

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

Form 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended March 31, 2020

or

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

For the transition period from _____ to _____

Commission File Number: 001-33887

Orion Energy Systems, Inc.

(Exact name of Registrant as specified in its charter)

Wisconsin
(State or other jurisdiction of
incorporation or organization)
2210 Woodland Drive, Manitowoc, WI
(Address of principal executive offices)

39-1847269
(I.R.S. Employer
Identification No.)
54220
(Zip Code)

(920) 892-9340

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the act:

<u>Title of Each Class</u>	<u>Trading Symbol (s)</u>	<u>Name of Each Exchange on Which Registered</u>
Common stock, no par value	OESX	The Nasdaq Stock Market LLC (NASDAQ Capital Market)
Common stock purchase rights		The Nasdaq Stock Market LLC (NASDAQ Capital Market)

Securities registered pursuant to Section 12(g) of the act:

None

Indicate by check mark if the Registrant is a well-known seasoned issuer as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes No

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 every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

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

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input checked="" type="checkbox"/>	Smaller reporting company	<input checked="" type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. Yes No

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

The aggregate market value of shares of the Registrant's common stock held by non-affiliates as of September 30, 2019, the last business day of the Registrant's most recently completed second fiscal quarter, was approximately \$65,729,416.

As of May 31, 2020, there were 30,274,101 shares of the Registrant's common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's Proxy Statement for the 2020 Annual Meeting of Shareholders to be held on August 6, 2020 are incorporated herein by reference in Part III of this Annual Report on Form 10-K.

ORION ENERGY SYSTEMS, INC.
ANNUAL REPORT ON FORM 10-K
FOR THE YEAR ENDED March 31, 2020

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FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K includes forward-looking statements that are based on Orion Energy Systems, Inc.'s ("Orion", "we", "us", "our" and similar references) beliefs and assumptions and on information currently available to us. When used in this Form 10-K, 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 under the current 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 Form 10-K. Important factors could cause actual results to differ materially from our forward-looking statements. 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 Form 10-K, including particularly the Risk Factors described under Part I. Item 1A. of this Form 10-K. 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 Form 10-K. 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 ability to manage general economic, business and geopolitical conditions, including the impacts of natural disasters, pandemics and outbreaks of contagious diseases and other adverse public health developments, such as the COVID-19 pandemic;
- the deterioration of market conditions, including our dependence on customers' capital budgets for sales of products and services, and adverse impacts on costs and the demand for our products as a result of factors such as the COVID-19 pandemic and the implementation of tariffs;
- our ability to successfully launch, manage and maintain our refocused business strategy to successfully bring to market new and innovative product and service offerings ;
- our recent and expected fiscal 2021 reliance on revenue generated from the retrofit of a few national account projects;
- our lack of major sources of recurring revenue, our dependence on a limited number of key customers, and the potential consequences of the loss of one or more key customers or suppliers, including key contacts at such customers;
- our ability to identify and successfully complete transactions with suitable acquisition candidates in the future as part of our growth strategy;
- the availability of additional debt financing and/or equity capital to pursue our evolving strategy and sustain our growth initiatives;
- our risk of potential loss related to single or focused exposure within the current customer base and product offerings;
- our ability to sustain our profitability and positive cash flows;
- our ability to differentiate our products in a highly competitive and converging market, expand our customer base and gain market share;
- our ability to manage and mitigate downward pressure on the average selling prices of our products as a result of competitive pressures in the light emitting diode ("LED") market;
- our ability to manage our inventory and avoid inventory obsolescence in a rapidly evolving LED market;
- the reduction or elimination of investments in, or incentives to adopt, LED lighting and solar power technologies;
- our increasing reliance on third parties for the manufacture and development of products, product components, as well as the provision of certain services;
- our increasing emphasis on selling more of our products through third party distributors and sales agents, including our ability to attract and retain effective third party distributors and sales agents to execute our sales model;
- our ability to develop and participate in new product and technology offerings or applications in a cost effective and timely manner;
- our ability to maintain safe and secure information technology systems;
- our failure to comply with the covenants in our revolving credit agreement;

- our ability to recruit, hire and retain talented individuals in all disciplines of our company;
- our ability to balance customer demand and production capacity;
- our ability to maintain an effective system of internal control over financial reporting;
- price fluctuations (including as a result of tariffs), shortages or interruptions of component supplies and raw materials used to manufacture our products;
- our ability to defend our patent portfolio and license technology from third parties;
- a reduction in the price of electricity;
- the cost to comply with, and the effects of, any current and future industry and government regulations, laws and policies;
- the sale of our corporate office building which will likely result in a non-cash impairment charge; and
- potential warranty claims in excess of our reserve estimates.

You are urged to carefully consider these factors and the other factors described under Part I. Item 1A. “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.

ITEM 1. BUSINESS

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.

Overview

We provide state-of-the-art light emitting diode ("LED") lighting, wireless Internet of Things ("IoT") enabled control solutions, project engineering, design energy project management and maintenance services. We research, design, develop, manufacture, market, sell, install, and implement energy management systems consisting primarily of high-performance, energy-efficient commercial and industrial interior and exterior lighting systems and related services. Our products are targeted for applications in three primary market segments: commercial office and retail, exterior area lighting, and industrial applications, although we do sell and install products into other markets. Virtually all of our sales occur within North America.

Our lighting products consist primarily of LED lighting fixtures, many of which include IoT enabled control systems. Our principal customers include large national account end-users, federal and state government facilities, large regional account end-users, electrical distributors, electrical contractors and energy service companies ("ESCOs"). A substantial amount of our products are manufactured at our leased production facility located in Manitowoc, Wisconsin. In addition, certain products and components are sourced from third parties in order to provide versatility in our product development and portfolio.

We have significant experience offering our comprehensive project management services to national and regional account customers as well as federal and state government facilities to retrofit their multiple locations. Our comprehensive services include initial site surveys and audits, utility incentive and government subsidy management, engineering design, and project management from delivery through to installation and controls integration.

We believe the market for LED lighting products and related services continues to grow. Due to their size and flexibility in application, we also believe that LED lighting systems can address opportunities for retrofit applications that cannot be satisfied by other lighting technologies. Our LED lighting technologies and related services have become the primary component of our revenue as we continue to strive to be a leader in the LED market.

We generally do not have long-term contracts with our customers that provide us with recurring revenue from period to period and we typically generate substantially all of our revenue from sales of lighting systems and related services to governmental, commercial and industrial customers on a project-by-project basis. We also perform work under global services or product purchasing agreements with major customers with sales completed on a purchase order basis. The loss of, or substantial reduction in sales to, any of our significant customers, or our current single largest customer, or the termination or delay of a significant volume of purchase orders by one or more key customers, could have a material adverse effect on our results of operations in any given future period.

We typically sell our lighting systems in replacement of our customers' existing lighting fixtures. We call this replacement process a "retrofit". We frequently sell our products and services directly to our customers and in many cases we provide design and installation as well as project management services. We also sell our lighting systems on a wholesale basis, principally to electrical distributors, electrical contractors and ESCOs to sell to their own customer bases.

