"), has been established by Orion Energy Systems, Inc. to advance two complementary purposes: (i) to attract and retain outstanding individuals to serve as officers, directors, employees, consultants and advisors and (ii) to increase shareholder value. The Plan is intended to enhance the Company's ability to attract, retain and motivate persons who make or are expected to make important contributions to the Company, its Subsidiaries or Affiliates, by providing such persons with equity ownership opportunities and performance-based incentives, thereby better aligning the interests of such persons with those of the Company's shareholders.

Section 2. Definitions

"409A Subsidiary" means any corporation or other entity in an unbroken chain of corporations or other entities, beginning with the Company, in which each corporation or other entity (other than the last corporation or entity in the chain) has a controlling interest (within the meaning of Treasury regulation §1.414(c)-2(b)(2)(i) except that the phrase "at least 50 percent" shall be used in place of "at least 80 percent" each place it appears therein) in the corporation or other entity; provided that the phrase "at least 20 percent" may be used in place of "at least 50 percent" with respect to the grant of non-qualified stock options or stock appreciation rights made to eligible individuals based on legitimate business criteria of the Company within the meaning of Code section 409A.

"Act" means the Securities Act of 1933, as amended from time to time. Any reference to a specific provision of the Act shall include any successor provision thereto.

"Affiliate" and "Associate" shall have the respective meanings ascribed to such terms in Rule 12b-2 of the General Rules and Regulations of the Act;

"Award" means any award granted under the Plan.

"Board" means the Board of Directors of the Company.

"Beneficial Owner" means a Person, with respect to any securities which:

(i) such Person or any of such Person's Affiliates or Associates has the right to acquire (whether such right is exercisable immediately or only after the passage of time) pursuant to any agreement, arrangement or understanding, or upon the exercise of conversion rights, exchange rights, rights, warrants or options, or otherwise; *provided, however,* that a Person shall not be deemed the Beneficial Owner of, or to beneficially own, securities tendered pursuant to a tender or exchange offer made by or on

behalf of such Person or any of such Person's Affiliates or Associates until such tendered securities are accepted for purchase;

(ii) such Person or any of such Person's Affiliates or Associates, directly or indirectly, has the right to vote or dispose of or has "beneficial ownership" of (as determined pursuant to Rule l3d-3 of the General Rules and Regulations under the Act), including pursuant to any agreement, arrangement or understanding; *provided, however,* that a Person shall not be deemed the Beneficial Owner of, or to beneficially own, any security under this clause (ii) as a result of an agreement, arrangement or understanding to vote such security if the agreement, arrangement or understanding: (A) arises solely from a revocable proxy or consent given to such Person in response to a public proxy or consent solicitation made pursuant to, and in accordance with, the applicable rules and regulations under the Act and (B) is not also then reportable on a Schedule l3D under the Act (or any comparable or successor report); or

(iii) are beneficially owned, directly or indirectly, by any other Person with which such Person or any of such Person's Affiliates or Associates has any agreement, arrangement or understanding for the purpose of acquiring, holding, voting (except pursuant to a revocable proxy as described in clause (ii) above) or disposing of any voting securities of the Company.

"Change of Control" means, unless specified otherwise in an award agreement, the occurrence of any of the following: shareholders

(iv) any Person (other than (A) the Company or any of its subsidiaries, (B) a trustee or other fiduciary holding securities under any employee benefit plan of the Company or any of its subsidiaries, (C) an underwriter temporarily holding securities pursuant to an offering of such securities or (D) a corporation owned, directly or indirectly, by the shareholders of the Company in substantially the same proportions as their ownership of stock in the Company ("Excluded Persons")) is or becomes the Beneficial Owner, directly or indirectly, of securities of the Company (not including in the securities beneficially owned by such Person any securities acquired directly from the Company or its Affiliates after the IPO Date, pursuant to express authorization by the Board that refers to this exception) representing twenty percent (20%) or more of either the then outstanding shares of common stock of the Company or the combined voting power of the Company's then outstanding voting securities; or

(v) the following individuals cease for any reason to constitute a majority of the number of directors of the Company then serving: (A) individuals who, on the IPO Date, constituted the Board and (B) any new director (other than a director whose initial assumption of office is in connection with an actual or threatened election contest, including but not

limited to a consent solicitation, relating to the election of directors of the Company, as such terms are used in Rule 14a-11 of Regulation 14A under the Act) whose appointment or election by the Board or nomination for election by the Company's shareholders was approved by a vote of at least two-thirds (2/3) of the directors then still in office who either were directors on the IPO Date, or whose appointment, election or nomination for election was previously so approved (collectively the "Continuing Directors"); *provided, however,* that individuals who are appointed to the Board pursuant to or in accordance with the terms of an agreement relating to a merger, consolidation, or share exchange involving the Company (or any direct or indirect subsidiary of the Company) shall not be Continuing Directors for purposes of this Agreement until after such individuals are first nominated for election by a vote of at least two-thirds (2/3) of the then Continuing Directors and are thereafter elected as directors by the shareholders of the Company at a meeting of shareholders held following consummation of such merger, consolidation, or share exchange; *and, provided further,* that in the event the failure of any such persons appointed to the Board to be Continuing Directors results in a Change of Control, the subsequent qualification of such persons as Continuing Directors shall not alter the fact that a Change of Control occurred; or

(vi) the consummation of a merger, consolidation or share exchange of the Company with any other corporation or the issuance of voting securities of the Company in connection with a merger, consolidation or share exchange of the Company (or any direct or indirect subsidiary of the Company), in each case, which requires approval of the shareholders of the Company, other than (A) a merger, consolidation or share exchange which would result in the voting securities of the Company outstanding immediately prior to such merger, consolidation or share exchange continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity or any parent thereof) at least fifty percent (50%) of the combined voting power of the voting securities of the Company or such surviving entity or any parent thereof outstanding immediately after such merger, consolidation or share exchange, or (B) a merger, consolidation or share exchange effected to implement a recapitalization of the Company (or similar transaction) in which no Person (other than an Excluded Person) is or becomes the Beneficial Owner, directly or indirectly, of securities of the Company (not including in the securities beneficially owned by such Person any securities acquired directly from the Company or its Affiliates after the IPO Date, pursuant to express authorization by the Board that refers to this exception) representing twenty percent (20%) or more of either the then outstanding shares of common stock of the Company or the combined voting power of the Company's then outstanding voting securities; or

(vii) the consummation of a plan of complete liquidation or dissolution of the Company or a sale or disposition by the Company of all or substantially all of the Company's assets (in one transaction or a series of related transactions within any period of 24 consecutive months), in each case, which requires approval of the shareholders of the Company, other than a sale or disposition by the Company of all or substantially all of the Company's assets to an entity at least seventy-five percent (75%) of the combined voting power of the voting securities of which are owned by Persons in substantially the same proportions as their ownership of the Company immediately prior to such sale.

Notwithstanding the foregoing, no "Change of Control" shall be deemed to have occurred if there is consummated any transaction or series of integrated transactions immediately following which the record holders of the common stock of the Company immediately prior to such transaction or series of transactions continue to own, directly or indirectly, in the same proportions as their ownership in the Company, an entity that owns all or substantially all of the assets or voting securities of the Company immediately following such transaction or series of transactions.

Notwithstanding the foregoing, if an Award is considered deferred compensation subject to the provisions of Code section 409A, and if a payment under such Award is triggered upon a "Change of Control," then the foregoing definition shall be deemed amended as necessary to comply with Code section 409A.

"Code" means the Internal Revenue Code of 1986, as amended from time to time, and all regulations promulgated thereunder. Any reference to a specific provision of the Code shall include any successor provision thereto.

"Committee" means a committee appointed by the Board to administer the Plan. On and after the IPO Date, "Committee" means the compensation committee of the Board, each member of which shall qualify as a "nonemployee director" within the meaning of Rule 16b3 and as an "outside director" within the meaning of Code section 162(m).

"Company" means Orion Energy Systems, Inc., a Wisconsin corporation, and any successor thereto.

"Exchange Act" means the Securities Exchange Act of 1934, as amended from time to time. Any reference to a specific provision of the Exchange Act shall include any successor provision thereto.

"Fair Market Value" means the value of a share of Stock on the relevant date as determined by the Committee in good faith. In determining Fair Market Value, the Committee may, but shall not be required to, rely on the most recent valuation determined by an independent appraiser. On the IPO Date, "Fair Market Value" shall mean the price at which a share of common stock of the Company is first sold to the public on the IPO Date. After the IPO Date, "Fair Market Value" shall mean the closing price of a share of Stock on the relevant date on the principal exchange on which the Stock is then traded, as reported in the *Wall Street Journal,* or if

no sale shall have been made on such date, then on the last preceding day on which there was such a sale; provided that in the event a share of Stock is sold on the principal exchange, "Fair Market Value" in such case shall mean the actual sale price obtained for the share being sold.

"IPO Date" means the date on which the shares of the Company's voting Common Stock are first sold to the public pursuant to an effective registration statement filed by the Company under the Act.

"Participant" means any eligible individual who is granted an Award hereunder.

"Performance Goals" means any goals the Committee establishes that relate to one or more of the following with respect to the Company or any one or more of its Subsidiaries, Affiliates or other business units: net sales; cost of sales; revenue; gross income; net income; operating income; income from continuing operations; earnings (including before taxes, and/or interest and/or depreciation and amortization); earnings per share (including diluted earnings per share); price per share; cash flow; net cash provided by operating activities; net cash provided by operating activities less net cash used in investing activities; net operating profit; ratio of debt to debt plus equity; return on shareholder equity; return on capital; return on assets; operating working capital; average accounts receivable; economic value added; and customer satisfaction; operating margin; profit margin; sales performance; sales quota attainment; new sales; cross/integrated sales; customer engagement; internal revenue growth; and client retention. As to each Performance Goal, the relevant measurement of performance shall be computed in accordance with generally accepted accounting principles, if applicable; provided that, the Committee may, at the time of establishing the Performance Goal(s), exclude the effects of (i) extraordinary, unusual and/or non-recurring items of gain or loss, (ii) gains or losses on the disposition of a business, (iii) changes in tax or accounting regulations or laws, or (iv) the effect of a merger or acquisition. In the case of Awards that the Committee determines will not be considered performance-based compensation under Code section 162(m), or for purposes of exercising discretion to reduce the amount payable under any Award that is considered performance-based compensation under Code section 162(m), the Committee may establish other Performance Goals not listed in this Plan, including subjective, individual goals. Where applicable, the Performance Goals may be expressed, without limitation, in terms of attaining a specified level of the particular criterion or the attainment of an increase or decrease (expressed as absolute numbers or a percentage) in the particular criterion or achievement in relation to a peer group or other index. The Performance Goals may include a threshold level of performance below which no payment will be made (or no vesting will occur), levels of performance at which specified payments will be paid (or specified vesting will occur), and a maximum level of performance above which no additional payment will be made (or at which full vesting will occur).

"Person" means any individual, firm, partnership, corporation or other entity, including any successor (by merger or otherwise) of such entity, or a group of any of the foregoing acting in concert.

"Rule 16b3" means Rule 16b-3 under the Exchange Act.

"Stock" means the Common Stock of the Company, no par value.

“Subsidiaries” means any corporate entity of which at least fifty percent (50%) of the equity interest is held directly or indirectly by the Company.

Section 3. Effective Date of Plan

The Plan shall become effective on September 30, 2004, subject, however, to the approval of the Plan by the shareholders of the Company at the next annual meeting of shareholders within twelve months following the date of adoption of the Plan by the Board. Awards granted under the Plan prior to its approval by shareholders shall be contingent on such shareholder approval. The Plan, as amended and restated, shall become effective on the IPO Date, subject, however, to the approval of the amended and restated Plan by the shareholders of the Company at the next annual meeting of shareholders within twelve months following the date of adoption of the Plan by the Board.

Section 4. Administration

4.1. Committee Authority. The Plan shall be administered by the Committee. If at any time the Committee shall not be in existence, the Board shall administer the Plan. Subject to the terms of the Plan and applicable law, the Committee shall have full power and discretionary authority to: (a) grant Awards to eligible individuals under the Plan and to determine the type, terms and conditions of such Awards and the number of shares of Stock to which such Awards shall relate; (b) interpret and administer the Plan and any instrument or agreement relating to, or made under, the Plan; (c) establish, amend, suspend, or waive such rules and regulations and appoint such agents as it shall deem appropriate for the proper administration of the Plan; and (d) make any other determination and take any other action that the Committee deems necessary or desirable for the administration of the Plan. The Committee’s decisions and determinations under the Plan need not be uniform and may be made selectively among eligible individuals, whether or not they are similarly situated.

4.2. Delegation to Other Committees. To the extent applicable law permits, the Board may delegate to another committee of the Board or to one or more officers of the Company, or the Committee may delegate to a sub-committee or to one or more officers of the Company, any or all of the authority and responsibility of the Committee under the Plan; *provided* that no such delegation is permitted with respect to Stock-based Awards made to individuals who are subject to Rule16b3 or Code section 162(m) at the time any such delegated authority or responsibility is exercised unless the delegation is to another committee of the Board consistently entirely of “nonemployee directors” within the meaning of Rule 16b3 and as an “outside director” within the meaning of Code section 162(m). If the Board or the Committee has made such a delegation, then all references to the Committee in this Plan include such other committee, sub-committee or one or more officers to the extent of such delegation.

4.3. Decisions Binding. All decisions, interpretations and other actions of the Committee shall be final and binding on all Participants and any other individual with a right under the Plan.

4.4. Waiver of Conditions. The Committee may, in whole or in part, waive any conditions or other restrictions with respect to any Award granted under the Plan.

