

ORION ENERGY SYSTEMS, INC.

Form 10-Q/A

August 02, 2011

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q/A
(Amendment No.1)**

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

For the Quarterly Period Ended September 30, 2009

OR

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

Commission file number 001-33887

Orion Energy Systems, Inc.

(Exact name of Registrant as specified in its charter)

Wisconsin

39-1847269

(State or other jurisdiction of incorporation or organization)

(I.R.S. Employer Identification number)

2210 Woodland Drive, Manitowoc, Wisconsin

54220

(Address of principal executive offices)

(Zip code)

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

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes No
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405) during the preceding 12 months (or for shorter period that the registrant was required to submit and post such files). Yes No

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

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

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

There were 21,808,480 shares of the Registrant's common stock outstanding on November 4, 2009.

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EXPLANATORY NOTE

As used herein, unless otherwise expressly stated or the context otherwise requires, all references to Orion, we, us, our, Company and similar references are to Orion Energy Systems, Inc. and its consolidated subsidiaries.

As previously disclosed, in this Quarterly Report on Form 10-Q/A, we have restated our previously issued unaudited consolidated financial statements and related disclosures for the quarter ended September 30, 2009 to reclassify our transactions under our Orion Throughput Agreements, or OTAs, as sales-type leases instead of as operating leases.

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

This Quarterly Report on Form 10-Q/A for the quarterly period ended September 30, 2009, initially filed with the SEC on November 9, 2009 (Original Filing), is being filed to reflect the financial statement restatement. Generally, for the quarterly and year-to-date periods ended September 30, 2009, this change in accounting treatment and financial statement restatements has resulted in:

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

Increases in our revenue of \$1.5 million (11%), a decrease in our net loss of \$0.5 million (33%) and a reduction in our loss per share of \$0.02 (33%) for the quarter ended September 30, 2009, and an increase in our revenue of \$2.7 million (11%), a decrease in our net loss of \$1.2 million (28%) and a reduction in our loss per share of \$0.05 (26%) for the six months ended September 30, 2009; and

Increases in our current assets of \$1.4 million (2%), our total assets of \$1.3 million (1%), our total liabilities of \$0.1 million (1%) and a reduction in our retained deficit of \$1.2 million (41%).

For a more detailed description of this financial statement restatement, see Note B, Restatement of Financial Statements to our consolidated financial statements and the section entitled Restatement of Previously Issued Consolidated Financial Statements in Management's Discussion and Analysis of Financial Condition and Results of Operations contained in this Form 10-Q/A.

This Form 10-Q/A only amends and restates Items 1, 2, and 4 of Part I of the Original Filing, in each case, solely as a result of, and to reflect, the restatement, and no other information in the Original Filing is amended hereby. The foregoing items have not been updated to reflect other events occurring after the Original Filing or to modify or update those disclosures affected by subsequent events. In addition, pursuant to the rules of the SEC, Item 6 of Part II of the Original Filing has been amended to contain currently-dated certifications from our Chief Executive Officer and Chief Financial Officer, as required by Section 302 and 906 of the Sarbanes-Oxley Act of 2002. The certifications of our Chief Executive Officer and Chief Financial Officer are attached to this Form 10-Q/A as Exhibits 31.1, 31.2, 32.1, and 32.2, respectively.

Except for the foregoing amended information, this Form 10-Q/A continues to describe conditions as of the date of the Original Filing, and we have not updated the disclosures contained herein to reflect events that occurred at a later date. Throughout this Quarterly Report on Form 10-Q/A, all amounts presented from prior periods and prior period comparisons that have been revised are labeled As Restated and reflect the balances and amounts on a restated basis.

Orion Energy Systems, Inc.
Quarterly Report On Form 10-Q/A
For The Quarter Ended September 30, 2009
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ORION ENERGY SYSTEMS, INC. AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands, except share and per share amounts)

	March 31, 2009	September 30, 2009 (As Restated)
Assets		
Cash and cash equivalents	\$ 36,163	\$ 33,413
Short-term investments	6,490	1,000
Accounts receivable, net of allowances of \$222 and \$316	11,572	13,447
Inventories, net	20,232	19,672
Deferred tax assets	548	1,629
Prepaid expenses and other current assets	3,369	1,396
Total current assets	78,374	70,557
Property and equipment, net	22,999	23,974
Patents and licenses, net	1,404	1,482
Deferred tax assets	593	1,068
Long-term accounts receivable		2,432
Other long-term assets	352	88
Total assets	\$ 103,722	\$ 99,601
Liabilities and Shareholders' Equity		
Accounts payable	\$ 7,817	\$ 5,479
Accrued expenses	2,315	3,018
Current maturities of long-term debt	815	693
Total current liabilities	10,947	9,190
Long-term debt, less current maturities	3,647	3,337
Other long-term liabilities	433	507
Total liabilities	15,027	13,034
Commitments and contingencies (See Note F)		
Shareholders' equity:		
Preferred stock, \$0.01 par value: Shares authorized: 30,000,000 shares at March 31, 2009 and September 30, 2009; no shares issued and outstanding at March 31, 2009 and September 30, 2009		
Common stock, no par value: Shares authorized: 200,000,000 at March 31, 2009 and September 30, 2009; shares issued: 28,875,879 and 29,173,406 at March 31, 2009 and September 30, 2009; shares outstanding: 21,528,783 and 21,721,667 at March 31, 2009 and September 30, 2009		
Additional paid-in capital	118,907	120,098
	(31,536)	(31,936)