The gross margins of our products can vary significantly depending upon the types of products we sell, with gross margins typically ranging from 10% to 50%. As a result, a change in the total mix of our sales among higher or lower gross margin products can cause our profitability to fluctuate from period to period.

Our fiscal year ends on March 31. We refer to our current fiscal year which will end on March 31, 2020 as "fiscal 2020". We refer to our most recently completed fiscal year, which ended on March 31, 2019, as "fiscal 2019", and our prior fiscal year which ended on March 31, 2018 as "fiscal 2018". Our fiscal first quarter of each fiscal year ends on June 30, our fiscal second quarter ends on September 30, our fiscal third quarter ends on December 31, and our fiscal fourth quarter ends on March 31.

Reportable Segments

Reportable segments are components of an entity that have separate financial data that the entity's chief operating decision maker ("CODM") regularly reviews when allocating resources and assessing performance. Our CODM is our chief executive officer.

We have three reportable segments: Orion Engineered Systems Division ("OES"), and Orion Distribution Services Division ("ODS"), and Orion U.S. Markets Division ("USM").

For financial results by reportable segment, please refer to Note 18 – Segment Data in our consolidated financial statements included in Item 8. of this Annual Report.

Orion Engineered Systems Division

Our OES segment develops and sells lighting products and provides construction and engineering services for our commercial lighting and energy management systems. OES provides engineering, design, lighting products and in many cases turnkey solutions for large national accounts, governments, municipalities, schools and other customers.

Orion Distribution Services Division

Our ODS segment sells lighting products through manufacturer representative agencies and a network of North American broadline and electrical distributors and contractors.

Orion U.S. Markets Division

Our USM segment sells commercial lighting systems and energy management systems to the wholesale contractor markets. USM customers include ESCOs and contractors.

Our Market Opportunity

We provide enterprise-grade LED lighting and energy project solutions. We are primarily focused on providing commercial and industrial facilities lighting retrofit solutions in North America using solid-state LED technology. We believe the market for lighting products has shifted to LED lighting systems and continues to grow. We believe that LED lighting technology allows for better optical performance, significantly reduced maintenance costs due to performance longevity and reduced energy consumption. Due to their size and flexibility in application, we also believe that LED lighting systems can address opportunities for retrofit applications that cannot be satisfied by other technologies.

Our products deliver energy savings and efficiency gains to our commercial and industrial customers without compromising their quantity or quality of light. We estimate that our energy management systems reduce our customers' legacy lighting-related electricity costs by approximately 50% or greater, while maintaining their quantity of light after the reduced wattage and improving overall lighting quality when replacing traditional fixtures. Our customers with legacy lighting systems typically realize a one to four-year payback period, and most often 18 – 24 months, from electricity cost savings generated by our lighting systems without considering utility incentives or government subsidies. Energy-efficient lighting systems are cost-effective and environmentally responsible solutions allowing end users to reduce operating expenses.

We serve government and private sector end-customers in the following primary markets: commercial office and retail, exterior area lighting and industrial applications.

Commercial office and retail. Our commercial office and retail market includes commercial office buildings, retail store fronts, government offices, schools, hospitals and other buildings with traditional 10 to 12 foot ceiling heights. We believe we have the opportunity to increase our revenue by serving this market with our LED Door Retrofit, or LDR™, lighting solutions.

Exterior Area lighting. Our market for area lighting includes parking garages, surface lots, automobile dealerships and gas service stations.

Industrial applications. Our market for industrial facilities includes manufacturing facilities, distribution and warehouse facilities, government buildings and agricultural buildings. These facilities typically contain "high-bay" lighting fixtures.

Commercial and industrial facilities in the United States employ a variety of lighting technologies, including HID, traditional fluorescents, LED and incandescent lighting fixtures. We estimate that approximately 50% of this market still utilizes inefficient high intensity discharge ("HID") lighting technologies. Our lighting systems typically replace less efficient HID, HIF fixtures, and earlier generation of LED fixtures.

We believe that utilities within the United States recognize the importance of energy efficiency as an economical means to manage capacity constraints and as a low-cost alternative when compared to the construction costs of building new power plants. Accordingly, many of these utilities are continually focused on demand reduction through energy efficiency. According to our research of individual state and utility programs, utilities design and fund programs that promote or deliver energy efficiency through legislation, regulation or voluntary action. Our product sales are not solely dependent upon these incentive programs, but we do believe that these incentive programs provide an important benefit as our customers evaluate their out-of-pocket cash investments.

Our Solution

Value Proposition. We estimate our LED lighting systems generally reduce lighting-related electricity costs by approximately 50% or greater, compared to legacy fixtures, while retaining the quantity of light and improving overall lighting quality.

Multi-Facility Roll-Out Capability. We offer our customers a single source, turnkey solution for project implementation in which we manage and maintain responsibility for entire multi-facility rollouts of our energy management solutions across North American commercial and industrial facility portfolios. This capability allows us to offer our customers an orderly, timely and scheduled process for recognizing energy reductions and cost savings.

Rapid Payback Period. In most retrofit projects where we replace HID and HIF fixtures, our customers typically realize a one to four year, but most often 18 – 24 months, payback period on our lighting systems. These returns are achieved without considering utility incentives or government subsidies (although subsidies and incentives are continually being made available to our customers in connection with the installation of our systems that further shorten payback periods).

Easy Installation, Implementation and Maintenance. Most of our fixtures are designed with a lightweight construction and modular plug-and-play architecture that allows for fast and easy installation, facilitates maintenance, and integration of other components of our energy management system. Our office LED Troffer Door Retrofit ("LDRTM") products are designed to allow for fast and easy installation without disrupting the ceiling space or the office workspace. 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.

Expanded Product Offerings. We are committed to continuing to develop LED product offerings in all of the markets we serve. Our third generation of ISON® class of LED interior fixture delivers a market leading up to 214 lumens per watt. This advancement means our customers can get more light with less energy, and sometimes fewer fixtures, than with any other product on the market. We have also recently launched a variety of new products, features and functionality targeting healthcare, food service, high and low temperature environments and other market segments. Our lighting products also may be configured to include IoT enabled control systems. See "Products and Services" below.

Environmental Benefits. By allowing for the permanent reduction of electricity consumption, we believe our energy management systems reduce indirect CO2 emissions that are a negative by-product of energy generation.

Our Competitive Strengths

Compelling Value Proposition. By permanently reducing lighting-related electricity usage, our systems enable our customers to achieve significant cost savings, without compromising quantity and quality of light in their facilities. As a result, our products offer our customers a rapid return on their investment, without relying on government subsidies or utility incentives.