Section 5. Eligibility and Participation

All employees and directors of the Company, its Subsidiaries and Affiliates and all consultants or advisors who provide services to the Company, its Subsidiaries and Affiliates, are eligible to be granted Awards under the Plan. The Committee shall designate each individual who will become a Participant. An Award shall be granted exclusively as compensation for the performance of those services the Participant is already performing or reasonably may be expected to perform in his or her respective position within or for the Company, a Subsidiary or an Affiliate. The Committee's designation of a Participant in any year shall not require the Committee to designate such person to receive an Award in any other year.

Section 6. Stock Subject to Plan; Limits on Awards

6.1. Number. Subject to adjustment as provided in Section 6.3**,** the total number of shares of Stock which may be issued under the Plan shall be one million (1,000,000) shares, plus the total number of shares granted under the Company's 2003 Stock Option Plan which are exchanged for new shares under the Plan or which are cancelled under the Company's 2003 Plan, plus effective on the IPO Date, an additional two million five hundred thousand (2,500,000) shares. The shares to be delivered under the Plan may consist, in whole or in part, of authorized but unissued Stock or treasury Stock.

6.2. Unused Stock; Unexercised Rights. If (a) any shares of Stock subject to an Award granted under the Plan, or to which any Award relates, are forfeited, (b) an Award otherwise terminates, expires or is canceled prior to the delivery of all of the shares of Stock or of other consideration issuable or payable pursuant to such Award, or (c) an Award is settled in cash, then the number of shares of Stock subject to such Award shall again be available for the granting of additional Awards under the Plan.

6.3. Limits on Awards. Subject to adjustment as provided in Section 6.4, the Company may issue only an aggregate of one million (1,000,000) shares of Stock upon the exercise of incentive stock options (within the meaning of Code section 422), and, after the IPO Date, no Participant may be granted Awards that could result in such Participant:

(a) receiving options for, and/or stock appreciation rights with respect to, more than 300,000 shares of Stock during any fiscal year of the Company;

(b) receiving Awards of restricted stock and/or restricted stock units relating to more than 150,000 shares of Stock during any fiscal year of the Company;

(c) receiving Awards of performance shares, and/or Awards of performance units the value of which is based on the Fair Market Value of shares of Common Stock, for more than 150,000 shares of Stock during any fiscal year of the Company;

(d) receiving Awards of performance units the value of which is not based on the Fair Market Value of shares of Stock, for more than $2,000,000 during any fiscal year of the Company;

(e) receiving other Stock-based Awards pursuant to Section 13.1 relating to more than 100,000 Shares during any fiscal year of the Company;

(f) receiving an annual incentive award in any single fiscal year of the Company that would pay more than $2,000,000; or

(g) receiving a long-term incentive award in any single fiscal year of the Company that would pay more than $2,000,000.

In all cases, determinations under this Section 6.3 should be made in a manner that is consistent with the exemption for performance-based compensation that Code section 162(m) provides.

6.4. Adjustment in Capitalization. If: (a) the Company shall at any time be involved in a merger or other transaction in which the Shares are changed or exchanged; (b) the Company shall subdivide or combine the Stock or the Company shall declare a dividend payable in Stock, other securities (other than stock purchase rights issued pursuant to the terms of any rights agreement that the Company may authorize and issue in the future) or other property; (c) the Company shall effect a cash dividend the amount of which, on a per share of Stock basis, exceeds ten percent (10%) of the Fair Market Value of a share of Stock at the time the dividend is declared, or the Company shall effect any other dividend or other distribution on the Stock in the form of cash, or a repurchase of Stock, that the Board determines by resolution is special or extraordinary in nature or that is in connection with a transaction that the Company characterizes publicly as a recapitalization or reorganization involving the Shares; or (d) any other event shall occur, which, in the case of this clause (d), in the judgment of the Board or Committee necessitates an adjustment to prevent dilution or enlargement of the benefits or potential benefits intended to be made available under this Plan, then the Committee shall, in such manner as it may deem equitable to prevent dilution or enlargement of the benefits or potential benefits intended to be made available under this Plan, adjust as applicable: (i) the number and type of shares of Stock subject to the Plan and which thereafter may be made the subject of Awards under the Plan; (ii) the per Participant Award limitations set forth in Section 6.3; (iii) the number and type of shares of Stock subject to outstanding Awards; (iv) the grant, purchase or exercise price with respect to any Award; and (v) to the extent such discretion does not cause an Award that is intended to qualify as performance-based compensation under Code section 162(m) to lose its status as such, the Performance Goals of an Award; or, if deemed appropriate, make provision for a cash payment to the holder of an outstanding Award in exchange for cancellation of such Award or in lieu of any such adjustment; *provided, however,* in each case, that with respect to awards of incentive stock options no such adjustment shall be authorized to the extent that such authority would cause such options to cease to be treated as incentive stock options; and *provided further, however,* that the number of shares of Stock subject to any Award payable or denominated in Stock shall always be a whole number.

Notwithstanding the foregoing, in the case of a stock dividend (other than a stock dividend declared in lieu of an ordinary cash dividend) or subdivision or combination of the

Stock (including a reverse stock split), if no action is taken by the Committee, adjustments contemplated by this subsection that are proportionate shall nevertheless automatically be made as of the date of such stock dividend or subdivision or combination of the Stock.

Section 7. Awards

All Awards granted under the Plan shall be evidenced by a written award agreement that shall specify the type of Award granted, the duration of the Award, the number of shares of Stock to which the Award pertains and such other provisions as the Committee shall determine.

Section 8. Stock Options

8.1. Grant of Options. Subject to any limitations set forth in the Plan, the Committee shall have complete discretion in determining: (a) the eligible individuals to be granted an option to purchase Stock; (b) the number of shares of Stock to be subject to the option, and all other terms and conditions of the option; (c) whether the option is to be an incentive stock option within the meaning of Code section 422 or a nonqualified stock option; *provided that*, incentive stock options may be granted only to employees of the Company or a Subsidiary; and *further provided that* if an option is granted to an individual who is not providing services to the Company or a 409A Subsidiary at the date of grant, such option shall be considered a deferred compensation arrangement subject to Code section 409A to the extent provided therein; and (d) any other terms and conditions of the option as determined by the Committee in its sole discretion.

8.2. Incentive Stock Options. Incentive stock options shall be exercisable at purchase prices of not less than one hundred percent (100%) of the Fair Market Value of the Stock on the date of grant. Incentive stock options shall be exercisable over not more than ten (10) years after date of grant and shall terminate not later than three (3) months after termination of employment for any reason other than death or disability, except as otherwise provided by the Committee. If the Participant should terminate employment as a result of a disability (within the meaning of Code section 22(e)(3)), then the right of the Participant to exercise an incentive stock option shall terminate not later than twelve (12) months after the date of such termination of employment, except as otherwise provided by the Committee. In all other respects, the terms of any incentive stock option granted under the Plan shall comply with the provisions of Code section 422.

8.3. Nonqualified Stock Options. Nonqualified stock options will be exercisable at purchase prices of not less than one hundred percent (100%) of the Fair Market Value of the Stock on the date of grant. Nonqualified stock options will be exercisable over the period or on the date as determined by the Committee, which may not be later than ten (10) years after the date of grant, and shall terminate at such time as the Committee shall determine.

8.4. Payment. The Committee shall determine the methods and the forms for payment of the purchase price of options, including, but not limited to: (a) by cash; (b) by delivery of other shares or securities of the Company having a then Fair Market Value equal to

the purchase price of such shares (including by attestation); (c) by any combination of the foregoing; (d) by having the Company withhold a number of shares otherwise deliverable pursuant to the exercise of the option having a Fair Market Value on the date of exercise equal to some or all of the purchase price; or (e) after the IPO Date, through a broker-facilitated cashless exercise procedure. Upon receipt of the payment of the entire purchase price for the shares so purchased (plus any taxes required by the Company to satisfy its withholding obligations pursuant to Section 18), certificates for such shares shall be delivered to the Participant (or beneficiary). The number of shares of Stock reserved for issuance under the Plan shall be reduced only by the number of shares issued.

8.5. Limits on Incentive Stock Options. To the extent the aggregate Fair Market Value of Stock (as determined on the date of grant), with respect to which incentive stock options granted under the Plan, or any other plan of the Company or its Subsidiaries, are exercisable by a Participant for the first time during any calendar year exceeds $100,000, then such option as to the excess shall be treated as a nonqualified stock option.

Section 9. Stock Appreciation Rights

9.1. Grant of Stock Appreciation Rights. The Committee shall have the discretion to grant stock appreciation rights to any eligible individual; *provided that* if a stock appreciation right is granted to an individual who is not providing services to the Company or a 409A Subsidiary at the date of grant, such stock appreciation right shall be considered a deferred compensation arrangement subject to Code section 409A to the extent provided therein. A stock appreciation right may relate to an option, or may be granted independently of any option granted under the Plan. Subject to the terms of the Plan, the grant price (provided that the grant price shall not be less than the Fair Market Value of the shares subject to the stock appreciation right as determined on the date of grant), term, methods of exercise, methods of settlement and any other terms and conditions of any stock appreciation right shall be as determined by the Committee.

9.2. Exercise or Maturity of Stock Appreciation Rights. The Committee may impose such conditions or restrictions on the exercise of any stock appreciation right as it may deem appropriate. Unless otherwise determined by the Committee, stock appreciation rights that relate to a specific option granted under the Plan shall be exercisable or shall mature at such time or times, on the conditions and to the extent and in the proportion, that any related option is exercisable and may be exercised or mature for all or part of the shares of Stock subject to the related option.

9.3. Effect of Exercise on Related Option. Upon exercise of any number of stock appreciation rights, the equivalent number of shares subject to any related option shall be reduced and such shares may not again be subjected to an Award under the Plan. The exercise of any number of options shall result in an equivalent reduction in the number of shares covered by the related stock appreciation right and such shares may not again be subject to an Award under this Plan; *provided, however,* that if a stock appreciation right was granted for less than all of the shares covered by any related option, any such reduction shall be made at such time as, and only

to the extent that, the number of shares exercised under the related option exceeds the number of shares not covered by the stock appreciation right.

Section 10. Restricted Stock and Restricted Stock Units

10.1. Awards. The Committee shall have discretion to issue restricted stock or restricted stock units to any eligible individual, with or without payment therefor. Restricted stock shall be subject to such terms and conditions as the Committee determines appropriate, including, without limitation, restrictions on sale or other disposition and rights of the Company to reacquire such restricted stock upon termination of the Participant's employment or service within specified periods. Restricted stock units shall be subject to such terms and conditions as the Committee determines appropriate, including, without limitation, whether such units shall be settled in cash or with shares of Stock. Without limitation, such terms and conditions may provide that restricted stock or restricted stock units shall be subject to forfeiture if the Company and/or the Participant fails to achieve one or more Performance Goals established by the Committee over a designated period of time. The Committee shall certify in writing as to the degree of achievement after completion of the performance period. Notwithstanding the foregoing, if the restrictions imposed on restricted stock or restricted stock units lapse on the basis of the passage of time, the minimum ratable period of restriction shall be three (3) years from the date of grant of the Award, or if the restrictions lapse upon the achievement of one or more Performance Goals, the performance period must be a minimum of one year; *provided* that the Committee may provide in any award agreement or as determined in any individual case, that the restrictions shall lapse or be waived in whole or part in the event of terminations resulting from specified causes (such as death, disability or retirement) or upon a Change of Control.

10.2. Registration. Any restricted stock granted under the Plan to a Participant may be evidenced in such manner as the Committee may deem appropriate, including, without limitation, book-entry registration or issuance of a stock certificate or certificates. In the event any stock certificate is issued in respect of shares of restricted stock granted under the Plan to a Participant, such certificate shall be registered in the name of the Participant and shall bear an appropriate legend (as determined by the Committee) referring to the terms, conditions and restrictions applicable to such restricted stock.

10.3. Other Rights. Unless otherwise determined by the Committee, during the period of restriction, Participants holding shares of restricted stock granted hereunder may exercise full voting rights with respect to those shares (if applicable) and shall be entitled to receive all dividends and other distributions paid or made with respect to those shares while they are so held; *provided, however,* that the Committee may provide in any grant of shares of restricted stock that payment of dividends thereon may be deferred until termination of the period of restriction and may be made subject to the same restrictions regarding forfeiture as apply to such shares of restricted stock. If any such dividends or distributions are paid in shares of Stock, the shares shall be subject to the same restrictions on transferability as the shares of restricted stock with respect to which they were paid.

10.4. Forfeiture. Except as otherwise determined by the Committee or as set forth in an award agreement, upon termination of employment or service of a Participant for any

reason during the applicable period of restriction, all shares of restricted stock and restricted stock units still subject to restriction shall be forfeited by the Participant to the Company; *provided, however,* that the Committee may, when it finds that a waiver would be in the best interests of the Company, waive in whole or in part any or all remaining restrictions with respect to shares of restricted stock or restricted stock units held by a Participant at such time.

Section 11. Performance Shares and Performance Units

11.1. Issuance. The Committee shall have discretion to grant performance shares or performance units to any eligible individual and shall have complete discretion in determining the number of performance units or performance shares granted to a Participant.

11.2. Performance Shares. The Committee may grant performance shares that the Participant may earn in whole or in part if one or more Performance Goals established by the Committee over a designated period of time consisting of one or more full fiscal years of the Company, Subsidiary or Affiliate are met. The Committee shall certify in writing as to the degree of achievement after completion of the performance period. The Committee shall have the discretion to satisfy an obligation to deliver a Participant's performance shares by delivery of less than the number of shares of Stock earned together with a cash payment equal to the then Fair Market Value of the shares not delivered. The number of shares of Stock reserved for issuance under the Plan shall be reduced only by the number of shares delivered in respect of earned performance shares. At the time of making an Award of performance shares, the Committee shall set forth the consequences of the termination of a Participant's employment or service prior to the expiration of the designated performance period in respect of which the performance shares are awarded.