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Treasury stock: 7,347,096 and 7,451,739 common shares at March 31, 2009 and September 30, 2009

Accumulated other comprehensive (loss) income	(32)	61
Retained earnings (deficit)	1,356	(1,656)
Total shareholders' equity	88,695	86,567
Total liabilities and shareholders' equity	\$ 103,722	\$ 99,601

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

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

	Three Months Ended September		Six Months Ended September	
	2008	30, 2009 (As Restated)	2008	30, 2009 (As Restated)
Product revenue	\$ 17,280	\$ 15,219	\$ 30,169	\$ 27,143
Service revenue	1,480	856	4,697	2,807
Total revenue	18,760	16,075	34,866	29,950
Cost of product revenue	11,467	10,122	20,080	18,870
Cost of service revenue	958	632	3,254	1,887
Total cost of revenue	12,425	10,754	23,334	20,757
Gross profit	6,335	5,321	11,532	9,193
Operating expenses:				
General and administrative	2,893	3,143	5,508	6,307
Sales and marketing	2,771	2,962	5,423	6,113
Research and development	373	491	791	910
Total operating expenses	6,037	6,596	11,722	13,330
Income (loss) from operations	298	(1,275)	(190)	(4,137)
Other income (expense):				
Interest expense	(41)	(73)	(108)	(127)
Dividend and interest income	550	147	1,167	383
Total other income	509	74	1,059	256
Income (loss) before income tax	807	(1,201)	869	(3,881)
Income tax expense (benefit)	354	(269)	382	(869)
Net income (loss)	\$ 453	\$ (932)	\$ 487	\$ (3,012)
Basic net income (loss) per share	\$ 0.02	\$ (0.04)	\$ 0.02	\$ (0.14)
Weighted-average common shares outstanding	26,959,790	21,707,477	26,998,857	21,648,246
Diluted net income (loss) per share	\$ 0.02	\$ (0.04)	\$ 0.02	\$ (0.14)
Weighted-average common shares and share equivalents outstanding	29,018,991	21,707,477	29,613,684	21,648,246

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

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

	Six Months Ended September 30,	
	2008	2009 (As Restated)
Operating activities		
Net income (loss)	\$ 487	\$ (3,012)
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation and amortization	856	1,325
Stock-based compensation expense	846	663
Deferred income tax (benefit) expense	193	(1,556)
Change in allowance for notes and accounts receivable	20	353
Other	62	(3)
Changes in operating assets and liabilities:		
Accounts receivable	1,275	(1,969)
Inventories	(2,096)	560
Prepaid expenses and other assets and liabilities	(1,504)	(383)
Accounts payable	(43)	(2,338)
Accrued expenses	(467)	703
Net cash used in operating activities	(371)	(5,657)
Investing activities		
Purchase of property and equipment	(6,865)	(2,235)
Purchase of property and equipment held under operating leases		
Purchase of short-term investments	(17,415)	
Sale of short-term investments		5,583
Additions to patents and licenses	(1,074)	(131)
Proceeds from sales of long term assets	860	6
Gain on sale of long term investment	(361)	
Net cash provided by (used in) investing activities	(24,855)	3,223
Financing activities		
Payment of long-term debt	(405)	(433)
Repurchase of common stock into treasury	(8,138)	(400)
Excess tax benefits from stock-based compensation	505	
Deferred financing costs and offering costs	7	
Proceeds from issuance of common stock	1,352	517
Net cash used in financing activities	(6,679)	(316)
Net decrease in cash and cash equivalents	(31,905)	(2,750)
Cash and cash equivalents at beginning of period	78,312	36,163

Cash and cash equivalents at end of period	\$	46,407	\$	33,413
Supplemental cash flow information:				
Cash paid for interest	\$	186	\$	149
Cash paid for income taxes		83		30
Supplemental disclosure of non-cash investing and financing activities				
Long-term note receivable received on sale of investment	\$	298	\$	

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

Table of Contents**ORION ENERGY SYSTEMS, INC. AND SUBSIDIARIES****UNAUDITED NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****NOTE A DESCRIPTION OF BUSINESS****Organization**

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

NOTE B RESTATEMENT OF FINANCIAL STATEMENTS

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

As previously disclosed in a Current Report on Form 8-K, on June 14, 2011, the Company's management, with concurrence from the Audit & Finance Committee of the Company's Board of Directors, concluded that the financial statements contained in the Form 10-Q for the quarterly period ended September 30, 2009 should no longer be relied upon and must be restated to properly record revenue from its OTAs as sales-type lease contracts.