Comprehensive Project Management. We offer our customers a single source solution whereby we manage and are responsible for an entire retrofit lighting project, from initial site surveys and energy audits through to installation and controls integration. Our ability to offer such comprehensive turnkey project management services, coupled with best-in-class customer service, allows us to deliver energy reductions and cost savings to our customers in timely, orderly and planned multi-facility rollouts nationwide. We

believe one of our competitive advantages is our ability to deliver full turnkey LED lighting project capabilities. These turnkey services were the principal reason we achieved significant revenue growth in fiscal 2020 as we executed on our commitment to retrofit multiple locations for a major national account customer. Our success in the national account market segment centers on our turnkey design, engineering, manufacturing and project management capabilities, which represent a very clear competitive advantage for us among large enterprises seeking to benefit from the illumination benefits and energy savings of LED lighting across locations nationwide. Few LED lighting providers are organized to serve every step of a custom retrofit project in a comprehensive, non-disruptive and timely fashion, from custom fixture design and initial site surveys to final installations. Incrementally, we are also able to help customers deploy state-of-the-art control systems that provide even greater long-term value from their lighting system investments.

Large and Growing Customer Base. We have developed a large and growing national customer base and have installed our products in commercial and industrial facilities across North America. 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. We intend to leverage our expertise in managing projects across multiple facilities within our new LED product markets, which now include new customer opportunities with banks, insurance companies, hospitals, fast food chains, retail storefronts, grocery and pharmacies.

Innovative Technology. We have developed a portfolio of United States patents primarily covering various elements of our products. We believe these innovations allow our products to produce more light output per unit of input energy compared to our competition. We also have patents pending that primarily cover various elements of our newly developed LED products and certain business methods. To complement our innovative energy management products, our integrated energy management services provide our customers with a turnkey solution either at a single facility or across their North American facility footprints. Our demonstrated ability to innovate provides us with significant competitive advantages. Our lighting products offer significantly more light output as measured in foot-candles of light delivered per watt of electricity consumed when compared to HID or traditional fluorescent fixtures. Beyond the benefits of our lighting fixtures, we believe that there is also an opportunity to utilize our system platform as a “connected ceiling” or “smart ceiling”, or a framework or network that can support the installation and integration of other solutions on a digital platform. This “smart ceiling” can be integrated with other technologies to collect data and manage assets and resources more efficiently. Orion’s percentage of systems utilizing IoT enabled devices has grown significantly over the past few years and we expect this trend to continue. Our “Industrial Internet of Things” or IoT enabled devices not only contain energy management control functions, but also have the ability to collect facility usage and traffic data as well as collect data from other facility mechanical systems, providing our customers with a path to digitization for their business operations.

Expanded Sales and Distribution Network. In addition to selling directly to national accounts, electrical contractors and ESCOs, we sell our lighting products and services to electrical distributors through a North American network of independent lighting agencies. As of the end of fiscal 2020, we had 33 independent lighting agencies representing us in substantially all of North America. We intend to continue to selectively evaluate our sales network in the future, with a focus on geographic regions where we do not currently have a strong sales presence.

Recent Events – Impact of COVID-19

The COVID-19 pandemic has disrupted business, trade, commerce, financial and credit markets, in the U.S. and globally. Our business has been adversely impacted by measures taken by government entities and others to control the spread of the virus beginning in March 2020, the last month of our fiscal 2020 year. As an essential business, we provide products and services to ensure energy and lighting infrastructure and we therefore have continued to operate throughout the pandemic. Nonetheless, we did experience a curtailment of activity in the last few weeks of our 2020 fiscal year, including the delay of project installations for our major national account customer.

As part of our recent response to the impacts of the COVID-19, we have taken a number of cost reduction and cash conservation measures, including reducing headcount. While restrictions have begun to lessen in certain jurisdictions during our fiscal 2021 first quarter, stay-at-home or lockdown orders remain in effect in others, with employees asked to work remotely if possible. Some customers and projects are in areas where travel restrictions have been imposed, certain customers have either closed or reduced on-site activities, and timelines for the completion of multiple projects have been extended. As of the date of this report, it is not possible

to predict the overall long-term impact the COVID-19 pandemic will have on our business, liquidity, capital resources or financial results, although our results of operations for at least the first half of fiscal 2021 will be materially adversely affected.

Our Growth Strategies

In fiscal 2020, we continued to successfully capitalize on our capability of being a full service, turn-key provider of LED lighting and controls systems with design, build, installation and project management services, including being awarded a very large project for a major national account. To build on this success, we are evolving our business strategy to further leverage this unique capability, while making targeted additions to the scope and nature of our products and services to enhance the value we can provide to our customers. In particular, we are working to develop recurring revenue streams, including lighting and electrical maintenance services, with an emphasis on utilizing control sensor technology to collect data and assist customers in the digitization of this data, along with other potential services. We also plan to expand our “smart-building” and “connected ceiling” IoT capabilities, along with related software and control technology products and services offerings. While we intend to pursue these expansion strategies organically, we also are actively exploring potential acquisitions that could accelerate our progress. Our ability to achieve our desired revenue and profitability goals depends on our ability to manage the adverse impact of COVID-19 and effectively execute on the following key strategic initiatives.

Focus on executing and marketing our turnkey LED retrofit capabilities to large national account customers. We believe one of our competitive advantages is our ability to deliver full turnkey LED lighting project capabilities starting with energy audits and site assessments that lead to custom engineering and manufacturing through to fully managed installations. These attributes coupled with our superior customer service, high quality designs and expedited delivery responsiveness resulted in our contract to retrofit multiple locations for a single national account in fiscal 2020.

Continue Product Innovation. We continue to innovate, developing lighting fixtures and features that address specific customer requirements, while also working to maintain a leadership position in energy efficiency, smart product design and installation benefits. For interior building applications, we have recently relaunched our antimicrobial troffer fixture which supports the suppression of bacteria, mold, fungi, and mildew, and are currently developing an air circulation troffer to support improved air circulation. We also continue to deepen our capabilities in the integration of smart lighting controls. Our goal is to provide state-of-the-art lighting products with modular plug-and-play designs to enable lighting system customization from basic controls to advanced IoT capabilities.

Leverage Orion’s Smart Lighting Systems to Support Internet of Things Applications. We believe we are ideally positioned to help customers to efficiently deploy new IoT controls and applications by leveraging the “Smart Ceiling” capabilities of their Orion solid state lighting system. IoT capabilities can include the management and tracking of facilities, personnel, resources and customer behavior, driving both sales and lowering costs. As a result, these added capabilities provide customers an even greater return on investment from their lighting system and make us an even more attractive partner, providing our customers with a path to digitization for their business operations.

Develop Maintenance Service Offerings. We believe we can leverage our construction management process expertise to develop a high-quality, quick-response, multi-location maintenance service offering. Our experience with large national customers and our large installed base of fixtures position us well to extend a maintenance offering to historical customers, as well as to new customers. Development of this recurring revenue stream is in the preliminary stage, but we believe there is significant market opportunity.

Support success of our ESCO and agent driven distribution sales channels. We continue to focus on building our relationships and product and sales support for our ESCO and agent driven distribution channels. These efforts include an array of product and sales training efforts as well as the development of new products to cater to the unique needs of these sales channels.

Products and Services

Our primary focus has been the sale of our LED lighting fixtures with integrated controls technology and related installation services. We will continue to focus on these products and services, as well as the development of a maintenance service offering.