11.3. Performance Units. The Committee may grant performance units to any eligible individual that consist of monetary units that the Participant may earn in whole or in part if one or more Performance Goals established by the Committee over a designated period of time consisting of one or more full fiscal years of the Company, Subsidiary or Affiliate are met. The Committee shall certify in writing as to the degree of achievement after completion of the performance period. Payment of a performance unit earned may be in cash or in shares of Stock or in a combination of both, as the Committee in its sole discretion determines. The number of shares of Stock reserved for issuance under this Plan shall be reduced only by the number of shares delivered in payment of performance units. At the time of making an Award of performance units, the Committee shall set forth the consequences of the termination of a Participant's employment or service prior to the expiration of the designated performance period in respect of which the performance units are awarded.

Section 12. Shares in Lieu of Cash

The Committee is authorized to provide eligible individuals the opportunity to elect to receive shares of Stock in lieu of all or a portion of any cash bonuses under any incentive compensation programs and/or increases in base compensation, if any, or with respect to non-employee directors, in lieu of fees for services as a director, as in effect from time to time. Such shares shall be issued in an amount equal to (a) the equivalent dollar amount of compensation a

Participant has elected to receive in Stock (subject to limits prescribed by the Committee) divided by (b) the Fair Market Value of a share of Stock (as determined by the Committee in advance or on the date the cash compensation to which the bonus shares relate would otherwise be payable) and shall be subject to such terms and conditions as the Committee deems appropriate, including, without limitation, restrictions on sale or other disposition. Notwithstanding the provisions of Section 6.1, if the Company satisfies its obligations to issue shares of Stock under this Section 12 by purchasing such shares on the principal exchange on which the Stock is then traded, such purchased shares shall not reduce the total number of shares reserved for issuance under the Plan as described in Section 6.1.

Section 13. Other Awards

13.1. Other Stock-Based Awards. Other Awards, valued in whole or in part by reference to, or otherwise based on, shares of Stock, may be granted either alone or in addition to or in conjunction with other Awards for such consideration, if any, and in such amounts and having such terms and conditions as the Committee may determine.

13.2. Other Benefits. The Committee shall have the right to provide types of benefits under the Plan in addition to those specifically listed, if the Committee believes that such benefits would further the purposes for which the Plan was established.

13.3. Limitations. Grants of other awards pursuant to this Section 13 that are considered "full value" awards, such as grants of Stock, and that become vested on the basis of the passage of time, must have a minimum ratable vesting period over three (3) years from the date of grant, or if the award is earned based upon the attainment of one or more Performance Goals, then the performance period must be a minimum of one year from the date of grant; provided that no minimum vesting period shall be required for the grant of other stock-based awards if the number of shares of Stock subject to such awards does not exceed five percent (5%) of the aggregate number of shares reserved for issuance under Section 6.1.

Section 14. Annual Incentive Awards

Subject to the terms of this Plan, the Committee is authorized to grant an annual incentive award to eligible individuals, which award will provide for a cash payment if one or more Performance Goals established by the Committee over a designated period of time consisting of one full fiscal years of the Company, Subsidiary or Affiliate are met; *provided that* if the Award is made in the year in which the IPO Date occurs, at the time of commencement of employment with the Company or on the occasion of a promotion, then the Award may relate to a period shorter than one fiscal year. At the time of making an annual incentive award, the Committee shall set forth the potential amount payable, the timing of payment, and the consequences of the termination of a Participant's employment or service prior to the expiration of the designated performance period in respect of which the annual incentive award is made. The Committee shall certify in writing as to the degree of achievement after completion of the performance period.

Section 15. Long-Term Incentive Awards

Subject to the terms of this Plan, the Committee is authorized to grant a long-term incentive award to eligible individuals, which award will provide for a cash payment if one or more Performance Goals established by the Committee over a designated period of time consisting of more than one full fiscal years of the Company, Subsidiary or Affiliate are met. At the time of making a long-term incentive award, the Committee shall set forth the potential amount payable, the timing of payment, and the consequences of the termination of a Participant's employment or service prior to the expiration of the designated performance period in respect of which the incentive award is made. The Committee shall certify in writing as to the degree of achievement after completion of the performance period.

Section 16. Transferability

Each Award granted under the Plan shall not be transferable other than by will or the laws of descent and distribution, except that a Participant may, to the extent allowed by the Committee and in a manner specified by the Committee (a) designate in writing a beneficiary to exercise the Award after the participant's death; or (b) transfer any Award; *provided, however,* that an incentive stock option may only be exercised by the Participant during the life of the Participant, and may not be transferred other than by will or the laws of descent and distribution.

Section 17. Rights of Participants

Nothing in the Plan shall interfere with or limit in any way the right of the Company, Subsidiary or Affiliate to terminate any Participant's employment or service at any time nor confer upon any Participant any right to continue in the employ or service of the Company, Subsidiary or Affiliate.

Section 18. Change of Control

18.1. Effect of Change of Control. In order to preserve a Participant's rights under an Award in the event of a Change of Control, the Committee in its discretion may, at the time an Award is made or at anytime thereafter, take one or more of the following actions: (a) provide for the acceleration of any time period, or the deemed achievement of any Performance Goals, relating to the exercise or realization of the Award; (b) provide for the purchase of the Award for an amount of cash or other property that could have been received upon the exercise or realization of the Award had the Award been currently exercisable or payable; (c) adjust the terms of the Award in the manner determined by the Committee to reflect the Change of Control; (d) cause the Award to be assumed, or new right substituted therefor, by another entity; or (e) make such other provision as the Committee may consider equitable and in the best interests of the Company.

Except as otherwise expressly provided in any agreement between a Participant and the Company or an Affiliate, if the receipt of any payment by a Participant under the circumstances described above with regards to Awards granted on or after the IPO Date, would result in the payment by the Participant of any excise tax provided for in Section 280G and

Section 4999 of the Code, then the amount of such payment shall be reduced to the extent required to prevent the imposition of such excise tax.

18.2. Amendment or Rescission. Notwithstanding anything contained in this Section 18, the Board may, in its sole and absolute discretion, amend, modify or rescind the provisions of this Section 18 if it determines that the operation of this Section 18 may prevent a transaction in which the Company, a Subsidiary or any Affiliate is a party from receiving desired tax treatment, including without limitation requiring that each Participant receive a replacement or substitute Award issued by the surviving or acquiring corporation.

18.3. Issuance or Assumption. Notwithstanding any other provision of this Plan, and without affecting the number of Shares otherwise reserved or available under this Plan, in connection with any merger, consolidation, acquisition of property or stock, or reorganization, the Committee may authorize the issuance or assumption of awards under this Plan upon such terms and conditions as it may deem appropriate.

Section 19. Amendment, Modification and Termination of Plan

19.1. Amendments and Termination. The Board or Committee may at any time amend, alter, suspend, discontinue or terminate the Plan, subject to the following limitations:

(a) the Board must approve any amendment of this Plan to the extent the Company determines such approval is required by: (i) action of the Board, (ii) applicable corporate law, or (iii) any other applicable law;

(b) shareholders must approve any amendment of this Plan to the extent the Company determines such approval is required by: (i) Section 16 of the Exchange Act, (ii) the Code, (iii) the listing requirements of any principal securities exchange or market on which the Shares are then traded, or (iv) any other applicable law; and

(c) shareholders must approve any of the following Plan amendments: (i) an amendment to materially increase any number of Shares specified in Section 6.1 or the limits set forth in Section 6.3) (except as permitted by Section 6.4), or (B) an amendment that would diminish the protections afforded by Section 19.4.

The Committee may at any time amend any outstanding Award agreement; *provided, however,* that any amendment that decreases or impairs the rights of a Participant under such agreement shall not be effective unless consented to by the Participant in writing, except that Participant consent shall not be required in the event an Award as amended, adjusted or cancelled under Section 6.4 or Section 18, and effective for Awards made on or after the IPO Date, the Committee need not obtain Participant (or other interested party) consent for modification of an Award to the extent deemed necessary to comply with any applicable law, the listing requirements of any principal securities exchange or market on which the Shares are then traded, or to preserve favorable accounting or tax treatment of any Award for the Company.

19.2. Term of Plan. Unless terminated earlier by the Board pursuant to Section 19.1, the Plan shall terminate on, and no Award shall be granted under the Plan after, September 29, 2014.

19.3. Survival Following Termination. Notwithstanding the foregoing, to the extent provided in the Plan, the authority of (a) the Committee to amend, alter, adjust, suspend, discontinue or terminate any Award, waive any conditions or restrictions with respect to any Award, and otherwise administer the Plan and any Award and (b) the Board or Committee to amend the Plan, shall extend beyond the date of the Plan's termination. Termination of the Plan shall not affect the rights of Participants with respect to Awards previously granted to them, and all unexpired Awards shall continue in force and effect after termination of the Plan except as they may lapse or be terminated by their own terms and conditions.

19.4. Repricing and Backdating Prohibited. Notwithstanding anything in this Plan to the contrary, and except for the adjustments provided in Section 6.4, neither the Committee nor any other person may decrease the exercise price for any outstanding Option or SAR after the date of grant nor allow a Participant to surrender an outstanding Option or SAR to the Company as consideration for the grant of a new Option or SAR with a lower exercise price. In addition, the Committee may not make a grant of an Option or SAR with a grant date that is effective prior to the date the Committee takes action to approve such Award.

19.5. Foreign Participation. To assure the viability of Awards granted to Participants employed or residing in foreign countries, the Committee may provide for such special terms as it may consider necessary or appropriate to accommodate differences in local law, tax policy or custom. Moreover, the Committee may approve such supplements to, or amendments, restatements or alternative versions of, this Plan as it determines is necessary or appropriate for such purposes. Any such amendment, restatement or alternative versions that the Committee approves for purposes of using this Plan in a foreign country will not affect the terms of this Plan for any other country. In addition, all such supplements, amendments, restatements or alternative versions must comply with the provisions of Section 19.1.

19.6. Code section 409A. The provisions of Code section 409A are incorporated herein by reference to the extent necessary for any Award that is subject to Code section 409A to comply therewith.

Section 20. Taxes

20.1. Withholding. The Company shall be entitled to withhold from any payment made hereunder or from any payment otherwise owing to the holder of an Award, the amount of any tax attributable to any amount payable, or shares of Stock deliverable, under the Plan, after giving the person entitled to receive such amount or shares of Stock notice as far in advance as practicable, and the Company may defer making payment or delivery under such Award if any such tax may be pending unless and until indemnified to its satisfaction. The Committee may, in its discretion, permit a Participant to pay all or a portion of the federal, state and local withholding taxes arising in connection with the payment, realization or vesting of an Award by electing to (a) have the Company withhold shares of Stock, (b) tender back shares of

Stock received in connection with such benefit, or (c) deliver other previously owned shares of Stock, having a Fair Market Value equal to the amount to be withheld; *provided, however,* that the amount to be withheld shall not exceed the Participant's statutory minimum total federal, state and local tax obligations associated with the transaction. The election must be made on or before the date as of which the amount of tax to be withheld is determined and otherwise as required by the Committee. The Fair Market Value of fractional shares of Stock remaining after payment of the withholding taxes shall be paid to the Participant in cash.

20.2. Cash Bonus. The Committee may, in its discretion, grant a cash bonus to a Participant to enable the Participant to pay all or a portion of the federal, state or local tax liability incurred by the Participant upon the vesting, exercise, payment or settlement of any Award. The Company shall deduct from any cash bonus such amount as may be required for the purpose of satisfying the Company's obligation to withhold federal, state or local taxes.

20.3. No Guarantee of Tax Treatment. Notwithstanding any provisions of the Plan, the Company does not guarantee to any Participant or any other Person with an interest in an Award that (a) any Award intended to be exempt from Code section 409A shall be so exempt, (b) any Award intended to comply with Code section 409A or Code section 422 shall so comply, (c) any Award shall otherwise receive a specific tax treatment under any other applicable tax law, nor in any such case will the Company or any Affiliate indemnify, defend or hold harmless any individual with respect to the tax consequences of any Award.

Section 21. Stock Transfer Restrictions

21.1. Restriction on Transfer. Shares of Stock issued under the Plan may not be sold or otherwise disposed of except (a) pursuant to an effective registration statement under the Act, or in a transaction which, in the opinion of counsel for the Company, is exempt from registration under the Act; and (b) in compliance with state securities laws. Further, as a condition to issuance of shares of Stock under the Plan, the Participant, his beneficiary or his heirs, legatees or legal representatives, as the case may be, shall execute and deliver to the Company a restrictive stock transfer agreement in such form, and subject to such terms and conditions, as shall be reasonably determined or approved by the Committee, which agreement, among other things, may impose certain restrictions on the sale or other disposition of any shares of Stock acquired under the Plan. The Committee may waive the foregoing restrictions, in whole or in part, in any particular case or cases or may terminate such restrictions whenever the Committee determines that such restrictions afford no substantial benefit to the Company.

21.2. Additional Restrictions; Legends. All shares delivered under the Plan pursuant to any Award shall be subject to such stock transfer orders and other restrictions as the Committee may deem advisable under the Plan and any applicable federal or state securities laws, and the Committee may cause a legend or legends to be put on any certificates for Shares to make appropriate references to such restrictions.

Section 22. Miscellaneous

22.1. Other Terms. The grant of any Award under the Plan may also be subject to other provisions (whether or not applicable to the benefit awarded to any other participant) as the Committee determines appropriate, including, without limitation, provisions for (a) the purchase of Stock under options in installments; (b) the financing of the purchase of Stock under the options in the form of a promissory note issued to the Company by a Participant on such terms and conditions as the Committee determines; (c) restrictions on resale or other disposition; and (d) compliance with federal or state securities laws and stock exchange or market requirements.