In accordance with ASC Topic 840, Leases, the Company's prior method of accounting for OTA transactions as operating leases deferred revenue recognition over the full term of the OTA contracts, only recognizing revenue on a monthly basis as customer payments became due, while the upfront sales, general and administrative expenses related to these OTA contracts were recognized immediately. On June 9, 2011, the Company concluded that generally accepted accounting principles, or GAAP, required the Company to reclassify its transactions under its OTAs as sales-type leases instead of as operating leases. Accounting for OTA contracts as sales-type leases under GAAP requires the Company to record revenue at the net present value of the future payments at the time customer acceptance of its installed and operating energy management system is complete, rather than deferring revenue recognition over the full term of the OTA contracts.

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

The specific line-item effect of the restatement on the Company's previously issued unaudited condensed consolidated financial statements as of and for the three and six months ended September 30, 2009 as filed on Form 10-Q on November 9, 2009 are as follows (in thousands, except share and per share data):

Consolidated Balance Sheets as of September 30, 2009

	As Previously reported	Adjustments	As Restated
Assets:			
Accounts receivable	\$ 12,742	\$ 705	\$ 13,447
Deferred tax assets, current	765	864	1,629
Prepaid expenses and other current assets	1,520	(124)	1,396
Total current assets	69,112	1,445	70,557
Property and equipment, net	25,739	(1,765)	23,974
Deferred tax assets, long-term	1,886	(818)	1,068
Accounts receivable, long-term		2,432	2,432
Total assets	98,307	1,294	99,601

Liabilities and Shareholders Equity:

Accrued expenses	2,885	133	3,018
Shareholders equity:			
Retained deficit	(2,817)	1,161	(1,656)

Table of Contents**Consolidated Statements of Operations**

	Three months ended September 30, 2009			Six months ended September 30, 2009		
	As			As		
	Previously reported	Adjustments	As Restated	Previously reported	Adjustments	As Restated
Product revenue	\$ 13,763	\$ 1,456	\$ 15,219	\$ 24,440	\$ 2,703	\$ 27,143
Cost of product revenue	9,222	900	10,122	17,094	1,776	18,870
Interest expense	(74)	1	(73)	(130)	3	(127)
Dividend and interest income	76	71	147	198	185	383
Income tax benefit	(430)	161	(269)	(824)	(45)	(869)
Net loss	(1,399)	467	(932)	(4,172)	1,161	(3,012)
Net loss per share attributable to common shareholders basic and diluted	\$ (0.06)	\$ 0.02	\$ (0.04)	\$ (0.19)	\$ 0.05	\$ (0.14)
Weighted average common shares outstanding basic and diluted	21,707,477		21,707,477	21,648,246		21,648,246

Consolidated Statements of Cash Flows

	Six months ended September 30, 2009		
	As		
	Previously Reported	Adjustments	As Restated
Net loss	\$ (4,172)	\$ 1,161	\$ (3,012)
Deferred income tax benefit	(1,510)	(46)	(1,556)
Accounts receivable	(1,264)	(705)	(1,969)
Prepaid expenses and other assets and liabilities	1,845	(2,228)	(383)
Accrued expenses	651	52	703
Net cash used in operating activities	(3,890)	(1,767)	(5,657)
Purchase of property and equipment	(2,501)	266	(2,235)
Purchase of property and equipment held under operating leases	(1,501)	1,501	
Other long-term assets			
Net cash provided by investing activities	1,456	1,767	3,223

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

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

Table of Contents***Basis of presentation***

The accompanying unaudited condensed consolidated financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States (GAAP) for interim financial information and with the rules and regulations of the Securities Exchange Commission. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments, consisting of normal recurring adjustments, considered necessary for a fair presentation have been included. Interim results are not necessarily indicative of results that may be expected for the year ending March 31, 2010 or other interim periods.

The condensed consolidated balance sheet at March 31, 2009 has been derived from the audited consolidated financial statements at that date but does not include all of the information required by GAAP for complete financial statements.

As of November 9, 2009, there were no subsequent events that materially affected these unaudited consolidated interim financial statements.

The accompanying unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and footnotes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 2009 as supplemented by the audited consolidated financial statements and footnotes thereto included in the Company's Annual Reports on Form 10-K for the fiscal years ended March 31, 2010 and March 31, 2011 filed with the SEC on July 22, 2011 (see, in particular, footnote B therein).

Use of estimates

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

Reclassification

Certain reclassifications have been made in the prior periods financial statements to conform to current period presentation.

Cash and cash equivalents

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

Short-term investments available for sale

The amortized cost and fair value of marketable securities, with gross unrealized gains and losses, as of March 31, 2009 and September 30, 2009 were as follows (in thousands):

	March 31, 2009				Cash and	Short
	Amortized	Unrealized	Unrealized	Fair	Cash	Term
	Cost	Gains	Losses	Value	Equivalents	Investments
Money market funds	\$ 14,114	\$	\$	\$ 14,114	\$ 14,114	\$
Bank certificate of deposit	9,007			9,007	6,207	2,800
Commercial paper	3,690			3,690		3,690
Corporate obligations	2,257		(7)	2,250	2,250	
Government agency obligations	12,412		(25)	12,387	12,387	
Total	\$ 41,480	\$	\$ (32)	\$ 41,448	\$ 34,958	\$ 6,490

September 30, 2009

	Amortized	Unrealized	Unrealized		Cash and	Short
	Cost	Gains	Losses	Fair	Cash	Term
				Value	Equivalents	Investments
Money market funds	\$ 22,107	\$	\$	\$ 22,107	\$ 22,107	\$
Bank certificate of deposit	7,282			7,282	6,282	1,000
Commercial paper	3,639	61		3,700	3,700	
Total	\$ 33,028	\$ 61	\$	\$ 33,089	\$ 32,089	\$ 1,000

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

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

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

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

As of September 30, 2009, the Company's financial assets described in the table above were measured at fair value employing level 1 inputs.