Currently, substantially all of our products are manufactured at our leased production facility location in Manitowoc, Wisconsin, although as the LED market continues to evolve, we also source products and components from third parties in order to have versatility in our product development. We are focused on researching, developing and/or acquiring new innovative LED products and

technologies for the retrofit markets. We plan to focus our efforts on developing creative new LED retrofit products in order to offer our customers a variety of integrated energy management services, such as system design, project management and installation.

Products

The following is a description of our primary products:

Interior LED High Bay Fixtures: Our LED interior high bay lighting products consist of our Harris high bay, Apollo™ high bay and ISON® high bay products. Our ISON® class of LED interior fixture offers a full package of premium features, including low total cost of ownership, optics that currently exceed competitors in terms of lumen package, delivered light, modularity and advanced thermal management. Our third generation of ISON® class of LED interior fixture delivers up to an exceptional 214 lumens per watt. This advancement means our customers can get more light with less energy, and sometimes fewer fixtures, compared to other products on the market. Our Apollo™ class of LED interior fixtures is designed for new construction and retrofit projects where initial cost is the largest factor in the purchase decision. Our Harris high bay is ideal for customers seeking a cost-effective solution to deliver energy savings and maintenance reductions. In addition, our LED interior lighting products are lightweight and easy to handle, which further reduces installation and maintenance costs and helps to build brand loyalty with electrical contractors and installers.

Smart Lighting Controls. We offer a broad array of smart building control systems. These control systems provide both lighting control options (such as occupancy, daylight, or schedule control) and data intelligence capabilities for building managers to log, monitor, and analyze use of space, energy savings, and provide physical security of the space.

The LED Troffer Door Retrofit (LDR™): The LDR™ is designed to replace existing 4 foot by 2 foot and 2 foot by 2 foot fluorescent troffers that are frequently found in office or retail grid ceilings. Our LDR™ product is unique in that the LED optics and electronics are housed within the doorframe that allows for installation of the product in approximately one to two minutes. Our LDR™ product also provides reduced maintenance expenses based upon improved LED chips.

Other Products. We also offer our customers a variety of other LED and HIF fixtures to address their lighting and energy management needs, including fixtures designed for agribusinesses, parking lots, roadways, retail, mezzanine, outdoor applications and private label resale.

Warranty Policy. Our warranty policy generally provides for a limited one-year warranty on our HIF products and a limited five-year warranty on our LED products, although we do offer warranties ranging up to 10 years for certain LED products. Ballasts, lamps, drivers, LED chips and other electrical components are excluded from our standard warranty as they are covered by separate warranties offered by the original equipment manufacturers. We coordinate and process customer warranty inquiries and claims, including inquiries and claims relating to ballast and lamp components, through our customer service department.

Services

We provide a range of fee-based lighting-related energy management services to our customers, including:

- comprehensive site assessment, which includes a review of the current lighting and controls including IoT enabled devices requirements and energy usage at the customer's facility;
- site field verification, or SFV, during which we perform a test implementation of our energy management system at a customer's facility;
- 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 customers' 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 us working with the electrical contractor in overseeing and managing all phases of implementation from delivery through installation for a single facility or through multi-facility roll-outs tied to a defined project schedule;

- installation services, for our products, which we provide through our national network of qualified third-party installers;
- complete facility design commissioning of IoT enabled control devices; and
- recycling in connection with our retrofit installations, where we remove, dispose of and recycle our customer's legacy lighting fixtures.

We also provide other services that comprise a small amount of our revenue. These services primarily include management and control of power quality and remote monitoring and control of our installed systems. We also sell and distribute replacement lamps and fixture components into the after-market.

Our Customers

We primarily target commercial, institutional and industrial customers who have warehousing, retail, manufacturing, and office facilities. In fiscal 2018, two customers accounted for 11.7% and 10.8% of our total revenue, respectively. In fiscal 2019, one customer accounted for 20.7% of our total revenue. In fiscal 2020, this same customer accounted for 74.1% of our total revenue. We expect that we will continue to experience significant customer concentration in fiscal 2021, particularly as we focus on our large customer multi-location retrofit program. While we continue to seek to diversify our customer base by expanding our reach to national accounts, ESCOs and the agent driven distribution channel, we expect to continue to derive a significant percentage of our revenue from contracts with one or a few customers. These contracts are entered into in the ordinary course of business and provide that we will deliver products and services on a work order or purchase order basis and any purchase order may be terminated prior to shipment. These contracts generally do not guarantee that the customer will buy our products or services.

The amount and concentration of our revenues with one or more customer may fluctuate on a year to year or quarter to quarter basis depending on the number of purchase orders issued by our customers. The loss of a significant customer or the termination of a material volume of purchase orders (or the underlying agreements) could have a material adverse effect on our results of operations. Additionally, the COVID-19 pandemic has resulted in the delay of multiple customer projects, and we expect these resulting delays will have a material adverse effect on our results of operations in at least the first half fiscal 2021.

Sales and Marketing

We sell our products in one of three ways: (i) directly with our relationships with our national account partners; (ii) indirectly through independent sales agencies and broadline North American distributors; and (iii) through ESCOs. Our ODS segment focuses on developing and expanding customer relationships with independent manufacturer's agents and broadline distributors. As of the end of fiscal 2020 we had 33 independent lighting agencies representing us in substantially all of North America expanding our reach with broadline distributors. We attempt to leverage the customer relationships of these distributors to further extend the geographic scope of our selling efforts. We work cooperatively with our indirect channels through participation in national trade organizations and by providing training on our sales methodologies.

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 shows and energy management seminars. These efforts have included participating in national, regional and local trade organizations, exhibiting at trade shows, executing targeted direct mail campaigns, advertising in select publications, public relations campaigns, social media and other lead generation and brand-building initiatives.

Competition

The market for energy-efficient lighting products and services is fragmented. We face strong competition primarily from manufacturers and distributors of lighting products and services as well as electrical contractors. We compete primarily on the basis of technology, cost, performance, quality, customer experience, energy efficiency, customer service and marketing support.

There are a number of lighting fixture manufacturers that sell LED and HIF products that compete with our lighting product lines. Lighting companies such as Acuity Brands, Inc., Energy Focus, Inc., Signify Co., Cree, Inc., LSI Industries, Inc., Revolution Lighting Technologies Inc., General Electric Co., and Hubbell Incorporated are some of our main competitors within the commercial office, retail and industrial markets. We are also facing increased competition from manufacturers in low-cost countries.

We also face competition from companies who provide energy management services. Some of these competitors, such as Ameresco, Inc., Johnson Controls International and Honeywell International, provide basic systems and controls designed to further energy efficiency.

Intellectual Property

As of March 31, 2020, we had been issued over one hundred United States patents and have applied for a number of additional United States patents. The patented and patent pending technologies cover various innovative elements of our products, including our HIF and LED fixtures. Our patented LDR™ product allows for a significantly quicker installation when compared to competitor's commercial office lighting products. Our smart lighting controls allow our lighting fixtures to selectively provide a targeted amount of light where and when it is needed most.

We believe that our patent portfolio as a whole is material to our business. We also believe that our patents covering our ability to manage the thermal and optical performance of our LED and HIF lighting products are material to our business, and that the loss of these patents could significantly and adversely affect our business, operating results and prospects.