22.2. No Fractional Shares. No fractional shares or other securities shall be issued or delivered pursuant to the Plan, and the Committee shall determine (except as otherwise provided in the Plan) whether cash, other securities or other property shall be paid or transferred in lieu of any fractional shares or other securities, or whether such fractional shares or other securities or any rights thereto shall be canceled, terminated or otherwise eliminated.

22.3. General Restrictions. Notwithstanding any other provision of the Plan, the Company shall have no liability to deliver any shares of Stock under the Plan or make any payment unless such delivery or payment would comply with all applicable laws and the applicable requirements of any securities exchange or similar entity.

22.4. Issuance of Certificate. To the extent the Plan provides for the issuance of shares of Stock, the issuance may be effected on a non-certificated basis, to the extent not prohibited by applicable law or the applicable rules of any stock exchange.

22.5. Employment and Service. The issuance of an Award shall not confer upon a Participant any right with respect to continued employment or service with the Company or any Affiliate, or the right to continue as a director, consultant or advisor. Unless determined otherwise by the Committee, for purposes of the Plan and all Awards, the following rules shall apply:

(a) a Participant who transfers employment between the Company and its Affiliates, or between Affiliates, will not be considered to have terminated employment;

(b) a Participant who ceases to be a non-employee director because he or she becomes an employee of the Company or an Affiliate shall not be considered to have ceased service as a director with respect to any Award until such Participant's termination of employment with the Company and its Affiliates;

(c) a Participant who ceases to be employed by the Company or an Affiliate and immediately thereafter becomes a non-employee director of the Company or an Affiliate, or a consultant or advisor to the Company or any Affiliate shall not be considered to have terminated employment until such Participant's service as a director of, or consultant or advisor to, the Company and its Affiliates has ceased; and

(d) a Participant employed by an Affiliate will be considered to have terminated employment when such entity ceases to be an Affiliate.

Notwithstanding the foregoing, for purposes of an Award that is subject to Code section 409A, if a Participant's termination of employment or service triggers the payment of compensation under such Award, then the Participant will be deemed to have terminated employment or service upon his or her "separation from service" within the meaning of Code section 409A.

Section 23. Legal Construction

23.1. Requirements of Law. The granting of Awards under the Plan and the issuance of shares of Stock in connection with an Award, shall be subject to all applicable laws, rules and regulations, and to such approvals by any governmental agencies or national securities exchanges as may be required.

23.2. Governing Law. The Plan, and all agreements hereunder, shall be construed in accordance with and governed by the laws of the State of Wisconsin, without reference to any conflict of law principles thereof. Any legal action or proceeding with respect to this Plan, any Award or any award agreement, or for recognition and enforcement of any judgment in respect thereof, may only be brought and determined in a court sitting in the County of Sheboygan in the State of Wisconsin.

23.3. Limitations on Actions. With regard to Awards granted on or after the IPO Date, any legal action or proceeding with respect to this Plan, any Award or any award agreement, must be brought within one year (365 days) after the day the complaining party first knew or should have known of the events giving rise to the complaint.

23.4. Severability. If any provision of the Plan or any award agreement or any Award (a) is or becomes or is deemed to be invalid, illegal or unenforceable in any jurisdiction, or as to any person or Award, or (b) would disqualify the Plan, any award agreement or any Award under any law deemed applicable by the Committee, then such provision shall be construed or deemed amended to conform to applicable laws, or if it cannot be so construed or deemed amended without, in the determination of the Committee, materially altering the intent of the Plan, award agreement or Award, such provision shall be stricken as to such jurisdiction, person or Award, and the remainder of the Plan, such award agreement and such Award shall remain in full force and effect.

EXHIBIT 10.10

ORION ENERGY SYSTEMS, LTD.

STOCK OPTION AGREEMENT

THIS AGREEMENT (the "Agreement"), is entered into as of this _________day of ___, 20___by ORION ENERGY SYSTEMS, LTD., a Wisconsin corporation (the "Company"), with _________(the "Participant").

WHEREAS, the Company has adopted the 2004 Equity Incentive Plan (the "Plan"), which Plan, as it may hereafter be amended and continued, is incorporated herein by reference and made part of this Agreement.

WHEREAS, the Committee, which is charged with the administration of the Plan pursuant to Section 4 thereof, has determined that it would be to the advantage and in the best interest of the Company to grant the option provided for herein to the Participant as an inducement to remain in the service of the Company or one of its subsidiaries, and as an incentive for increased efforts during such service.

NOW, THEREFORE, in consideration of the foregoing and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereby agree as follows:

1. The Company, with the approval of the Committee, hereby grants to the Participant as of the date hereof an option (the "Option") to purchase all or any part of _________(___) shares of Common Stock of the Company, no par value, at a price per share of $___, which price is not less than the fair market value of a share of Common Stock on the date hereof. This Option shall expire at the close of business on _________, 20___(the "Expiration Date").

2. Vesting. The Option shall vest and become exercisable by Participant according to the following schedule, provided Participant is an employee of the Company on the applicable vesting date:

Number of Optioned Shares Vested	Vesting Date
___% of the Optioned Shares	___anniversary of the date hereof
___% of the Optioned Shares	___anniversary of the date hereof
___% of the Optioned Shares	___anniversary of the date hereof
___% of the Optioned Shares	___anniversary of the date hereof
___% of the Optioned Shares	___anniversary of the date hereof

provided, however, that the foregoing is subject to the following:

a. Except as provided hereinbelow, the Option may not be exercised unless the Participant is then an employee (including directors and officers who are employees), director, consultant, advisor, agent or independent representative of the Company or any subsidiary of the Company or any combination thereof and unless the Participant has remained in the continuous employ or service thereof from the date of grant.

b. This Option is designated as an incentive stock option ("ISO") pursuant to the Internal Revenue Code of 1986, as amended (the "Code") and the regulations promulgated thereunder.

3. In the event that the employment or service of the Participant shall be terminated prior to the Expiration Date (otherwise than by reason of death or disability), the Option may, subject to the provisions of the Plan, be exercised (to the extent that the Participant was entitled to do so at the termination of this employment or service) at any time within three months after such termination, but not after the Expiration Date; provided, however, that if such termination shall have been for cause or voluntarily by the Participant and without the consent of the Company or any subsidiary corporation thereof, as the case may be (which consent shall be presumed in the case of normal retirement), the Option and all rights of the Participant hereunder, to the extent not theretofore exercised, shall forthwith terminate immediately upon such termination. Nothing in this Agreement shall confer upon the Participant any right to continue in the employ or service of the Company or any subsidiary of the Company or affect the right of the Company or any subsidiary to terminate his employment or service at any time. For the purposes of this Agreement, "cause" is defined to mean termination of employment as a result of: (i) the failure of the Participant to perform or observe any of the terms or provisions of any written employment agreement between the Participant and the Company, or, if no written employment agreement exists, the gross dereliction of the Participant's employment duties; (ii) the failure of the Participant to comply fully with the lawful directives of the Board of Directors of the Company, or the officers or supervisory employees to whom the Participant is reporting; (iii) dishonesty; (iv) misconduct; (v) conviction of a crime involving moral turpitude; (vi) substance abuse; (vii) misappropriation of funds; (viii) disloyalty or disparagement of the Company or its management or employees; or (ix) other proper cause determined in good faith by the Board of Directors of the Company.

4. If the Participant shall (a) die while he or she is employed by or serving the Company or a corporation which is a subsidiary thereof or within three months after the termination of such position (other than termination for cause, or voluntarily on his or her part and without the consent of the Company or subsidiary corporation thereof, as the case may be, which consent shall be presumed in the case of normal retirement), or (b) become permanently and totally disabled within the meaning of Section 22(e)(3) of the Code, while employed by or serving any such company, and if the Option was otherwise exercisable, immediately prior to the occurrence of such event, then such Option may be exercised as set forth herein by the Participant or by the person or persons to whom the Participant's rights under the Option pass by will or applicable law, or if no such person has such right, by his executors or administrators, at any time within one year after the date of death of the original Participant, or one year after the date of permanent or total disability, but in either case, not later than the Expiration Date.

5. a. The Participant may exercise the Option with respect to all or part of the shares then purchasable hereunder by giving the Company written notice in the form annexed, as provided in paragraph 9 hereof, of such exercise, provided that a minimum of 100 shares are exercised. Such notice shall specify the number of shares as to which the Option is being exercised and shall be accompanied by payment in full in cash of an amount equal to the exercise price of such shares multiplied by the number of shares as to which the Option is being exercised; provided, that if permitted by the Board of Directors of the Company, the purchase price may be paid, in whole or in part, by surrender or delivery to the Company of securities of the Company having a fair market value on the date of the exercise equal to the portion of the purchase price being so paid. In such event fair market value shall be determined pursuant to the definition of Fair Market Value set forth in Section 2 of the Plan.

b. Prior to or concurrently with delivery by the Company to the Participant of a certificate(s) representing such shares, the Participant shall, upon notification of the amount due, pay promptly any amount necessary to satisfy applicable federal, state or local tax requirements. In the event such amount is not paid promptly, the Company shall have the right to apply from the purchase price paid any taxes required by law to be withheld by the Company with respect to such payment and the number of shares to be issued by the Company will be reduced accordingly.

6. Notwithstanding any other provision of the Plan, in the event of a change in the outstanding Common Stock of the Company by reason of a dividend or other distribution (whether in the form of cash, Stock, other securities or other property), recapitalization, stock split, reverse stock split, reorganization, merger, consolidation, split-up, spin-off, combination, repurchase or exchange of Stock or other securities of the Company, issuance of warrants or other rights to purchase Stock or other securities of the Company, or other similar corporate transaction or event that affects the Stock, the Committee may adjust the Plan or aggregate number of shares and price per share subject to the Option.

7. This Option shall, during the Participant's lifetime, be exercisable only by him or her; and neither this Option nor any right hereunder shall be transferable by him or her, by operation of law or otherwise, except by will or by the laws of descent and distribution. In the event of any attempt by the Participant to transfer, assign, pledge, hypothecate or otherwise dispose of this Option or of any right hereunder, except as provided for herein, or in the event of the levy or any attachment, execution or similar process upon the rights or interest hereby conferred, the Company may terminate this Option by notice to the Participant and it shall thereupon become null and void. Each Award granted under the Plan shall not be transferable other than by will or the laws of descent and distribution, except that a Participant may, to the extent allowed by the Administrator and in a manner specified by the Administrator (a) designate in writing a beneficiary to exercise the Award after the Participant's death; or (b) transfer any Award; provided, however, that an incentive stock option may only be exercised by the Participant during the life of the Participant, and may not be transferred other than by will or the laws of descent and distribution

8. Neither the Participant nor in the event of his or her death, any person entitled to exercise his or her rights, shall have any of the rights of a stockholder with respect to the shares

subject to the Option until share certificates have been issued and registered in the name of the Participant or his or her estate, as the case may be.

9. Any notice to the Company provided for in this Agreement shall be addressed to the Company in care of its General Counsel, Orion Energy Systems, Ltd., 1204 Pilgrim Road, Plymouth, Wisconsin, 53073, and any notice to the Participant shall be addressed to him or her at his address now on file with the Company, or to such other address as either may last have designated to the other by notice as provided herein. Any notice so addressed shall be deemed to be given on the second business day after mailing, by registered or certified mail, at a post office or branch post office within the United States or if sent by confirmed express delivery.

10. In the event that any question or controversy shall arise with respect to the nature, scope or extent of any one or more rights conferred by this Option, the determination by the Committee (as constituted at the time of such determination) of the rights of the Participant shall be conclusive, final and binding upon the Participant and upon any other person who shall assert any right pursuant to this Option.

11. The capitalized terms used without definition in this Agreement are used with the definitions assigned to them in the Plan.

ORION ENERGY SYSTEMS, LTD.

By: ____________________________________
Name: Neal R. Verfuerth
Title: President and CEO

ACCEPTED AND AGREED

____

FORM OF NOTICE OF EXERCISE

TO: ____________________

Orion Energy Systems, Ltd.
1204 Pilgrim Road
Plymouth, WI 53073

The undersigned hereby exercises his (her) option to purchase _________shares of Common Stock of ORION ENERGY SYSTEMS, LTD. (the "Company"), as provided in the Stock Option Agreement dated as of _________, 20___at $_________per share, a total of $_________, and makes payment therefor as follows:

a. To the extent of $____________of the purchase price, the undersigned hereby surrenders to the Company certificates for shares of its Common Stock, which, valued at $ per share, the fair market value thereof, equals such portion of the purchase price.

b. To the extent of the balance of the purchase price, the undersigned has enclosed a certificate or bank check payable to the order of the Company for $____________.

A stock certificate or certificate for the shares should be delivered in person or mailed to the undersigned at the address shown below.

The undersigned hereby represents and warrants that it is his/her present intention to acquire and hold the aforesaid shares of Common Stock of the Company for his/her own account for investment, and not with a view to the distribution of any thereof, and agrees that he/she will make no sale, thereof, except in compliance with the applicable provisions of the Securities Act of 1933, as amended.

Name: ____________________________

Signature: ____________________________

Address: ____________________________
(please print legibly)

Dated: ____________________________

Exhibit 10.11

ORION ENERGY SYSTEMS, INC.
2004 STOCK AND INCENTIVE AWARDS PLAN
STOCK OPTION AWARD

[Name]
[Address]

You have been granted an option (your "Option") to purchase shares of common stock ("Shares") of Orion Energy Systems, Inc. (the "Company") under the Orion Energy Systems, Inc. 2004 Stock and Incentive Awards Plan (the "Plan") with the following terms and conditions:

Grant Date:	__________, 20___
Type of Option:	[Nonqualified or Incentive Stock Option]
Number of Option Shares:	______________________
Exercise Price per Share:	U.S. $__________
Vesting:	__________percent (___%) of your Option will vest and become exercisable on each of the first __________ anniversaries of the Grant Date, provided you remain in employment or service during such period. Upon your termination of employment from, or cessation of services to, the Company and its Affiliates, the unvested portion of your Option will immediately terminate.
Termination Date:	Your Option expires at, and cannot be exercised after, the close of business at the Company's headquarters on the earliest to occur of: • The tenth (10th) anniversary of the Grant Date; • One year after your termination of employment or service as a result of death or disability (within the meaning of Code Section 22(e)(3)); or • 90 days after your termination of employment or service for any other reason, provided that if you die during this 90 day period, the exercise period will be extended until one year after the date of your death. If the date this Option terminates as specified above falls on a day on which the stock market is not open for trading or on a date that you are prohibited by Company policy (such as an insider trading policy) from exercising the Option, the termination date shall be

automatically extended to the first available trading day following the original termination date, but not beyond the tenth (10th) anniversary of the Grant Date.