Fair value of financial instruments

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

Accounts receivable

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

Included in accounts receivable are amounts due from a third party finance company to which the Company has sold, without recourse, the future cash flows from lease arrangements entered into with customers. Such receivables are recorded at the present value of the future cash flows discounted at 10.25%. As of September 30, 2009, the following amounts were due from the third party finance company in future periods (in thousands):

Fiscal 2010	\$	36
Fiscal 2011		25
Total gross receivable		61
Less: amount representing interest		(4)
Net contracts receivable	\$	57

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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 product revenue the amount required to reduce the carrying value of inventory to net realizable value. As of March 31, 2009 and September 30, 2009, the Company had inventory obsolescence reserves of \$668,000 and \$680,000, respectively.

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

Inventories were comprised of the following (in thousands):

	March 31, 2009	September 30, 2009
Raw materials and components	\$ 9,629	\$ 9,383
Work in process	1,753	574
Finished goods	8,850	9,715
	\$ 20,232	\$ 19,672

Property and Equipment

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

	March 31, 2009	September 30, 2009 (As Restated)
Land and land improvements	\$ 822	\$ 1,435
Buildings	5,435	14,127
Furniture, fixtures and office equipment	3,432	5,010
Plant equipment	6,882	7,190
Construction in progress	11,366	2,262
	27,937	30,024
Less: accumulated depreciation and amortization	(4,938)	(6,050)
Net property and equipment	\$ 22,999	\$ 23,974

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

	March 31, 2009	September 30, 2009
Equipment	\$ 1,104	\$ 1,104
Less: accumulated amortization	(477)	(535)
Net equipment	\$ 627	\$ 569

The Company capitalized \$57,000 and \$0 of interest for construction in progress for the three months ended September 30, 2008 and 2009; and \$96,000 and \$21,000 for the six months ended September 30, 2008 and 2009.

Patents and Licenses

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

Table of Contents**Long-Term Receivables**

The Company records a long-term receivable for the non-current portion of its sales-type capital lease OTA contracts. The receivable is recorded at the net present value of the future cash flows from scheduled customer payments. The Company uses the implied cost of capital from each individual contract as the discount rate. Long-term receivables from OTA contracts were \$2.4 million as of September 30, 2009.

Investment

In June 2008, the Company sold its long-term investment consisting of 77,000 shares of preferred stock of a manufacturer of specialty aluminum products. The investment was originally acquired in July 2006 by exchanging products with a fair value of \$794,000. The Company received cash proceeds from the sale in the amount of \$986,000, which included accrued dividends of \$128,000, and also received a promissory note in the amount of \$298,000.

Other Long-Term Assets

Other long-term assets include \$33,000 and \$30,000 of deferred financing costs as of March 31, 2009 and September 30, 2009 and \$298,000 and \$39,000 of a note receivable as of March 31, 2009 and September 30, 2009, respectively. Upon the sale of the long-term investment noted above, the Company received a promissory note. The note provides for interest only payments at 7% for the first year and 15% for the second year and thereafter. The full principal amount of the note is due in June 2011. The note is secured by a personal guarantee from the CEO of the specialty aluminum products company. Based upon an assessment of the long-term note receivable, the Company has determined that a portion of the note receivable may not be collectible and accordingly, has established a reserve allowance of \$259,000 of the original face value of the promissory note. For the three and six months ended September 30, 2009, the Company recorded an expense of \$259,000.

Accrued Expenses

Accrued expenses include warranty accruals, accrued wages and benefits, accrued vacation, sales tax payable and other various unpaid expenses. Accrued health insurance costs were \$378,000 and \$469,000 as of March 31, 2009 and September 30, 2009. Accrued wages were \$542,000 and \$550,000 as of March 31, 2009 and September 30, 2009.

The Company generally offers a limited warranty of one year on its products in addition to those standard warranties offered by major original equipment component manufacturers. The manufacturers' warranties cover lamps and ballasts, which are significant components in the Company's products.

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

	Three Months Ended		Six Months Ended	
	September 30,		September 30,	
	2008	2009	2008	2009
Beginning of period	\$ 63	\$ 65	\$ 69	\$ 55
Provision to cost of revenue	17	10	20	20
Charges	(34)	(33)	(43)	(33)
End of period	\$ 46	\$ 42	\$ 46	\$ 42

Revenue Recognition

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

collectability is reasonably assured

These four criteria are met for the Company's product only revenue upon delivery of the product and title passing to the customer. At that time, the Company provides for estimated costs that may be incurred for product warranties and

sales returns. Revenues are presented net of sales tax and other sales related taxes.