Backlog

Backlog represents the amount of revenue that we expect to realize in the future as a result of firm, committed orders. Our backlog as of March 31, 2020 and March 31, 2019 totaled \$18.6 million and \$10.8 million, respectively. The higher backlog at March 31, 2020, compared to the prior year period, was primarily due to delays in pending project installations due to the COVID-19 pandemic. We generally expect our backlog to be recognized as revenue within one year, although the COVID-19 pandemic may extend this time period.

Manufacturing and Distribution

We lease an approximately 197,000 square foot manufacturing and distribution facility located in Manitowoc, Wisconsin, where substantially all of our products are manufactured.

We generally maintain a significant supply of raw material and purchased and manufactured component inventory. We contract with transportation companies to ship our products and 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 LED products and technologies and enhancing existing products. The products, technologies and services we are developing are focused on increasing end user energy efficiency and enhancing lighting output. Over the last three fiscal years, we have focused our development on additional LED products, resulting in our development and commercialization of several new suites of LED interior high bay products.

We operate research and development lab and test facilities in our Jacksonville, Florida and Manitowoc, Wisconsin locations.

Regulatory Matters

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.

Our Corporate and Other Available Information

We were incorporated as a Wisconsin corporation in April 1996 and our corporate headquarters are located at 2210 Woodland Drive, Manitowoc, Wisconsin 54220. Our Internet website address is www.orionlighting.com. Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, or the Exchange Act, are available through the investor relations page of our internet website free of charge as soon as reasonably practicable after we electronically file such material with, or furnish it to, the Securities and Exchange Commission, or the SEC. We are not including the information contained on our website as part of, or incorporating it by reference into, this report.

Employees

As of March 31, 2020, we had approximately 176 full-time employees. We also employ temporary employees in our manufacturing facility as demand requires, at times up to 130 temporary employees. As of March 31, 2020, due to the COVID-19 pandemic, we employed 5 temporary employees. Our employees are not represented by any labor union, and we have never experienced a work stoppage or strike due to employee relations.

ITEM 1A. RISK FACTORS

You should carefully consider the risk factors set forth below and in other reports that we file from time to time with the Securities and Exchange Commission and the other information in this Annual Report on Form 10-K. The matters discussed in the following risk factors, and additional risks and uncertainties not currently known to us or that we currently deem immaterial, could have a material adverse effect on our business, financial condition, results of operations and future growth prospects and could cause the trading price of our common stock to decline.

Our business is currently, and could be in the future, negatively impacted by the recent Coronavirus (“COVID-19”) outbreak.

An outbreak of a novel strain of coronavirus, COVID-19 has severely restricted the level of economic activity around the world. In response to this COVID-19 outbreak, the governments of many countries, states, cities and other geographic regions have taken preventative or protective actions, such as imposing restrictions on travel and business operations. Temporary closures of businesses have been ordered and numerous other businesses have temporarily closed voluntarily. These measures, while intended to protect human life, are expected to have significant adverse impacts on domestic and foreign economies of uncertain severity and duration. The current outbreak or continued spread of COVID-19 has caused an economic slowdown, and it is possible that it could cause a global recession. Currently, the effectiveness of economic stabilization efforts being taken to mitigate the effects of these actions and the spread of COVID-19 is uncertain.

A public health pandemic, including COVID-19, poses the risk that we and our affiliates, employees, suppliers, customers and others may be prevented from conducting business activities for an indefinite period of time, including as a result of shutdowns, travel restrictions and other actions that may be requested or mandated by governmental authorities. Such actions may prevent us from accessing the facilities of our customers to deliver and install products, provide services and complete maintenance. In addition, we have experienced customers choosing to delay projects, and in the future our customers may choose to further delay or cancel projects, on which we provide products and/or services as a result of such actions. Further, we have experienced, and may continue to experience, disruptions or delays in our supply chain as a result of such actions. While a substantial portion of our businesses have been classified as an essential business in jurisdictions in which facility closures have been mandated, we can give no assurance that this will not change in the future or that our businesses will be classified as essential in each of the jurisdictions in which we operate.

This COVID-19 outbreak has impacted, and may continue to impact, our office and manufacturing locations, as well as those of its third-party vendors, including through the effects of facility closures, reductions in operating hours and other social distancing efforts. For example, we have modified its business practices (including employee travel, employee work locations, and cancellation of physical participation in meetings, events and conferences), and we may take further actions as may be required by government authorities or that we determine are in the best interests of our employees, customers, partners, and suppliers. These modifications to our business practices, including any future actions we take, may cause us to experience reductions in productivity and disruptions to our business routines. For example, we temporarily suspended operations at our manufacturing facility after one of our employees tested positive for COVID-19 in order to conduct a deep clean of the facility in order to ensure the safety of our employees.

Our management of the impact of COVID-19 has and will continue to require significant investment of time from our management and employees, as well as resources across our global enterprise. The focus on managing and mitigating the impacts of COVID-19 on our business may cause us to divert or delay the application of our resources toward new initiatives or investments, which may adversely impact our future results of operations. In addition, issues relating to the COVID-19 pandemic may result in legal claims or litigation against us.

The impact of COVID-19 has caused significant uncertainty and volatility in the credit markets. We rely on the credit markets to provide us with liquidity to operate and grow our businesses beyond the liquidity that operating cash flows provide. If our access to capital were to become significantly constrained or if costs of capital increased significantly due the impact of COVID-19, including volatility in the capital markets, a reduction in our credit ratings or other factors, then our financial condition, results of operations and cash flows could be adversely affected.

We may also experience impacts from market downturns and changes in consumer behavior related to pandemic fears and impacts on its workforce as a result of COVID-19. For example, we have experienced a recent decline in demand in our businesses as a result of the impact of efforts to contain the spread of COVID-19. If the COVID-19 pandemic becomes more pronounced in our markets or experiences a resurgence in markets recovering from the spread of COVID-19, or if another significant natural disaster or pandemic were to occur in the future, our operations in areas impacted by such events could experience further adverse financial impacts due to market changes and other resulting events and circumstances. The extent to which the COVID-19 outbreak further

impacts our results of operations, financial condition and cash flows will depend on future developments that are highly uncertain and cannot be predicted, including new information that may emerge concerning the severity of COVID-19, the longevity of COVID-19 and the actions to contain its impact or recurrence. The impact of COVID-19 may also exacerbate other risks discussed in Item 1A of this Annual Report on Form 10-K, any of which could have a material effect on our financial condition, results of operations and cash flows.

Adverse conditions in the global economy have negatively impacted, and could in the future negatively impact, our customers, suppliers and business.

Our operations and performance are impacted by worldwide economic conditions. Uncertainty about global economic conditions, including the impact of the COVID-19 pandemic, have and could result in customers postponing purchases of our products and services in response to tighter credit, unemployment, negative financial news and/or declines in income or asset values and other macroeconomic factors, which could have a material negative effect on demand for our products and services and, accordingly, on our results of operations, financial condition and cash flows. For example, the Company has experienced a recent decline in demand in its businesses as a result of the impact of efforts to contain the spread of COVID-19 and any economic and political uncertainty caused by the United States tariffs imposed on other countries, and any corresponding tariffs from such other countries in response, may negatively impact demand and/or increase the cost for our products and components used in our products.