Notwithstanding the above, your entire Option is terminated immediately if the Company or an Affiliate terminates you for Cause (as defined below), or if your employment or service is otherwise terminated at a time when you could be terminated for Cause, or you voluntarily terminate without the Company's prior consent.

For purposes of this Agreement, "Cause" means any of the following: (i) failure to perform or observe any of the terms or provisions of any written employment agreement with the Company or an Affiliate, or if no written employment agreement exists, the gross dereliction of your employment duties; (ii) failure to comply fully with the lawful directives of the Board of Directors of the Company; (iii) dishonesty; (iv) misconduct; (v) conviction of a crime involving moral turpitude; (vi) substance abuse; (vii) misappropriation of funds: (viii) disloyalty or disparagement of the Company, and of its Affiliates, or any of their management or employees; or (ix) other proper cause determined in good faith by the Committee.

Manner of Exercise:	You may exercise your Option only to the extent vested and only if it has not terminated. To exercise your Option, you must complete the "Notice of Stock Option Exercise" form provided by the Company and return it to the address indicated on the form. The form will be effective when it is received by the Company, but exercise will not be completed until you pay the total exercise price and all applicable withholding taxes due as a result of the exercise to the Company. If someone else wants to exercise your Option after your death, that person must contact the Company and prove to the Company's satisfaction that he or she is entitled to do so. Your ability to exercise your Option may be restricted by the Company if required by applicable law.
Restrictions on Resale:	By accepting your Option, you agree not to sell any Shares acquired under your Option at a time when applicable laws, Company policies or an agreement between the Company and its underwriters prohibit a sale.

Restrictions on Transfer:	During your lifetime, this Option is only exercisable by you. You may not transfer, pledge or assign this Option, by operation of law or otherwise, except pursuant to your will or the laws of descent and distribution. If you attempt to transfer, assign, pledge, hypothecate or otherwise dispose of this Option, except as provided above, or in the event this Option is subject to levy or attachment, execution or similar process, the Company may terminate this Option by providing written notice to you.
Rescission of Exercise; Disgorgement of Option Gains:	If you are terminated for Cause, or if you are not terminated for Cause but the Committee later determines that you could have been terminated for Cause if all facts had been known at that time, or if the Committee determines that, after your termination of employment, you have violated the provisions of any non-competition, non-solicitation, confidentiality or assignment of inventions agreement then in effect, then your Option will terminate immediately on the date of such termination or determination, as applicable, and the Committee may, in its sole and absolute discretion, (i) rescind any notice of exercise submitted by you for which payment or the issuance of Shares has not been completed, in which event any exercise price you have tendered will be promptly returned to you or retained by the Company as an offset as provided below, and/or (ii) notify you in writing within two (2) years after exercise of all or any portion of the Option that any exercise made within the one (1) year period prior to your termination or prior to your breach of any non-competition, non-solicitation, confidentiality or assignment of inventions agreement, is rescinded. Within ten (10) days after receiving such notice from the Company, you shall pay to the Company the amount of any cash payment received, or the value of any other gain realized, as a result of the rescinded exercise. Notwithstanding the foregoing, the Company shall have the right to retain (as an offset against any amounts due hereunder), the exercise price and withholding amount tendered by you with respect to any rescinded exercise, and the Company shall have the right to offset against any other amounts due from the Company to you the amount owed by you hereunder.

Notice of Sale:	If your Option is designated as an incentive stock option, you must promptly report to the Secretary of the Company any disposition of the Shares acquired under your Option that is made within two (2) years from the Grant Date or within twelve (12) months from the date you acquired the Shares (the “Notice Period”). In addition, the Company may, at any time during the Notice Period, place a legend or legends on any certificate(s) for the Shares issued under your Option requesting the Company’s transfer agent to notify the Company of any transfer of the Shares.
Miscellaneous:	• As a condition of the granting of your Option, you agree, for yourself and your legal representatives or guardians, that this Stock Option Award shall be interpreted by the Committee and that any interpretation by the Committee of the terms of this Stock Option Award or the Plan and any determination made by the Committee pursuant to this Stock Option Award or the Plan shall be final, binding and conclusive. Notwithstanding the foregoing, this Stock Option Award may not be amended, and the Company may not take any other action the effect of which is, to reduce the Exercise Price per Share other than (i) pursuant to Section 6.4 of the Plan, and in accordance with Section 1.409A-1(b)(5)(v)(B) of the Treasury Regulations, or (ii) in connection with a transaction which is considered the grant of a new option for purposes of Section 409A of the Code, provided that the new Exercise Price per Share is not less than Fair Market Value of a Share on the new grant date. • As a condition of the granting of your Option, except as required by law, you agree not to disclose information regarding the existence, terms, or conditions of this Option to any person or entity whatsoever, including without limitation any members of the media (including, but not limited to, print journalists, newspapers, radio, television, cable, satellite programs, or Internet media) or any Internet web page or “chat room,” or any other entity or person, with the exception of your spouse, accountant, tax advisor, and/or attorneys. Any violation of this provision may result in immediate and complete forfeiture of all rights granted under this Option if so determined by the Committee. • This Stock Option Award may be executed in counterparts.

Your Option is granted under and governed by the terms and conditions of the Plan. Additional provisions regarding your Option and definitions of capitalized terms used and not defined in your Option can be found in the Plan.

BY SIGNING BELOW AND ACCEPTING THIS STOCK OPTION AWARD, YOU AGREE TO ALL OF THE TERMS AND CONDITIONS DESCRIBED HEREIN AND IN THE PLAN. YOU ALSO ACKNOWLEDGE RECEIPT OF THE PLAN.

Authorized Officer	Optionee

ORION ENERGY SYSTEMS, INC.

NOTICE OF STOCK OPTION EXERCISE

Your completed form should be sent by mail or fax to: ____________________&n bsp;. *Phone:* _______________ *Fax:* ____________________& nbsp;_.
Incomplete forms may cause a delay in processing your option exercise.

PART 1: OPTIONEE INFORMATION *Please complete the following. PLEASE WRITE YOUR FULL LEGAL NAME SINCE THIS NAME WILL BE ON YOUR STOCK CERTIFICATE.*

Name: ______________________________

Street Address: ______________________________

City: ____________________ State: ____________________ Zip Code: ____________________

Work Phone #: (__________) – __________ – __________ Home Phone #: (__________) – __________ – __________

Social Security #: __________ – __________ – __________

PART 2: DESCRIPTION OF OPTION(S) BEING EXERCISED *Please complete the following for each option that you wish to exercise. For each option listed below, you must exercise at least 100 shares, unless you are exercising the entire remaining portion of an option.*

Date of Grant	Type of Option (specify ISO or NQSO)	Exercise Price Per Share	Number of Option Shares Being Purchased	Aggregate Exercise Price (multiply Exercise Price Per Share by number of Option Shares being purchased)
		$		$
		$		$
		$		$
		$		$
		$		$

The Total Exercise Price for all of the options being exercised (as listed above) is: $ __________.

PART 3: METHOD OF PAYMENT OF OPTION EXERCISE PRICE *Please select only one:*

o Cash Exercise. I am enclosing a check or money order payable to "Orion Energy Systems, Inc." for the Total Exercise Price.

o Cashless Exercise Through the Company. Please withhold a whole number of shares otherwise deliverable to me upon exercise having a Fair Market Value equal to the Total Exercise Price and issue the net number of shares to me. Any fractional share remaining will be paid to me in cash.

o Cashless Exercise Through a Broker-Dealer. I have requested through the broker specified below to (*select only one*):

- o Sell to Cover. Sell or margin only enough of the option(s) being exercised to cover the Total Exercise Price (and tax withholding, if elected in Part 5), deliver the sale or margin loan proceeds directly to Orion Energy Systems, Inc., and deposit the remaining shares and any residual cash in my brokerage account.
- o Same-Day-Sale. Sell or margin all of the shares of common stock issuable upon exercise of the option(s), deliver a portion of the sale or margin loan proceeds directly to Orion Energy Systems, Inc. to pay the Total Exercise Price (and tax withholding, if elected in Part 5), and deposit any remaining cash proceeds in my brokerage account.

Sale Price*: __________ Sale Date*: ____________________

** The sale price and sale date are required in order to execute the cashless exercise.*

Broker-Dealer Name: ____________________

Contact Person: ____________________

DWAC – Depository Trust Company (DTC) #: ____________________

Brokerage Account #: ____________________

Broker Phone #: (__________) – __________ – __________ Broker Fax #: (__________) – __________ – __________

It is your responsibility to contact a broker to open a brokerage account and sell your stock option shares. Orion Energy Systems, Inc. WILL NOT send this form to your broker.

PART 4 CERTIFICATE MAILING INSTRUCTIONS *Do not complete this portion if you elected a cashless exercise through a broker-dealer. (Shares issued pursuant to a cashless exercise through a broker-dealer will be automatically sent to your specified broker.) Also, complete this section only if the certificate for the purchased shares is to be sent to a different address than specified in Part 1.*

The certificate for the purchased shares should be sent to the following address:

Street Address: ____________________

City: ____________________ State: ____________________ Zip Code: ____________________

PART 5: METHOD OF SATISFYING TAX WITHHOLDING OBLIGATION *Please select only one. You do not need to complete this Part if you are exercising only incentive stock options (ISOs) or if you are a non-employee director.*

o Broker Exercise. I have elected to exercise my option(s) through a broker in Part 3. The broker will sell sufficient shares to pay for the tax amount and will remit that amount to Orion Energy Systems, Inc.

o Cash. I am enclosing a check or money order payable to "Orion Energy Systems, Inc." for the withholding tax amount.

o Withhold Shares. Please withhold a whole number of shares otherwise deliverable to me upon exercise having a Fair Market Value equal to the minimum statutory tax that is required to be withheld. Any fractional share remaining will be paid to me in cash.

PART 6 ACKNOWLEDGEMENTS AND SIGNATURE

1. I understand that all sales of Orion's common stock received upon exercise of this option are subject to compliance with the company's policy on securities trades.
2. I hereby acknowledge that I have read a copy of the prospectus describing the Orion Energy Systems, Inc. plan under which the option(s) listed above were issued, and understand the tax consequences of an exercise.
3. I understand that this notice cannot be revoked by me if I have selected a cashless exercise through a broker-dealer. I personally guarantee that the Total Exercise Price and applicable taxes will be paid to Orion Energy Systems, Inc. in full in the event the Company does not receive the full amount from the Broker for any reason.

Signature: ______________________________ Date: ______________________________

* * * * * *

To be completed by Corporate Human Resource Department:

Received by: ______________________________

Date received: ______________________________

EXHIBIT – 10.12

$ __________ **__________ ___, 2007**

PROMISSORY NOTE
AND
COLLATERAL STOCK PLEDGE AGREEMENT

THIS PROMISSORY NOTE AND COLLATERAL STOCK PLEDGE AGREEMENT (this "Note") is made as of the date set forth above by ____________________ , an adult resident of the State of Wisconsin ("Maker").

For value received, Maker hereby promises to pay to the order of Orion Energy Systems, Ltd., a Wisconsin corporation ("Holder"), at the main offices of Holder, or such other address as Holder shall designate to Maker in writing, the principal sum of ____ _______________ Dollars and No/100 Cents ($___), payable on the earlier to occur of (1) ___, ___, (2) fourteen (14) days after Holder gives notice that it has determined, based on the advice of its counsel, investment banker or financial advisor, that this Note has or would reasonably be expected to have an adverse impact on the ability of the Holder to enter into a material financing or other transaction or commence a public offering of the Holder's securities, (3) fourteen (14) days after Holder gives notice that it expects certain securities of Holder to be public securities under the rules of the Federal Securities and Exchange commission within sixty (60) days, or (4) within sixty (60) days of the death of Maker or termination or cessation of Maker's employment or services to the Holder, unless waived by Holder's Board of Directors. The outstanding balance of this Note shall bear interest at a rate equal to _______ per annum. Maker shall be obligated to make payments of interest only on an annual basis, payable in immediately available funds or by tender of Shares (as defined below) on each anniversary of the date of this Note until the principal balance hereunder becomes due and payable. All payments of interest and/or principal shall be made in immediately available funds or by the transfer to Holder of some or all of the Shares (as defined below) held by Maker for their fair market value at the time of the transfer, without offset, counterclaim, or deduction of any amount (including without limitation, taxes) and shall be made not less than in the amounts otherwise specified to be paid under this Note. This Note may be prepaid in whole or in part, by payment of immediately available funds or by tender of Shares (as defined below) at any time and without penalty. In the event Maker elects to pay any principal or interest owed hereunder by tender of Shares (as defined below), the Shares shall be valued at the fair market value of such Shares at the time of tender, as determined by the agreement of Holder and Maker and if not so agreed, then by the recognized professional appraisal service last performing an appraisal of Holder's common stock.