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For sales contracts consisting of multiple elements of revenue, such as a combination of product sales and services, the Company determines revenue by allocating the total contract revenue to each element based on the relative fair values.

Services other than installation and recycling that are completed prior to delivery of the product are recognized upon shipment and are included in product revenue as evidence of fair value does not exist. These services include comprehensive site assessment, site field verification, utility incentive and government subsidy management, engineering design, and project management.

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

In October 2008, the Company introduced a financing program, called an OTA, for a customer's lease of the Company's energy management systems. The OTA is structured as a sales-type capital lease and upon successful installation of the system and customer acknowledgement that the product is operating as specified, revenue is recognized at the Company's net investment in the lease which typically is the net present value of the future cash flows.

Deferred revenue relates to an obligation to provide maintenance on certain sales and is classified as a liability on the Balance Sheet. The fair value of the maintenance is readily determinable based upon pricing from third-party vendors. Deferred revenue is recognized when the services are delivered, which occurs in excess of a year after the original contract.

Deferred revenue was comprised of the following (in thousands):

	March 31, 2009	September 30, 2009
Deferred revenue - current liability	\$ 103	\$ 98
Deferred revenue - long term liability	36	109
Total deferred revenue	\$ 139	\$ 207

Income Taxes

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

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

	Six Months Ended, September 30, 2008	September 30, 2009
Unrecognized tax benefits as of beginning of period	\$ 392	\$ 397
Decreases relating to settlements with tax authorities	(5)	

Additions based on tax positions related to the current period positions	6	1
Unrecognized tax benefits as of end of period	\$ 393	\$ 398

The income tax provision for the six months ended September 30, 2009 was determined by applying an estimated annual effective tax rate of (22.4)% to income (loss) before taxes. The estimated effective income tax rate was determined by applying statutory tax rates to pretax income adjusted for certain permanent book to tax differences and tax credits.

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

	Six Months Ended	
	September 30, 2008	September 30, 2009 (As Restated)
Statutory federal tax rate	34.00%	(34.0)%
State taxes, net	5.47%	2.6%
Stock-based compensation expense	4.16%	5.0%
Federal tax credit	0.00%	(3.5)%
State tax credit	0.00%	(0.4)%
Permanent items	0.00%	0.1%
Change in valuation reserve	0.00%	5.1%
Other, net	0.35%	2.7%
Effective income tax rate	43.98%	(22.4)%

The Company has issued incentive stock options for which stock compensation expense is not deductible currently for tax purposes. The non-deductible expense is considered permanent in nature. A disqualifying disposition occurs when a shareholder sells shares from an option exercise within 12 months of the exercise date or within 24 months of the option grant date. In the event of a disqualifying disposition, the option and related stock compensation expense take on the characteristics of a non-qualified stock option grant, and is deductible for income tax purposes. This deduction is a permanent tax rate differential. The Company could incur significant changes in its effective tax rate in future periods based upon incentive stock option compensation expense and disqualifying disposition events. Since July 30, 2008, all stock option grants have been issued as non-qualified stock options.

Stock Option Plans

The fair value of each option grant for the three and six months ended September 30, 2008 and 2009 was determined using the assumptions in the following table:

	Three months Ended		Six months Ended	
	September 30,		September 30,	
	2008	2009	2008	2009
Weighted average expected term	6.0 years	7.3 years	5.7 years	6.5 years
Risk-free interest rate	3.35%	2.77%	3.24%	2.57%
Expected volatility	60%	60%	60%	60%
Expected forfeiture rate	2%	3%	2%	3%
Expected dividend yield	0%	0%	0%	0%

Net Income (Loss) per Common Share

Basic net income (loss) per common share is computed by dividing net income (loss) attributable to common shareholders by the weighted-average number of common shares outstanding for the period and does not consider common stock equivalents. For the three and six months ended September 30, 2009, the calculation of dilutive weighted average shares outstanding does not include the following potentially dilutive shares as their effect would be antidilutive.

The net income (loss) per share of common stock for the three and six months ended September 30, 2008 and 2009 was as follows (in thousands except share amounts):

	Three Months Ended		Six Months Ended	
	September 30,		September 30,	
	2008	2009	2008	2009

		(As Restated)		(As Restated)
Numerator:				
Net income (loss)	\$ 453	\$ (932)	\$ 487	\$ (3,012)
Denominator:				
Weighted-average common shares outstanding	26,959,790	21,707,477	26,998,857	21,648,246
Weighted-average effect of restricted stock, and assumed conversion of stock options and warrants	2,059,201	644,920	2,614,827	788,723
Weighted-average common shares and common share equivalents outstanding	29,018,991	22,352,397	29,613,684	22,436,969

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Concentration of Credit Risk and Other Risks and Uncertainties

The Company's cash is deposited with three financial institutions. At times, deposits in these institutions 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 14.9% and 20.6% of total cost of revenue for the three months ended September 30, 2008 and 2009 and 22.1% and 14.9% of total cost of revenue for the six months ended September 30, 2008 and 2009.