There continues to be a great amount of debate regarding a wide range of policy options with respect to monetary, regulatory, and trade, amongst others, that the U.S. federal government has and may pursue, including the imposition of tariffs on certain imports. Certain sourced finished products and certain of the components used in our products are impacted by tariffs imposed on China imports. Our efforts to mitigate the impact of added costs include a variety of activities, such as sourcing from non-tariff impacted countries and raising prices. If we are unable to successfully mitigate the impacts of these tariffs and other trade policies, our results of operations, financial condition and cash flows may be materially adversely affected.

In addition, global economic and political uncertainty caused by the COVID-19 pandemic has led many customers to adopt strategies for conserving cash, including limits on capital spending. Our lighting systems are often purchased as capital assets and therefore are subject to capital availability. Uncertainty around such availability, including as a result of the COVID-19 pandemic, has led customers to delay purchase decisions, which has elongated the duration of our sales cycles. Weak economic conditions in the past have adversely affected our customers' capital budgets, purchasing decisions and facilities managers and, therefore, have adversely affected our results of operations, financial condition and cash flows. The return to a recessionary state of the global economy, including as a result of the COVID-19 pandemic, could potentially have negative effects on our near-term liquidity and capital resources, including slower collections of receivables, delays of existing order deliveries, postponements of incoming orders and reductions in the number and volume of purchase orders received from key customers as a result of reduced capital expenditure budgets. Our business and results of operations will be adversely affected to the extent these adverse economic conditions affect our customers' purchasing decisions.

As we evolve our business strategy to increase our focus on new product and service offerings, including our IoT, "smart-building", "connected ceilings" and other related technology, software and controls products and services, the nature of our business may be significantly changed, or transformed, and our results of operations, financial condition and cash flows may be materially adversely affected.

Our future growth and profitability are tied in part to our ability to successfully bring to market new and innovative product and service offerings. We have begun to evolve our business strategy to focus on further expanding the nature and scope of our products and services offered to our customers. This expansion of products and services includes pursuing projects to develop recurring revenue streams, including providing lighting and electrical maintenance services and utilizing control sensor technology to collect data and assisting customers in the digitization of this data, along with other potential services. We also plan to pursue the expansion of our IoT "smart-building" and "connected ceiling" and other related technology, software and control products and services we offer to our customers. We currently plan on investing significant time, resources and capital into expanding our offerings in these areas with no expectation that they will result in us realizing material revenue in the near term and without any assurance they will succeed or be profitable. In fact, it is likely that these efforts will reduce our profitability, at least in the near term as we invest resources and incur expenses to develop these offerings. Moreover, we expect that as we continue to explore, develop and refine new offerings, market preferences will continue to evolve, our offerings may not generate sufficient interest by end customers and we may be unable to

compete effectively with existing or new competitors, generate sufficient revenues or achieve or maintain acceptable levels of profitability.

If we are successful in introducing new product and services offerings, including technology, software and controls, the nature of our business may significantly change or be transformed away from being principally products focused. Additionally, our experience with technology, software and controls products and services is limited. If we do not successfully execute our strategy or anticipate the needs of our customers, our credibility as a provider of technology, software and controls products could be questioned and our prospects for future revenue growth and profitability may never materialize.

As we expand our product and services offerings to new markets, the overall complexity of our business will likely increase at an accelerated rate and we may become subject to different market dynamics. The new markets into which we are expanding, or may expand, may have different characteristics from the markets in which we historically competed. These different characteristics may include, among other things, rapidly changing technologies, different manufacturing capabilities, different supply chains, different methods of competition, new product development rates, client concentrations and performance and compatibility requirements. We do not have the current expertise to address many of these characteristics. Our failure to make the necessary adaptations to our business model to address these different characteristics, complexities and new market dynamics could adversely affect our operating results.

Accordingly, if we fail to successfully launch, manage and maintain our refocused business strategy, our future revenue growth and profitability may be limited and our results of operations, financial condition and cash flows may be materially adversely affected.

We do not have major sources of recurring revenue and we depend upon a limited number of customers in any given period to generate a substantial portion of our revenue. The loss of any significant customers or a major customer could have a materially adverse effect on our results of operations, financial condition and cash flows.

We do not have long-term contracts with our customers that provide us with recurring revenue from period to period. We generate a substantial portion of our revenue by securing large retrofit and multi-facility roll-out projects from new and existing customers. As a result, our dependence on individual key customers can vary from period to period due to the significant size of some of our retrofit and multi-facility roll-out projects. Our top 10 customers accounted for approximately 83%, 48%, and 42% respectively, of our total revenue in fiscal 2020, 2019 and 2018. In fiscal 2019, one customer accounted for 20.7% of total revenue. In fiscal 2020, this customer accounted for 74.1% of our total revenue. We expect that we will continue to experience significant customer concentration in fiscal 2021. The loss of our largest customer or our failure to satisfy its installation requirements could have a material adverse effect on our results of operations, financial condition and cash flows, as well as on our reputation and our ability to execute our business strategy. We expect large retrofit and rollout projects to continue to remain a significant component of our total revenue.

The multi-location master retrofit agreements we enter into with several of our key customers (including our current largest customer) generally require that the customer issue individual retrofit location work orders or purchase orders before we may provide our products and services at that individual retrofit location. These master agreements do not guarantee that our key customers will make individual location purchases from us and they also generally allow any purchase order or work order to be terminated prior to shipment. As a result, the relative amount and concentration of our revenues may fluctuate year over year and period over period depending on the number of purchase orders or work orders issued by our key customers, which may fluctuate due to factors such as our customers' capital expenditure budgets and general economic conditions. In addition, in order to provide quality and timely service under our multi-location master retrofit agreements we are required to make substantial working capital expenditures and advance inventory purchases that we may not be able to recoup if the agreements or a substantial volume of purchase orders under the agreements are delayed or terminated. For example, while we received a master retrofit agreement in January 2020 for additional revenue of \$18-20 million for our largest customer, due to the closure of its facilities to external activities because of the COVID-19 pandemic, this customer deferred retrofit installations for a significant portion of its locations in March 2020, thereby resulting in the deferral of our realization of substantial expected revenue during our fiscal 2020 fourth quarter. The loss of, or substantial reduction in sales to, any of our significant customers, or a major customer, or the termination or delay of a significant volume of purchase orders by one or more key customers, could have a material adverse effect on our results of operations, financial condition and cash flows in any given future period.

Our evolving business strategy includes actively exploring potential acquisitions, including potential acquisitions that could significantly change, or even transform, the nature of our business. These acquisitions could be unsuccessful or consume significant resources, which could materially adversely affect our results of operations, financial condition and cash flows.