This Note is made in connection with the exercise by Maker of Maker's non-qualified option to purchase the aggregate of __________ shares of Common Stock of Holder relating to the following Stock Option Agreements: (i) __________shares of Common Stock of Holder at an exercise price of $__________per share pursuant to that certain Stock Option Agreement between Maker and Holder dated as of __________, __________ , and (ii) __________shares of Common Stock of Holder at an exercise price of $ per share pursuant to that certain Stock

Option Agreement between Maker and Holder dated as of __________ ,__________(collectively, the "Shares"). For purposes of clarification, the respective numbers of shares and exercise prices stated in (i) and (ii) in the immediately preceding sentence take into account the April 1, 2006 stock split (the originally stated shares and exercise prices were __________ and $__________ , and __________ and $__________ , respectively).

To secure the payment and performance by Maker of Maker's duties and obligations hereunder, Maker grants to Holder a security interest in and to the Shares and any property received by Maker in exchange for or as a dividend or distribution on or with respect to the Shares, and all proceeds of the Shares and such property (all of the foregoing being hereinafter referred to as the "Collateral"). All such indebtedness, obligations and liabilities are referred to herein as the "Obligations." In order to perfect the security interest in the Collateral, Holder shall retain custody of the stock certificates representing the Shares. During the period commencing upon the date hereof and continuing until all amounts payable hereunder are paid in full, Maker shall keep the Collateral free from all liens, encumbrances and security interests (other than those created hereunder or approved in writing by Holder); pay and discharge when due all taxes, levies and other charges upon it, and defend it against all claims and legal proceedings by persons other than Holder; and pay all expenses and, upon request, take any action or execute any documents reasonably deemed necessary by Holder, to preserve the Collateral or to establish, determine priority of, perfect, continue perfection, terminate and/or enforce Holder's interest therein or rights hereunder.

Upon and during the continuance of any Event of Default (as defined below), Holder shall have all of the rights and remedies of a secured party under the Wisconsin Uniform Commercial Code (the "Wisconsin UCC"). The exercise by Holder of such rights and remedies shall not be construed as a limitation of the obligations of Maker to Holder, or the rights of Holder, hereunder or otherwise. Whenever Holder is required by the Wisconsin UCC to give notice to Maker in the exercise of its rights and/or remedies with respect to the Collateral, the Holder must give at least fifteen (15) days advance written notice to Maker.

In addition to Holder's other rights, upon the occurrence of an Event of Default, Maker irrevocably appoints Holder as proxy, with full power of substitution and revocation, to exercise Maker's rights to attend meetings, vote, consent to and/or take any action respecting the Collateral as fully as Maker might do. This proxy shall remain effective so long as such Event of Default shall continue and the Obligations are unpaid or unperformed.

The entire principal balance together with all accrued but unpaid interest and any other amounts due hereunder, shall, at the option of Holder and upon written notice to Maker, become immediately due and payable in the event that any of the following shall occur (each an "Event of Default"):

(a) any payment of interest hereunder is not made on or before ten (10) days after Holder provides written notice to Maker that such payment is past due;

(b) any default shall occur in Maker's obligations hereunder, and the same shall not be timely cured to Holder's satisfaction; or

(c) the filing of bankruptcy, insolvency, receivership, or similar proceedings for the relief of debtors or creditors, whether voluntary or involuntary, of Maker.

Maker agrees to reimburse Holder for all reasonable costs and expenses, including reasonable attorney's fees and expenses, incurred in connection with the enforcement of its rights against Maker hereunder and under the Stock Option Agreement and the Shareholders Agreement. Without limiting the generality of the foregoing, Maker shall indemnify, defend and hold harmless Holder for any losses, damages liabilities or claims that Holder is liable for any liabilities or obligations to any taxing authority resulting from the exercise of the option pursuant to the Stock Option Agreements.

Except as specifically provided in this Note, Maker hereby waives presentment for payment, demand, protest and notice of dishonor.

No delay on the part of Holder in the exercise of any right or remedy shall operate as a waiver thereof, and no single or partial exercise by Holder of any right or remedy shall preclude any other or further exercise of any other right or remedy.

No provision of this Note may be amended, waived or otherwise modified except by written agreement of Maker and Holder.

Maker shall not at any time sell, assign or transfer, all or part of Maker's interest or obligations in or under this Note, except in accordance with the prepayment provisions contained herein. Notwithstanding the foregoing, the terms and provisions of this Note shall be binding upon and inure to the benefit of Maker and Holder and their respective successors and permitted assigns.

Without affecting the liability of Maker or any endorser, surety or guarantor, Holder may, without notice, grant renewals or extensions, accept partial payments, release or impair any collateral security for the payment of this Note or agree not to sue any party liable on it.

Maker shall be personally liable for the entire indebtedness evidenced by this Note (including all principal, interest and other charges) to the extent the transfer of any Shares by Maker to Holder at their fair market value does not satisfy such indebtedness. Maker represents and warrants that Maker has the financial ability to satisfy all such liabilities under this Note even if payment of principal and accrued interest is accelerated by Holder under the terms of this note.

This Note has been executed in, and shall be governed by the internal laws of, the State of Wisconsin. Whenever possible, each provision of this Note shall be interpreted in such a manner as to be effective and valid under applicable law, but if any provision of this Note shall be prohibited by or be invalid under such law, such provision shall be ineffective to the extent of such prohibition or invalidity without invalidating the remainder of such provision or the remaining provisions of this Note.

PATENT AND TRADEMARK SECURITY AGREEMENT

This Agreement, dated as of December 22, 2005, is made by and between ORION ENERGY SYSTEMS, LTD., a Wisconsin corporation, having a business location at the address set forth below under its signature (the "Debtor"), and WELLS FARGO BANK, NATIONAL ASSOCIATION, acting through its Wells Fargo Business Credit operating division, having a business location at the address set forth below under its signature (the "Secured Party").

RECITALS:

The Debtor and Great Lakes Energy Technologies, LLC, a Wisconsin limited liability company (collectively, the "Borrower"), and the Secured Party are parties to a Credit and Security Agreement of even date herewith (as the same may hereafter be amended, supplemented or restated from time to time, the "Credit Agreement") setting forth the terms on which the secured Party may now or hereafter extend credit to or for the account of the Borrower.

As a condition to extending credit to or for the account of the Borrower, the Secured Party has required the execution and delivery of this Agreement by the Debtor.

ACCORDINGLY, in consideration of the mutual covenants contained in the Loan Documents and herein, the parties hereby agree as follows:

1. Definitions. All terms defined in the Recitals hereto or in the Credit Agreement that are not otherwise defined herein shall have the meanings given to them therein. In addition, the following terms have the meanings set forth below:

"Obligations" means each and every debt, liability and obligation of every type and description arising under or in connection with any Loan Document (as defined in the Credit Agreement) which the Borrower may now or at any time hereafter owe to the Secured Party, whether such debt, liability or obligation now exists or is hereafter created or incurred and whether it is or may be direct or indirect, due or to become due, absolute or contingent, primary or secondary, liquidated or unliquidated, independent, joint, several or joint and several, and including specifically, but not limited to, the Obligations (as defined in the Credit Agreement).

"Patents" means all of the Debtor's right, title and interest in and to patents or applications for patents, fees or royalties with respect to each, and including without limitation the right to sue for past infringement and damages therefor, and licenses thereunder, all as presently existing or hereafter arising or acquired, including without limitation the patents listed on Exhibit A.

"Security Interest" has the meaning given in Section 2.

"Trademarks" means all of the Debtor's right, title and interest in and to: (i) trademarks, service marks, collective membership marks, registrations and applications for registration for each, and the respective goodwill associated with each, (ii) licenses, fees or royalties with respect to each, (iii) the right to sue for past, present and future infringement,

dilution and damages therefor, (iv) and licenses thereunder, all as presently existing or hereafter arising or acquired, including, without limitation, the marks listed on **Exhibit B**.

2. Security Interest. The Debtor hereby irrevocably pledges and assigns to, and grants the Secured Party a security interest (the "Security Interest"), with power of sale to the extent permitted by law, in the Patents and in the Trademarks to secure payment of the Obligations. As set forth in the Credit Agreement, the Security Interest is coupled with a security interest in substantially all of the personal property of the Debtor. This Agreement grants only the Security Interest herein described, is not intended to and does not affect any present transfer of title of any trademark registration or application and makes no assignment and grants no right to assign or perform any other action with respect to any intent to use trademark application, unless such action is permitted under 15 U.S.C. §1060.

3. Representations, Warranties and Agreements. The Debtor represents, warrants and agrees as follows:

(a) ***Existence; Authority***. The Debtor is a corporation duly organized, validly existing and in good standing under the laws of its state of incorporation, and this Agreement has been duly and validly authorized by all necessary corporate action on the part of the Debtor.

(b) ***Patents.*** **Exhibit A** accurately lists all Patents owned or controlled by the Debtor as of the date hereof, or to which the Debtor has a right as of the date hereof to have assigned to it, and accurately reflects the existence and status of applications and letters patent pertaining to the Patents as of the date hereof. If after the date hereof, the Debtor owns, controls or has a right to have assigned to it any Patents not listed on **Exhibit A**, or if **Exhibit A** ceases to accurately reflect the existence and status of applications and letters patent pertaining to the Patents, then the Debtor shall within sixty (60) days provide written notice to the Secured Party with a replacement **Exhibit A**, which upon acceptance by the Secured Party shall become part of this Agreement.

(c) ***Trademarks***. **Exhibit B** accurately lists all Trademarks owned or controlled by the Debtor as of the date hereof and accurately reflects the existence and status of Trademarks and all applications and registrations pertaining thereto as of the date hereof; provided, however, that **Exhibit B** need not list common law marks (i.e., Trademarks for which there are no applications or registrations) which are not material to the Debtor's or any Affiliate's business(es). If after the date hereof, the Debtor owns or controls any Trademarks not listed on **Exhibit B** (other than common law marks which are not material to the Debtor's business), or if **Exhibit B** ceases to accurately reflect the existence and status of applications and registrations pertaining to the Trademarks, then the Debtor shall promptly provide written notice to the Secured Party with a replacement **Exhibit B**, which upon acceptance by the Secured Party shall become part of this Agreement.

(d) ***Affiliates***. As of the date hereof, no Affiliate owns, controls, or has a right to have assigned to it any items that would, if such item were owned by the Debtor, constitute Patents or Trademarks. If after the date hereof any Affiliate owns, controls, or

has a right to have assigned to it any such items, then the Debtor shall promptly either: (i) cause such Affiliate to assign all of its rights in such item(s) to the Debtor; or (ii) notify the Secured Party of such item(s) and cause such Affiliate to execute and deliver to the Secured Party a patent and trademark security agreement substantially in the form of this Agreement.

(e) ***Title***. The Debtor has absolute title to each Patent and each Trademark listed on Exhibits A and B, free and clear of all Liens except Permitted Liens. The Debtor (i) will have, at the time the Debtor acquires any rights in Patents or Trademarks hereafter arising, absolute title to each such Patent or Trademark free and clear of all Liens except Permitted Liens, and (ii) will keep all Patents and Trademarks free and clear of all Liens except Permitted Liens.

(f) ***No Sale***. Except as permitted in the Credit Agreement, the Debtor will not assign, transfer, encumber or otherwise dispose of the Patents or Trademarks, or any interest therein, without the Secured Party's prior written consent.

(g) ***Defense***. The Debtor will at its own expense and using commercially reasonable efforts, protect and defend the Patents and Trademarks against all claims or demands of all Persons other than those holding Permitted Liens.

(h) ***Maintenance***. The Debtor will at its own expense maintain the Patents and the Trademarks to the extent reasonably advisable in its business including, but not limited to, filing all applications to obtain letters patent or trademark registrations and all affidavits, maintenance fees, annuities, and renewals possible with respect to letters patent, trademark registrations and applications therefor. The Debtor covenants that it will not abandon nor fail to pay any maintenance fee or annuity due and payable on any Patent or Trademark, nor fail to file any required affidavit or renewal in support thereof, without first providing the Secured Party: (i) sufficient written notice, of at least thirty (30) days, to allow the Secured Party to timely pay any such maintenance fees or annuities which may become due on any Patents or Trademarks, or to file any affidavit or renewal with respect thereto, and (ii) a separate written power of attorney or other authorization to pay such maintenance fees or annuities, or to file such affidavit or renewal, should such be necessary or desirable.

(i) ***Secured Party's Right to Take Action***. If the Debtor fails to perform or observe any of its covenants or agreements set forth in this Section 3, and if such failure continues for a period of ten (10) calendar days after the Secured Party gives the Debtor written notice thereof (or, in the case of the agreements contained in subsection (h), immediately upon the occurrence of such failure, without notice or lapse of time), or if the Debtor notifies the Secured Party that it intends to abandon a Patent or Trademark, the Secured Party may (but need not) perform or observe such covenant or agreement or take steps to prevent such intended abandonment on behalf and in the name, place and stead of the Debtor (or, at the Secured Party's option, in the Secured Party's own name) and may (but need not) take any and all other actions which the Secured Party may reasonably deem necessary to cure or correct such failure or prevent such intended abandonment.

(j) ***Costs and Expenses***. Except to the extent that the effect of such payment would be to render any loan or forbearance of money usurious or otherwise illegal under any applicable law, the Debtor shall pay the Secured Party on demand the amount of all moneys expended and all costs and expenses (including reasonable attorneys' fees and disbursements) incurred by the Secured Party in connection with or as a result of the Secured Party's taking action under subsection (i) or exercising its rights under Section 6, together with interest thereon from the date expended or incurred by the Secured Party at the Default Rate.