For the three and six months ended September 30, 2008 and September 30, 2009, no customers accounted for more than 10% of revenue.

As of March 31, 2009 and September 30, 2009, no customer accounted for more than 10% of the accounts receivable balance.

Segment Information

The Company has determined that it operates in only one segment in accordance with the Segment Reporting Topic of the FASB Accounting Standards Codification 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.

Recent Accounting Pronouncements

In May 2009, the FASB issued ASC 855-10 (formerly SFAS No. 165), *Subsequent Events*. ASC 855-10 sets forth: (1) the period after the balance sheet date during which management of a reporting entity should evaluate events or transactions that may occur for potential recognition or disclosure in financial statements, (2) the circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements and (3) the disclosures that an entity should make about events or transactions that occurred after the balance sheet date. The pronouncement is effective with interim and annual financial periods ending after June 15, 2009. The Company adopted ASC 855-10 at the beginning of its 2009 second quarter. The adoption did not have a significant impact on the subsequent events that the Company reports, either through recognition or disclosure, in its consolidated financial statements.

In June 2009, the FASB issued ASC 105-10 (formerly SFAS 168), *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles*. ASC 105-10 will become the source of authoritative U.S. GAAP recognized by the FASB to be applied by nongovernment entities. It also modifies the GAAP hierarchy to include only two levels of GAAP; authoritative and non-authoritative. ASC 105-10 is effective for financial statements issued for interim and annual periods ending after September 15, 2009. The Company adopted ASC 105-10 for the 2009 second quarter reporting. The adoption did not have a significant impact on the reporting of the Company's financial position, results of operations or cash flows.

In October 2009, the FASB issued Accounting Standards Update 2009-13, *Multiple-Deliverable Revenue Arrangements – a consensus of the FASB Emerging Issues Task Force* (Topic 605), which amends the revenue guidance under ASC 605. This update requires entities to allocate revenue in an arrangement using estimated selling prices of the delivered goods and services based on a selling price hierarchy. This guidance eliminates the residual method of revenue allocation and requires revenue to be allocated using the relative selling price method. This update is effective for fiscal years ending after June 15, 2010, and may be applied prospectively for revenue arrangements entered into or materially modified after the date of adoption or retrospectively for all revenue arrangements for all periods presented. The Company is currently evaluating the impact this update will have on our consolidated financial statements.

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The Company incurred fees of \$12,000 for the six months ended September 30, 2008 for intellectual property fees paid to an executive pursuant to an employment agreement. In April 2008, the intellectual property rights were purchased from the executive for a cash payment of \$950,000. Please refer to Patents and Licenses under footnote C for additional disclosure.

During the six months ended September 30, 2008 and 2009, the Company recorded revenue of \$8,000 and \$25,000 for products and services sold to an entity for which a director of the Company was formerly the executive chairman. During the same six month periods, the Company purchased goods and services from the same entity in the amounts of \$114,000 and \$30,000. The terms and conditions of such relationship are believed to be not materially more favorable to the Company or the entity than could be obtained from an independent third party.

During the six months ended September 30, 2008 and 2009, the Company recorded revenue of \$1,000 and \$116,000 for products and services sold to an entity for which a member of the board of directors previously served as an executive vice president. The terms and conditions of such relationship are believed to be not materially more favorable to the Company or the entity than could be obtained from an independent third party.

During the six months ended September 30, 2008 and 2009, the Company recorded revenue of \$52,000 and \$41,000 for products and services sold to an entity for which a member of the board of directors serves as the chief executive officer. During the six months ended September 30, 2008 and 2009, the Company purchased goods and services from the same entity in the amounts of \$42,000 and \$14,000.

During the six months ended September 30, 2008 and 2009, the Company recorded revenue of \$382,000 and \$526,000 for products and services sold to various entities affiliated or associated with an entity for which an executive officer of the Company serves as a member of the board of directors. The Company is not able to identify the respective amount of revenues attributable to specifically identifiable entities within such group of affiliated or associated entities or the extent to which any such individual entities are related to the entity on whose board of directors the Company's executive officer serves.

NOTE E LONG-TERM DEBT

Long-term debt as of March 31, 2009 and September 30, 2009 consisted of the following (in thousands):

	March 31, 2009	September 30, 2009
Term note	\$ 1,235	\$ 1,128
First mortgage note payable	990	956
Debenture payable	885	867
Lease obligations	227	87
Other long-term debt	1,125	992
Total long-term debt	4,462	4,030
Less current maturities	(815)	(693)
Long-term debt, less current maturities	\$ 3,647	\$ 3,337