As discussed in “Our Growth Strategies,” we are actively exploring potential business acquisitions which would more quickly add expanded and different capabilities to our product and services offerings, including potential acquisitions that could significantly change, or even transform, the nature of our business. There can be no assurance that we will identify or successfully complete any transactions with one or more suitable acquisition candidates in the future. Nor can there be any assurance that any completed acquisitions will be successful. Acquisitions may involve significant cash expenditures, debt incurrence, stock issuances, operating losses and expenses that that would otherwise be directed to investments in our existing business and could have a material adverse effect on our financial condition, results of operations and cash flows. To pursue acquisitions and other strategic transactions, we may need to raise additional debt and/or equity capital in the future, which may not be available on acceptable terms, in sufficient amounts or at all. In addition, we may issue new shares of our common stock as consideration in such transactions, which may have a dilutive impact on our existing shareholders and may also result in a reduction in the market price of our shares once those newly issued shares are resold in the market. In addition, acquisitions involve numerous other risks, including:

- the failure to achieve the acquisition's revenue or profit forecasts;
- the business culture of the acquired business may not match well with our culture;
- our business strategies and focus may change in ways that adversely affect our results of operations, financial condition and cash flows;
- technological and product synergies, economies of scale and cost reductions may not occur as expected;
- unforeseen expenses, delays or conditions may result from the acquisition, including required regulatory approvals or consents;
- potential changes may result to our management team and/or board of directors;
- we may acquire or assume unexpected liabilities or be subject to unexpected penalties or other enforcement actions;
- faulty assumptions may be made regarding the macroeconomic environment or the integration process that form a basis for the acquisition;
- unforeseen difficulties, delays and costs may arise in integrating operations, processes and systems;
- higher than expected investments may be required to implement necessary compliance processes and related systems, including information technology systems, accounting systems and internal controls over financial reporting;
- we may fail to retain, motivate and integrate key management and other employees of the acquired business;
- higher than expected costs may arise due to unforeseen changes in tax, trade, environmental, labor, safety, payroll or pension policies in any jurisdiction in which the acquired business conducts its operations;
- we may adversely impact our sales channels and our sales channel partners; and
- we may experience problems in retaining customers and integrating customer bases.

Many of these factors will be outside of our control and any one of them could result in increased costs and reduced profitability, decreases in the amount of expected revenues and diversion of our management's time and attention. They may also delay, decrease or eliminate the realization of some or all of the benefits we anticipate when we enter into a transaction.

Because we have only made one acquisition to date, our ability to do so successfully is unproven. Moreover, our management team has limited experience in, and limited time to dedicate to, pursuing, negotiating or integrating acquisitions. If we do identify suitable candidates, we may not be able to negotiate or consummate such acquisitions on favorable terms or at all. Any acquisitions we complete may not achieve their initially intended results and benefits and may be viewed negatively by investors and other stakeholders.

We may undertake acquisitions financed in part through public offerings or private placements of debt or equity securities, including through the new issuance of our common stock or debt securities as consideration in an acquisition transaction. Such

acquisition financing could result in dilution to our current shareholders, result in a decrease in our earnings and/or adversely affect our financial condition, liquidity or other leverage measures.

In addition to committing additional capital resources to complete any acquisitions, substantial additional capital may be required to operate the acquired businesses following their acquisition. Moreover, these acquisitions may result in significant financial losses if the intended objectives of the transactions are not achieved. Some of the businesses we may acquire may have significant operating and financial challenges, requiring significant additional capital commitments to overcome such challenges and adversely affecting our financial condition and liquidity.

Failure to implement our acquisition strategy, including successfully integrating acquired businesses, could have a material adverse effect on our results of operations, financial condition and cash flows.

We may not be able to obtain equity capital or debt financing necessary to effectively pursue our evolving strategy and sustain our growth initiatives.

Our existing liquidity and capital resources may not be sufficient to allow us to effectively pursue our evolving growth strategy, complete potential acquisitions or otherwise fund or sustain our growth initiatives. As of March 31, 2020, we had \$28.8 million of cash, approximately \$10 million of outstanding borrowings and \$1.2 million of remaining borrowing capacity available under our revolving credit facility, compared to \$8.7 million of cash, approximately \$9.2 million of outstanding borrowings and \$1.4 million of remaining borrowing availability as of March 31, 2019. If we require additional capital resources, we may not be able to obtain sufficient equity capital and/or debt financing on acceptable terms or conditions, or at all. Factors affecting the availability to us of additional equity capital or debt financing on acceptable terms and conditions, or in sufficient amounts, include:

- Our history of operating losses prior to our fiscal 2020;
- Our current and future financial results and condition;
- Our limited collateral availability;
- Our current customer concentration;
- The market's, investors' and lenders' view of our company, industry and products;
- The perception in the equity and debt markets of our ability to execute and sustain our business plan or achieve our operating results expectations; and
- The price, volatility and trading volume and history of our common stock.

Our inability to obtain the equity capital or debt financing necessary to pursue our evolving growth strategy could force us to scale back our growth initiatives or abandon potential acquisitions. If we are unable to pursue our evolving growth strategy and growth initiatives, our results of operations, financial condition and cash flows could be materially adversely affected.

Until fiscal 2020, we had a history of losses and negative cash flow and we may be unable to sustain our recent profitability or positive cash flows in the future, particularly in fiscal 2021 as a result of the COVID-19 pandemic.

Prior to fiscal 2020, we experienced net losses and negative cash flow for the prior five fiscal years. Although we achieved substantial profitability and positive cash flow in fiscal 2020, continuing to sustain our fiscal 2020 levels of net income and positive cash flows in the future will depend on our ability to successfully complete and execute our strategic plan. Moreover, the duration of the impact of the COVID-19 pandemic may again make it difficult for us to achieve profitability and positive cash flows in our fiscal 2021. There is no guarantee that we will be able to sustain our profitability or positive cash flows in the future, particularly in fiscal 2021 as a result of the COVID-19 pandemic. Our inability to successfully sustain our profitability and positive cash flows could materially and adversely affect our ability to pursue our evolving strategy and growth initiatives.

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

Our future success depends upon the continued market acceptance of our energy management products and services and obtaining additional project management retrofit master contracts, as well as customer orders for new and expanded products and services to supplement our master contract with our current single largest customer. If we are unable to convince current and potential

new customers of the advantages of our lighting systems and energy management products and services, or our expanded product and services offerings, our results of operations, financial condition and cash flows will likely be materially adversely affected. In addition, because the market for energy management products and services, as well as potential new customer uses for our 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 lighting systems and energy management products and services, as well as potential new customer uses for our products and services, does not continue to develop as we anticipate, or if the market does not accept our products or services, then our ability to grow our business could be limited and we may not be able to increase our revenue and our results of operations, financial condition and cash flows will likely be materially adversely affected.

The success of our business depends upon our adaptation to the quickly changing market conditions in the lighting industry and on market acceptance of our lighting retrofit solutions using new LED and control technologies.

The market for lighting products has experienced a significant technology shift to LED lighting systems. In addition, we continue to explore utilizing our system platform as a “connected ceiling” or “smart ceiling”, or a framework or network that can support the installation and integration of other business technology or data information solutions on our lighting platform.