(k) ***Power of Attorney***. To facilitate the Secured Party's taking action under subsection (i) and exercising its rights under Section 6, the Debtor hereby irrevocably appoints (which appointment is coupled with an interest) the Secured Party, or its delegate, as the attorney-in-fact of the Debtor with the right (but not the duty) from time to time to create, prepare, complete, execute, deliver, endorse or file, in the name and on behalf of the Debtor, any and all instruments, documents, applications, financing statements, and other agreements and writings required to be obtained, executed, delivered or endorsed by the Debtor under this Section 3, or, necessary for the Secured Party, after an Event of Default, to enforce or use the Patents or Trademarks or to grant or issue any exclusive or non-exclusive license under the Patents or Trademarks to any third party, or to sell, assign, transfer, pledge, encumber or otherwise transfer title in or dispose of the Patents or Trademarks to any third party. The Debtor hereby ratifies all that such attorney shall lawfully do or cause to be done by virtue hereof. The power of attorney granted herein shall terminate upon the termination of the Credit Agreement as provided therein and the payment and performance of all Obligations.

4. Debtor's Use of the Patents and Trademarks. The Debtor shall be permitted to control and manage the Patents and Trademarks, including the right to exclude others from making, using or selling items covered by the Patents and Trademarks and any licenses thereunder, in the same manner and with the same effect as if this Agreement had not been entered into, so long as no Event of Default occurs and remains uncured.

5. Events of Default. Each of the following occurrences shall constitute an event of default under this Agreement (herein called "Event of Default"): (a) an Event of Default, as defined in the Credit Agreement, shall occur; or (b) the Debtor shall fail promptly to observe or perform any covenant or agreement herein binding on it; or (c) any of the representations or warranties contained in Section 3 shall prove to have been incorrect in any material respect when made.

6. Remedies. Upon the occurrence of an Event of Default and at any time thereafter, the Secured Party may, at its option, take any or all of the following actions:

(a) The Secured Party may exercise any or all remedies available under the Credit Agreement.

(b) The Secured Party may sell, assign, transfer, pledge, encumber or otherwise dispose of the Patents and Trademarks.

(c) The Secured Party may enforce the Patents and Trademarks and any licenses thereunder, and if Secured Party shall commence any suit for such enforcement, the Debtor shall, at the request of Secured Party, do any and all lawful acts and execute any and all proper documents required by Secured Party in aid of such enforcement.

7. Miscellaneous. This Agreement can be waived, modified, amended, terminated or discharged, and the Security Interest can be released, only explicitly in a writing signed by the Secured Party. A waiver signed by the Secured Party shall be effective only in the specific instance and for the specific purpose given. Mere delay or failure to act shall not preclude the exercise or enforcement of any of the Secured Party's rights or remedies. All rights and remedies of the Secured Party shall be cumulative and may be exercised singularly or concurrently, at the Secured Party's option, and the exercise or enforcement of any one such right or remedy shall neither be a condition to nor bar the exercise or enforcement of any other. All notices to be given to Debtor under this Agreement shall be given in the manner and with the effect provided in the Credit Agreement. The Secured Party shall not be obligated to preserve any rights the Debtor may have against prior parties, to realize on the Patents and Trademarks at all or in any particular manner or order, or to apply any cash proceeds of Patents and Trademarks in any particular order of application. This Agreement shall be binding upon and inure to the benefit of the Debtor and the Secured Party and their respective participants, successors and assigns and shall take effect when signed by the Debtor and delivered to the Secured Party, and the Debtor waives notice of the Secured Party's acceptance hereof. The Secured Party may execute this Agreement if appropriate for the purpose of filing, but the failure of the Secured Party to execute this Agreement shall not affect or impair the validity or effectiveness of this Agreement. A carbon, photographic or other reproduction of this Agreement or of any financing statement signed by the Debtor shall have the same force and effect as the original for all purposes of a financing statement. This Agreement shall be governed by the internal law of Wisconsin without regard to conflicts of law provisions. If any provision or application of this Agreement is held unlawful or unenforceable in any respect, such illegality or unenforceability shall not affect other provisions or applications which can be given effect and this Agreement shall be construed as if the unlawful or unenforceable provision or application had never been contained herein or prescribed hereby. All representations and warranties contained in this Agreement shall survive the execution, delivery and performance of this Agreement and the creation and payment of the Obligations.

THE PARTIES WAIVE ANY RIGHT TO TRIAL BY JURY IN ANY ACTION OR PROCEEDING BASED ON OR PERTAINING TO THIS AGREEMENT.

IN WITNESS WHEREOF, the parties have executed this Patent and Trademark Security Agreement as of the date written above.

WELLS FARGO BANK, NATIONAL ASSOCIATION, acting through its WELLS FARGO BUSINESS CREDIT operating division	ORION ENERGY SYSTEMS, LTD.
By: /s/ Melissa L. Dreifuerst Its: Vice President	By: /s/ Neal R. Verfuerth
Wells Fargo Business Credit 100 East Wisconsin Avenue MAC N9811-143 Milwaukee, Wisconsin 53202	Its: President Orion Energy Systems, Ltd. 1204 Pilgrim Road Plymouth, Wisconsin 53073

STATE OF WISCONSIN)
)
COUNTY OF MILWAUKEE)

The foregoing instrument was acknowledged before me this 22nd day of December, 2005, by Neal R. Verfuerth, the President of Orion Energy Systems, Ltd., a Wisconsin corporation, on behalf of the corporation.

/s/ Eric von Estorff
Notary Public

STATE OF WISCONSIN)
)
COUNTY OF MILWAUKEE)

The foregoing instrument was acknowledged before me this 22nd day of December, 2005, by Melissa L. Dreifuerst, a Vice President of Wells Fargo Bank, National Association, acting through its Wells Fargo Business Credit operating division, on behalf of the bank.

/s/ Eric von Estorff
Notary Public

EXHIBIT A

UNITED STATES PATENTS

PATENT	APP. NO./PATENT NO.	FILING DATE/ISSUE DATE	STATUS	OWNER
OVERHEAD FLUORESCENT LIGHT FIXTURE	D494700	08/17/2004	Issued	Orion Energy Systems, Ltd.
APPARATUS AND METHOD FOR COMPARISON OF ELECTRIC POWER EFFICIENCY OF LIGHTING SOURCES	6774619	08/10/2004	Issued	Orion Energy Systems, Ltd.
FLUORESCENT HANGING LIGHT FIXTURE	6758580	07/06/2004	Issued	Orion Energy Systems, Ltd.
MOTION DETECTOR FLUORESCENT LIGHT CONNECTOR APPARATUS	6746274	06/08/2004	Issued	Orion Energy Systems, Ltd.
APPARATUS FOR AND METHOD OF METERING SEPARATE LIGHTING CIRCUITS FOR COMPARATIVE ELECTRIC POWER USAGE TO PROVIDE A VIRTUAL POWER PLANT IN ELECTRIC POWER SAVINGS	6724180	04/20/2004	Issued	Orion Energy Systems, Ltd.
APPARATUS AND METHOD FOR COMPARISON OF ELECTRIC POWER EFFICIENCY OF LIGHTING SOURCES TO IN EFFECT BE A VIRTUAL POWER PLANT	6710588	03/23/2004	Issued	Orion Energy Systems, Ltd,
ELECTRIC CONNECTOR CORD	D483332	12/09/2003	Issued	Systems, Ltd. Orion Energy

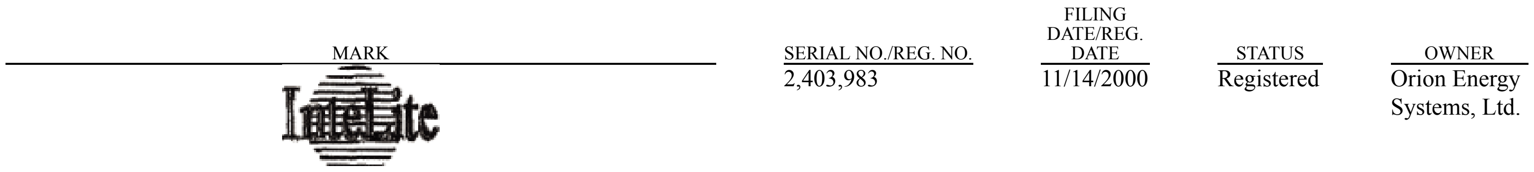
PATENT	APP. NO./PATENT NO.	FILING DATE/ISSUE DATE	STATUS	OWNER
ELECTRIC CONNECTOR CORD HAVING MALE PLUG ENDS	D479826	09/23/2003	Issued	Orion Energy Systems, Ltd.
FLUORESCENT HANGING LIGHT FIXTURE	6585396	07/01/2003	Issued	Systems, Ltd. Orion Energy
MEANS AND METHOD OF INCREASING LIFETIME OF FLUORESCENT LAMPS	6467933	10/22/2002	Issued	Orion Energy Systems, Ltd.
OVERHEAD DOWN-LIGHT FLUORESCENT LIGHT FIXTURE	D463059	09/17/2002	Issued	Systems, Ltd. Orion Energy
ELECTRICAL CONNECTOR PIGTAIL CORD	D460735	07/23/2002	Issued	Systems, Ltd. Orion Energy
OVERHEAD DOWNLIGHT FLUORESCENT LIGHT FIXTURE	D447266	08/28/2001	Issued	Systems, Ltd. Orion Energy
FLUORESCENT LIGHT REFLECTOR	6257735	07/10/2001	Issued	Systems, Ltd. Orion Energy

FOREIGN ISSUED PATENTS

NONE

EXHIBIT B

UNITED STATES TRADEMARKS

MARK	SERIAL NO./REG. NO.	FILING DATE/REG. DATE	STATUS	OWNER
	2,403,983	11/14/2000	Registered	Orion Energy Systems, Ltd.

FOREIGN TRADEMARKS

MARK	COUNTRY	SERIAL NO./REG.	FILING DATE/REG. DATE	STATUS	OWNER
ORION	Canada	1213,003	04/13/2004	Pending	Orion Energy Systems, Ltd.
ORION and Design	Canada	1212,999	04/13/2004	Pending	Orion Energy Systems, Ltd.

EXHIBIT-10.14

PATENT AND TRADEMARK SECURITY AGREEMENT

This Agreement, dated as of December 22, 2005, is made by and between GREAT LAKES ENERGY TECHNOLOGIES, LLC, a Wisconsin limited liability company, having a business location at the address set forth below under its signature (the "Debtor"), and WELLS FARGO BANK, NATIONAL ASSOCIATION, acting through its Wells Fargo Business Credit operating division, having a business location at the address set forth below under its signature (the "Secured Party").

RECITALS:

The Debtor and Orion Energy Systems, Ltd., a Wisconsin corporation (collectively, the "Borrower"), and the Secured Party are parties to a Credit and Security Agreement of even date herewith (as the same may hereafter be amended, supplemented or restated from time to time, the "Credit Agreement") setting forth the terms on which the Secured Party may now or hereafter extend credit to or for the account of the Borrower.

As a condition to extending credit to or for the account of the Borrower, the Secured Party has required the execution and delivery of this Agreement by the Debtor.

ACCORDINGLY, in consideration of the mutual covenants contained in the Loan Documents and herein, the parties hereby agree as follows:

1. Definitions All terms defined in the Recitals hereto or in the Credit Agreement that are not otherwise defined herein shall have the meanings given to them therein. In addition, the following terms have the meanings set forth below:

"Obligations" means each and every debt, liability and obligation of every type and description arising under or in connection with any Loan Document (as defined in the Credit Agreement) which the Borrower may now or at any time hereafter owe to the Secured Party, whether such debt, liability or obligation now exists or is hereafter created or incurred and whether it is or may be direct or indirect, due or to become due, absolute or contingent, primary or secondary, liquidated or unliquidated, independent, joint, several or joint and several, and including specifically, but not limited to, the Obligations (as defined in the Credit Agreement).

"Patents" means all of the Debtor's right, title and interest in and to patents or applications for patents, fees or royalties with respect to each, and including without limitation the right to sue for past infringement and damages therefor, and licenses thereunder, all as presently existing or hereafter arising or acquired, including without limitation the patents listed on **Exhibit A.**

"Security Interest" has the meaning given in Section 2.

"Trademarks" means all of the Debtor's right, title and interest in and to: (i) trademarks, service marks, collective membership marks, registrations and applications for registration for each, and the respective goodwill associated with each, (ii) licenses, fees or royalties with respect to each, (iii) the right to sue for past, present and future infringement,

dilution and damages therefor, (iv) and licenses thereunder, all as presently existing or hereafter arising or acquired, including, without limitation, the marks listed on Exhibit B.

2. Security Interest. The Debtor hereby irrevocably pledges and assigns to, and grants the Secured Party a security interest (the "Security Interest"), with power of sale to the extent permitted by law, in the Patents and in the Trademarks to secure payment of the Obligations. As set forth in the Credit Agreement, the Security Interest is coupled with a security interest in substantially all of the personal property of the Debtor. This Agreement grants only the Security Interest herein described, is not intended to and does not affect any present transfer of title of any trademark registration or application and makes no assignment and grants no right to assign or perform any other action with respect to any intent to use trademark application, unless such action is permitted under 15 U.S.C. §1060.

3. Representations, Warranties and Agreements. The Debtor represents, warrants and agrees as follows:

(a) ***Existence; Authority***. The Debtor is a limited liability company duly organized, validly existing and in good standing under the laws of its state of __________ , and this Agreement has been duly and validly authorized by all necessary [**limited liability company**] action on the part of the Debtor.

(b) ***Patents***. **Exhibit A** accurately lists all Patents owned or controlled by the Debtor as of the date hereof, or to which the Debtor has a right as of the date hereof to have assigned to it, and accurately reflects the existence and status of applications and letters patent pertaining to the Patents as of the date hereof. If after the date hereof, the Debtor owns, controls or has a right to have assigned to it any Patents not listed on **Exhibit A**, or if **Exhibit A** ceases to accurately reflect the existence and status of applications and letters patent pertaining to the Patents, then the Debtor shall within sixty (60) days provide written notice to the Secured Party with a replacement **Exhibit A**, which upon acceptance by the Secured Party shall become part of this Agreement.