Revolving Credit Agreement

On March 18, 2008, the Company entered into a credit agreement (Credit Agreement) to replace a previous agreement between the Company and Wells Fargo Bank, N.A. The Credit Agreement provides for a revolving credit facility (Line of Credit) that matures on August 31, 2010. The initial maximum aggregate amount of availability under the Line of Credit is \$25.0 million. The Company has a one-time option to increase the maximum aggregate amount of availability under the Line of Credit to up to \$50.0 million, although any advance from the Line of Credit over \$25.0 million is discretionary to Wells Fargo even if no event of default has occurred. Borrowings are limited to a percentage of eligible trade accounts receivables and inventories, less any borrowing base reserve that may be established from time to time. In December 2008, the Company briefly drew \$4.0 million on the line of credit due to

the timing of treasury repurchases and funds available in the Company's operating account. In May 2009, the Company completed an amendment to the Credit Agreement, effective as of March 31, 2009, which formalized Wells Fargo's prior consent to the Company's treasury repurchase program, increased the capital expenditures covenant for fiscal 2009 and revised certain financial covenants by adding a minimum requirement for unencumbered liquid assets, increasing the quarterly rolling net income requirement and modifying the merger and acquisition covenant exemption. As of March 31, 2009 and September 30, 2009, there was no outstanding balance due on the Line of Credit.

The Company must currently pay a fee of 0.20% on the average daily unused amount of the Line of Credit and fees upon the issuance of each letter of credit equal to 1.25% per annum of the principal amount thereof.

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The Credit Agreement provides that the Company has the option to select the interest rate applicable to all or a portion of the outstanding principal balance of the Line of Credit either (i) at a fluctuating rate per annum one percent (1.00%) below the prime rate in effect from time to time, or (ii) at a fixed rate per annum determined by Wells Fargo to be one and one quarter percent (1.25%) above LIBOR. Interest is payable on the last day of each month.

The Credit Agreement contains certain financial covenants including minimum net income requirements, fixed charge coverage ratio and requirements that the Company maintain a net worth ratio at prescribed levels. The Credit Agreement also contains certain restrictions on the ability of the Company to make capital or lease expenditures over prescribed limits, incur additional indebtedness, consolidate or merge, guarantee obligations of third parties, make loans or advances, declare or pay any dividend or distribution on its stock, redeem or repurchase shares of its stock, or pledge assets.

As of September 30, 2009, the Company was not in technical compliance with the rolling quarterly net income and the fixed charge coverage ratio covenants in the Credit Agreement, although because it had no borrowings outstanding under its Line of Credit, no immediately foreseeable need to utilize its Line of Credit and the benefit of \$34.4 million of available cash and short-term liquid investment securities, it does not believe such technical noncompliance is material or otherwise adversely affects its liquidity or capital resources. The Company is currently in discussions with Wells Fargo, as well as with other banks, on a further amended or new credit facility.

NOTE F COMMITMENTS AND CONTINGENCIES

Operating Leases and Purchase Commitments

The Company leases vehicles and equipment under operating leases. Rent expense under operating leases was \$318,000 and \$336,000 for the three months ended September 30, 2008 and 2009; and \$581,000 and \$623,000 for the six months ended September 30, 2008 and 2009. In addition, the Company enters into non-cancellable purchase commitments for certain inventory items in order to secure better pricing and ensure materials on hand, as well as for capital expenditures. As of September 30, 2009, the Company had entered into \$11.4 million of purchase commitments related to fiscal 2010, including \$0.9 million related to the remaining capital committed for information technology improvements and other manufacturing equipment, \$0.9 million for commitments under operating leases and \$9.6 million for inventory purchases.

Litigation

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

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

The Company believes that it and the other defendants have substantial legal and factual defenses to the claims and allegations contained in the consolidated complaint, and the Company intends to pursue these defenses vigorously. There can be no assurance, however, that the Company will be successful, and an adverse resolution of the lawsuit could have a material adverse effect on the Company's consolidated financial position, results of operations and cash flow. In addition, although the Company carries insurance for these types of claims, a judgment significantly in excess of the Company's insurance coverage or any costs, claims or judgment which are disputed or not covered by insurance could materially and adversely affect the Company's financial condition, results of operations and cash flow. The Company is not presently able to reasonably estimate potential costs and/or losses, if any, related to the lawsuit.

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NOTE G SHAREHOLDERS EQUITY

Share Repurchase Program

In July 2008, the Company's board of directors approved a share repurchase program authorizing the Company to repurchase in the aggregate up to a maximum of \$20 million of the Company's outstanding common stock. In December 2008, the Company's board of directors supplemented the share repurchase program authorizing the Company to repurchase up to an additional \$10 million of the Company's outstanding common stock. As of September 30, 2009, the Company had repurchased 7,075,733 shares of common stock at a cost of \$29.7 million under the program.

Shareholder Rights Plan

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

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

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

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

NOTE H STOCK OPTIONS AND WARRANTS

The Company grants stock options and restricted stock awards under its 2003 Stock Option and 2004 Stock and Incentive Awards Plans (the Plans). Under the terms of the Plans, the Company has reserved 10,500,000 shares for issuance to key employees, consultants and directors. The options generally vest and become exercisable ratably between one month and five years although longer vesting periods have been used in certain circumstances. In August and September of 2009, the Company granted stock option awards which vest based upon market or service conditions. The Company determined the vesting period for these option awards based upon an analysis of employment conditions and simulations of market conditions. Exercisability of the options granted to employees are contingent on the employees' continued employment and non-vested options are subject to forfeiture if employment terminates for any reason. Options under the Plans have a maximum life of 10 years. In the past, the Company has granted both incentive stock options and non-qualified stock options, although in July 2008, the Company adopted a policy of thereafter only granting non-qualified stock options. Restricted stock awards have no vesting period and have been issued to certain non-employee directors in lieu of cash compensation pursuant to elections made under the Company's non-employee director compensation program. The Plans also provide to certain employees accelerated vesting in the event of certain changes of control of the Company.

In fiscal 2009, the Company granted 16,627 shares from the 2004 Stock and Incentive Awards Plan to certain non-employee directors who elected to receive stock awards in lieu of cash compensation. The shares were valued at

the market price as of the grant date, ranging from \$3.00 to \$11.61 per share. For the three months and six months ended September 30, 2009, the Company granted 1,323 and 2,843 shares from the 2004 Stock Incentive Awards Plan to a non-employee director who elected to receive stock awards in lieu of cash compensation. The shares were valued ranging from \$3.29 to \$3.78 per share, the market prices as of the grant dates.

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

	Three Months Ended		Six Months Ended	
	September 30,		September 30,	
	2008	2009	2008	2009
Cost of product revenue	\$ 65	\$ 53	\$ 130	\$ 112
General and administrative	171	145	425	267
Sales and marketing	145	136	271	265
Research and development	7	9	20	19
Total	\$ 388	\$ 343	\$ 846	\$ 663

As of September 30, 2009, compensation cost related to non-vested stock-based compensation amounted to \$4.6 million over a remaining weighted average expected term of 6.9 years.

The following table summarizes information with respect to the Plans:

	Options Outstanding				
	Shares Available for Grant	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic value
Balance at March 31, 2009	1,070,954	3,680,945	\$ 3.40	6.82	
Granted stock options	(549,227)	549,227	3.38		
Granted shares in lieu of cash compensation	(2,843)				
Forfeited	212,360	(212,360)	5.22		
Exercised		(265,498)	1.70		
Balance at September 30, 2009	731,244	3,752,314	\$ 3.41	6.89	\$ 2,871,547
Exercisable at September 30, 2009		1,702,251	\$ 2.65	5.21	\$ 1,999,824

The aggregate intrinsic value represents the total pre-tax intrinsic value, which is calculated as the difference between the exercise price of the underlying stock options and the fair value of the Company's closing common stock price of \$3.13 as of September 30, 2009.

A summary of the status of the Company's outstanding non-vested stock options as of September 30, 2009 was as follows:

Non-vested at March 31, 2009	1,821,827
Granted	549,227
Vested	(108,631)
Forfeited	(212,360)
Non-vested at September 30, 2009	2,050,063

The Company has previously issued warrants in connection with various private placement stock offerings and services rendered. The warrants granted the holder the option to purchase common stock at specified prices for a specified period of time. No warrants were issued in fiscal 2009 or for the six months ended September 30, 2009.

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Outstanding warrants are comprised of the following:

	Number of Shares	Weighted Average Exercise Price
Balance at March 31, 2009	488,504	\$ 2.31
Issued		
Exercised	(29,186)	\$ 2.30
Cancelled		
Balance at September 30, 2009	459,318	\$ 2.31

A summary of outstanding warrants at September 30, 2009 follows:

Exercise Price	Number of Warrants	Expiration
\$2.25	38,980	Fiscal 2014
\$2.30	383,078	Fiscal 2010
\$2.50	37,260	Fiscal 2011
Total	459,318	

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

The following discussion and analysis should be read in conjunction with our unaudited consolidated financial statements and related notes, included elsewhere in this Quarterly Report on Form 10-Q/A. The information below has been adjusted to reflect the impact of the restatement of our financial results which is more fully described in Note B Restatement to the unaudited consolidated financial statements contained in this Quarterly Report on Form 10-Q/A and under the paragraph Restatement of Previously Issued Consolidated Financial Statements below and does not reflect any subsequent information or events occurring after the Original Filing or to modify or update those disclosures affected by subsequent events.

Cautionary Note Regarding Forward-Looking Statements

Any statements in this Quarterly Report on Form 10-Q/A about our expectations, beliefs, plans, objectives, prospects, financial condition, assumptions or future events or performance are not historical facts and are forward-looking statements as that term is defined under the federal securities laws. These statements are often, but not always, made through the use of words or phrases such as believe , anticipate , should , intend , plan , will , expects , estimates , projects , positioned , strategy , outlook and similar words. You should read the statements that contain these types of words carefully. Such forward-looking statements are subject to a number of risks, uncertainties and other factors that could cause actual results to differ materially from what is expressed or implied in such forward-looking statements. There may be events in the future that we are not able to predict accurately or over which we have no control. Potential risks and uncertainties include, but are not limited to, those discussed in Part I, Item 1A. Risk Factors in our 2009 Annual Report filed on Form 10-K for the year ended March 31, 2009 and elsewhere in this Quarterly Report. We urge you not to place undue reliance on these forward-looking statements, which speak only as