(c) ***Trademarks***. **Exhibit B** accurately lists all Trademarks owned or controlled by the Debtor as of the date hereof and accurately reflects the existence and status of Trademarks and all applications and registrations pertaining thereto as of the date hereof; provided, however, that **Exhibit B** need not list common law marks (i.e., Trademarks for which there are no applications or registrations) which are not material to the Debtor's or any Affiliate's business(es). If after the date hereof, the Debtor owns or controls any Trademarks not listed on **Exhibit B** (other than common law marks which are not material to the Debtor's business), or if **Exhibit B** ceases to accurately reflect the existence and status of applications and registrations pertaining to the Trademarks, then the Debtor shall promptly provide written notice to the Secured Party with a replacement **Exhibit B**, which upon acceptance by the Secured Party shall become part of this Agreement.

(d) ***Affiliates***. As of the date hereof, no Affiliate owns, controls, or has a right to have assigned to it any items that would, if such item were owned by the Debtor, constitute Patents or Trademarks. If after the date hereof any Affiliate owns, controls, or

has a right to have assigned to it any such items, then the Debtor shall promptly either: (i) cause such Affiliate to assign all of its rights in such item(s) to the Debtor; or (ii) notify the Secured Party of such item(s) and cause such Affiliate to execute and deliver to the Secured Party a patent and trademark security agreement substantially in the form of this Agreement.

(e) ***Title***. The Debtor has absolute title to each Patent and each Trademark listed on Exhibits A and B, free and clear of all Liens except Permitted Liens. The Debtor (i) will have, at the time the Debtor acquires any rights in Patents or Trademarks hereafter arising, absolute title to each such Patent or Trademark free and clear of all Liens except Permitted Liens, and (ii) will keep all Patents and Trademarks free and clear of all Liens except Permitted Liens.

(f) ***No Sale***. Except as permitted in the Credit Agreement, the Debtor will not assign, transfer, encumber or otherwise dispose of the Patents or Trademarks, or any interest therein, without the Secured Party's prior written consent.

(g) ***Defense***. The Debtor will at its own expense and using commercially reasonable efforts, protect and defend the Patents and Trademarks against all claims or demands of all Persons other than those holding Permitted Liens.

(h) ***Maintenance.*** The Debtor will at its own expense maintain the Patents and the Trademarks to the extent reasonably advisable in its business including, but not limited to, filing all applications to obtain letters patent or trademark registrations and all affidavits, maintenance fees, annuities, and renewals possible with respect to letters patent, trademark registrations and applications therefor. The Debtor covenants that it will not abandon nor fail to pay any maintenance fee or annuity due and payable on any Patent or Trademark, nor fail to file any required affidavit or renewal in support thereof, without first providing the Secured Party: (i) sufficient written notice, of at least thirty (30) days, to allow the Secured Party to timely pay any such maintenance fees or annuities which may become due on any Patents or Trademarks, or to file any affidavit or renewal with respect thereto, and (ii) a separate written power of attorney or other authorization to pay such maintenance fees or annuities, or to file such affidavit or renewal, should such be necessary or desirable.

(i) ***Secured Party's Right to Take Action***. If the Debtor fails to perform or observe any of its covenants or agreements set forth in this Section 3, and if such failure continues for a period of ten (10) calendar days after the Secured Party gives the Debtor written notice thereof (or, in the case of the agreements contained in subsection (h), immediately upon the occurrence of such failure, without notice or lapse of time), or if the Debtor notifies the Secured Party that it intends to abandon a Patent or Trademark, the Secured Party may (but need not) perform or observe such covenant or agreement or take steps to prevent such intended abandonment on behalf and in the name, place and stead of the Debtor (or, at the Secured Party's option, in the Secured Party's own name) and may (but need not) take any and all other actions which the Secured Party may reasonably deem necessary to cure or correct such failure or prevent such intended abandonment.

(j) ***Costs and Expenses***. Except to the extent that the effect of such payment would be to render any loan or forbearance of money usurious or otherwise illegal under any applicable law, the Debtor shall pay the Secured Party on demand the amount of all moneys expended and all costs and expenses (including reasonable attorneys' fees and disbursements) incurred by the Secured Party in connection with or as a result of the Secured Party's taking action under subsection (i) or exercising its rights under Section 6, together with interest thereon from the date expended or incurred by the Secured Party at the Default Rate.

(k) ***Power of Attorney***. To facilitate the Secured Party's taking action under subsection (i) and exercising its rights under Section 6, the Debtor hereby irrevocably appoints (which appointment is coupled with an interest) the Secured Party, or its delegate, as the attorney-in-fact of the Debtor with the right (but not the duty) from time to time to create, prepare, complete, execute, deliver, endorse or file, in the name and on behalf of the Debtor, any and all instruments, documents, applications, financing statements, and other agreements and writings required to be obtained, executed, delivered or endorsed by the Debtor under this Section 3, or, necessary for the Secured Party, after an Event of Default, to enforce or use the Patents or Trademarks or to grant or issue any exclusive or non-exclusive license under the Patents or Trademarks to any third party, or to sell, assign, transfer, pledge, encumber or otherwise transfer title in or dispose of the Patents or Trademarks to any third party. The Debtor hereby ratifies all that such attorney shall lawfully do or cause to be done by virtue hereof. The power of attorney granted herein shall terminate upon the termination of the Credit Agreement as provided therein and the payment and performance of all Obligations.

4. Debtor's Use of the Patents and Trademarks. The Debtor shall be permitted to control and manage the Patents and Trademarks, including the right to exclude others from making, using or selling items covered by the Patents and Trademarks and any licenses thereunder, in the same manner and with the same effect as if this Agreement had not been entered into, so long as no Event of Default occurs and remains uncured.

5. Events of Default. Each of the following occurrences shall constitute an event of default under this Agreement (herein called "Event of Default"): (a) an Event of Default, as defined in the Credit Agreement, shall occur; or (b) the Debtor shall fail promptly to observe or perform any covenant or agreement herein binding on it; or (c) any of the representations or warranties contained in Section 3 shall prove to have been incorrect in any material respect when made.

6. Remedies. Upon the occurrence of an Event of Default and at any time thereafter, the Secured Party may, at its option, take any or all of the following actions:

(a) The Secured Party may exercise any or all remedies available under the Credit Agreement.

(b) The Secured Party may sell, assign, transfer, pledge, encumber or otherwise dispose of the Patents and Trademarks.

(c) The Secured Party may enforce the Patents and Trademarks and any licenses thereunder, and if Secured Party shall commence any suit for such enforcement, the Debtor shall, at the request of Secured Party, do any and all lawful acts and execute any and all proper documents required by Secured Party in aid of such enforcement.

7. Miscellaneous. This Agreement can be waived, modified, amended, terminated or discharged, and the Security Interest can be released, only explicitly in a writing signed by the Secured Party. A waiver signed by the Secured Party shall be effective only in the specific instance and for the specific purpose given. Mere delay or failure to act shall not preclude the exercise or enforcement of any of the Secured Party’s rights or remedies. All rights and remedies of the Secured Party shall be cumulative and may be exercised singularly or concurrently, at the Secured Party’s option, and the exercise or enforcement of any one such right or remedy shall neither be a condition to nor bar the exercise or enforcement of any other. All notices to be given to Debtor under this Agreement shall be given in the manner and with the effect provided in the Credit Agreement. The Secured Party shall not be obligated to preserve any rights the Debtor may have against prior parties, to realize on the Patents and Trademarks at all or in any particular manner or order, or to apply any cash proceeds of Patents and Trademarks in any particular order of application. This Agreement shall be binding upon and inure to the benefit of the Debtor and the Secured Party and their respective participants, successors and assigns and shall take effect when signed by the Debtor and delivered to the Secured Party, and the Debtor waives notice of the Secured Party’s acceptance hereof. The Secured Party may execute this Agreement if appropriate for the purpose of filing, but the failure of the Secured Party to execute this Agreement shall not affect or impair the validity or effectiveness of this Agreement. A carbon, photographic or other reproduction of this Agreement or of any financing statement signed by the Debtor shall have the same force and effect as the original for all purposes of a financing statement. This Agreement shall be governed by the internal law of Wisconsin without regard to conflicts of law provisions. If any provision or application of this Agreement is held unlawful or unenforceable in any respect, such illegality or unenforceability shall not affect other provisions or applications which can be given effect and this Agreement shall be construed as if the unlawful or unenforceable provision or application had never been contained herein or prescribed hereby. All representations and warranties contained in this Agreement shall survive the execution, delivery and performance of this Agreement and the creation and payment of the Obligations.

THE PARTIES WAIVE ANY RIGHT TO TRIAL BY JURY IN ANY ACTION OR PROCEEDING BASED ON OR PERTAINING TO THIS AGREEMENT.

IN WITNESS WHEREOF, the parties have executed this Patent and Trademark Security Agreement as of the date written above.

WELLS FARGO BANK, NATIONAL ASSOCIATION, acting through its WELLS FARGO BUSINESS CREDIT operating division	GREAT LAKES ENERGY TECHNOLOGIES, LLC
By: /s/ Melissa L. Dreifuerst Its: Vice President	By: /s/ Neal R. Verfuerth Its: President
Wells Fargo Business Credit 100 East Wisconsin Avenue MAC N9811-143 Milwaukee, Wisconsin 53202	Great Lakes Energy Technologies, LLC 2001 Mirro Drive Manitowoc, Wisconsin 54220

STATE OF WISCONSIN)
)
COUNTY OF MILWAUKEE)

The foregoing instrument was acknowledged before me this 22nd day of December, 2005, by Neal R. Verfuerth, the President of Great Lakes Energy Technologies, LLC, a Wisconsin limited liability company, on behalf of the limited liability company.

/s/ Eric von Estorff
Notary Public

STATE OF WISCONSIN)
)
COUNTY OF MILWAUKEE)

The foregoing instrument was acknowledged before me this 22nd day of December, 2005, by Melissa L. Dreifuerst, a Vice President of Wells Fargo Bank, National Association, acting through its Wells Fargo Business Credit operating division, on behalf of the bank.

/s/ Eric von Estorff
Notary Public

EXHIBIT A

UNITED STATES ISSUED PATENTS

NONE

FOREIGN ISSUED PATENTS

NONE

EXHIBIT B

UNITED STATE TRADEMARKS

MARK	SERIAL NO./REG. NO.	FILING DATE/REG. DATE	STATUS	OWNER
FAST LITE	78/543,917	01/07/2005	Pending	Great Lakes Energy Technologies, LLC

FOREIGN TRADEMARKS

MARK	COUNTRY	SERIAL NO./REG.NO.	FILING DATE/REG. DATE	STATUS	OWNER
FAST LITE	Canada	1243,175	01/11/2005	Pending	Great Lakes Energy Technologies, LLC

Exhibit 21.1

Subsidiaries

Entity	Jurisdiction of Organization
Great Lakes Energy Technologies, LLC	Wisconsin
Clean Energy Solutions, LLC	Wisconsin
Energy Capital Partners, LLC	Wisconsin

Exhibit 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We have issued our report dated August 16, 2007, accompanying the consolidated financial statements of Orion Energy Systems, Inc. and Subsidiaries (which report expressed an unqualified opinion and contains an explanatory paragraph relating to the adoption of Statement of Financial Accounting Standards No. 123(R), *Share-Based Payment*) contained in the Registration Statement and Prospectus. We consent to the use of the aforementioned report in the Registration Statement and Prospectus and to the use of our name as it appears under the caption "Experts."

/s/ Grant Thornton LLP
Milwaukee, Wisconsin
August 17, 2007

Exhibit 23.3

VALUATORS' CONSENT

"We hereby consent to the reference to our firm under the captions "Experts," "Managements Discussion and Analysis Results of Operations and Financial Condition—Critical Accounting Policies—Stock-Based Compensation," "Executive Compensation — Compensation Discussion Analysis — Elements of Compensation — Long-Term Equity Incentive Compensation" and "Executive Compensation — Director Compensation" in the registration statement on Form S-1 of Orion Energy Systems, Inc. for the registration of shares of its common stock and any amendment thereto (the "Registration Statement"). In giving such consent, we do not hereby admit that we come within the category of person whose consent is required under Section 7 or Section 11 of the Securities Act of 1933, as amended, or the rules and regulations adopted by the Securities and Exchange Commission thereunder, nor do we admit that we are experts with respect to any part of such Registration Statement within the meaning of the term "experts" as used in the Securities Act of 1933, as amended or the rules and regulations of the Securities and Exchange Commission thereunder."

/s/ Wipfli LLP

Wipfli LLP

Green Bay, Wisconsin

August 16, 2007

FOLEY & LARDNER LLP
ATTORNEYS AT LAW

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CLIENT/MATTER NUMBER
042365-0111

August 20, 2007

VIA EDGAR

Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549

Re: Orion Energy Systems, Inc.—
Registration Statement on Form S-1

Ladies and Gentlemen:

On behalf of Orion Energy Systems, Inc., a Wisconsin corporation (the "Company"), we are transmitting for filing under the Securities Act of 1933, as amended (the "Securities Act"), the above-referenced registration statement, with exhibits, relating to a proposed offering by Orion Energy Systems, Inc. of up to $100,000,000 aggregate principal amount of shares of the Company's common stock, no par value per share.

The Company has made a wire transfer in the amount of $3,070.00 in payment of the prescribed registration fee to the United States Treasury designated lockbox depository at Mellon Bank in Pittsburgh, Pennsylvania. Such fee was calculated in accordance with Rule 457 under the Securities Act. The Company's filing fee account number is 0001409375.

Should any questions arise in connection with this filing, please contact the undersigned at (414) 297-5662 or Peter C. Underwood at (414) 297-5630.

Very truly yours,

/s/ Steven R. Barth

Steven R. Barth

cc: Orion Energy Systems, Inc.
Working Group