As a result, our future success depends significantly upon the adoption rate of LED products and related control technologies within our primary markets, our ability to participate in this ongoing market trend and our ability to expand into complementary markets. To be an effective participant in the LED market, we must keep up with the evolution of LED and related technologies, which continue to move at a fast pace. We may be unable to successfully develop and market new products or services that keep pace with technological or industry changes, differentiate ourselves from our competition, satisfy changes in customer demands or comply with present or emerging government and industry regulations and technology standards. The development and introduction of new products and services may result in increased warranty expenses and other new product and services introduction expenses. In addition, we will likely continue to incur substantial costs to research and develop new products and services, which will increase our expenses, without guarantee that our new products and services will be commercially viable. We may also spend time and resources to develop and release new products and services only to discover that a competitor has also introduced similar new products and services with superior performance, at a lower price or on better delivery terms. Moreover, if new sources of lighting or lighting-based solutions or related technologies are developed, our current products and technologies could become less competitive or obsolete, which could result in reduced revenue, reduced earnings or increased losses and/or inventory and other impairment charges.

As we attempt to adapt and respond to this quickly evolving market, we have been managing through significant change in our vendor supply chain for our LED product line. While we have attempted to negotiate lower material input costs to help maintain or improve our LED product gross margins, we may not be able to realize any gross margin benefits in the amounts or on the timetable anticipated and we may experience higher warranty expenses in the future as we implement our manufacturing and assembly process changes. It is also possible that, as we focus more of our sales efforts on new products and services, we may increase our risk of inventory obsolescence for outmoded LED or controls products.

Finally, in connection with our historical primary focus on selling our LED products and related control technologies, we expect our results of operations to continue to fluctuate from quarter to quarter as customers may delay purchasing decisions as they evaluate their return on investment from purchasing new LED and/or control products compared to alternative lighting and controls solutions, the pricing of LED products continues to fall and LED products continue to gain more widespread customer acceptance. Similarly, these circumstances have adversely impacted, and may continue to adversely impact, our product gross margins and our profitability from quarter to quarter.

If we are unable to achieve market acceptance of our lighting retrofit solutions using LED technologies and our system platform as a “connected ceiling” or “smart ceiling” or realize the expected benefits from our focus on promoting new products and services, our results of operations, financial condition and cash flows will likely be materially adversely affected.

The success of our LED lighting retrofit solutions and related controls technologies depend, in part, on our ability to claim market share away from our competitors. If we are unable to expand our customer base and increase sales in our targeted markets, our results of operations, financial condition and cash flows will likely be materially adversely affected.

Participants in the LED market who are able to quickly establish customer relationships and achieve market penetration are likely to gain a competitive advantage as the lighting retrofit solutions offered by us and our competitors generally have a product life of several years following installation. If we are unable to broaden our customer base and achieve greater market penetration in the

LED market in a timely manner, we may lose the opportunity to market our LED products and services and related controls technologies to significant portions of the lighting systems retrofit market for several years and may be at a disadvantage in securing future business opportunities from customers that have previously established relationships with one or more of our competitors. These circumstances could have a material adverse effect on our results of operations, financial condition and cash flows.

In addition, as we continue to seek to expand our customer base within our national account, agent and ESCO sales channels, our success will depend, in part, on our ability to attract and retain talent to execute on our sales model. If we are unable to attract and retain sufficient talent, we may be unable to broaden our customer base, which will adversely affect our results of operations, financial condition and cash flows.

We increasingly rely on third-party manufacturers for the manufacture and development of our products and product components.

We have increased our utilization of third-party manufacturers for the manufacture and development of our products and product components. As a result, our results of operations, financial condition and cash flows could be materially adversely affected if our third-party manufacturers were to experience problems with product quality, credit or liquidity issues, or disruptions or delays in their manufacturing process or delivery of the finished products and components or the raw materials used to make such products and components.

We rely on third-parties to provide our controls technology products and services.

We rely third-party service providers to provide our controls technology products and services to our customers. If any of these service providers stop providing us with access to their products, platforms and services, fail to provide these services to us on a cost-effective basis, cease operations, or otherwise terminate these services, the delay caused by qualifying and switching to another third-party product or service provider, if one is available, could have a material adverse effect on our results of operations, financial condition and cash flows. In addition, our results of operations, financial condition and cash flows could be materially adversely affected if our third-party providers were to experience problems with product quality, service quality, credit or liquidity issues, or disruptions or delays.

If problems occur with any of these third-party providers, it may cause errors or reduced quality in our services, and we could encounter difficulty identifying the source of the problem. The occurrence of errors or reduced quality in our controls products or services, whether caused by us a third-party provider, may result in the loss of our existing customers, delay or loss of market acceptance of our products and services or liability for failure to meet obligations under our agreements with customers, and may have a material adverse effect on our results of operations, financial condition and cash flows.

We rely on products obtained from third parties in order to offer our controls technology products and services. In some cases, we integrate third-party licensed software components into our platforms. This hardware and software may not continue to be available at reasonable prices or on commercially reasonable terms, or at all. Any loss of the right to use any of this hardware or software could significantly increase our expenses and otherwise result in delays in the provisioning of our services until equivalent technology is either developed by us, or, if available, is identified, obtained and integrated. Any errors or defects in third-party hardware or software could result in errors or a failure of our service which could have a material adverse effect on our results of operations, financial condition and cash flows.

Our continued emphasis on indirect distribution channels to sell our products and services to supplement our direct distribution channels has had limited success to date. If we are unable to attract, incentivize and retain our third-party distributors and sales agents, or our distributors and sales agents do not sell our products and services at the levels expected, our revenues could decline and our costs could increase.

Over the past two fiscal years, we have significantly expanded the number of our manufacturer representative agencies that sell our products through distributors, many of which are not exclusive, which means that these sales agents and distributors may sell other third-party products and services in direct competition with us. Since many of our competitors, including those that are larger than us and have more established relationships, use sales agents and distributors to sell their products and services, competition for such agents and distributors is intense and may adversely affect our product pricing and gross margins. Additionally, due to mismanagement, industry trends, macro-economic developments, or other reasons, our sales agents and distributors may be unable to effectively sell our products at the levels desired or anticipated. In addition, we have historically relied on direct sales to sell our products and services, which were often made in competition with sales agents and distributors. In order to attract and form lasting

partnerships with sales agents and distributors, we will be required to overcome our historical perception as a direct sales competitor. As a result, we may have difficulty attracting and retaining sales agents and distributors and any inability to do so could have a negative effect on our ability to attract and obtain customers, which could have an adverse impact on our business. In fiscal 2020, our indirect distribution channels did not achieve the level of success desired. As a result, we have modified our strategy in our indirect distribution channels to work more closely with distributors and contractors, usually in coordination with our agents. There can be no assurance that this modified strategy will be successful and may result in a further reduction in revenue through this distribution channel.

Our financial performance is dependent on our ability to achieve increases in our average selling prices of our products.

The gross margins of our products can vary significantly, with margins generally ranging from 10% to 50%. While we continue to implement our strategy of transitioning to higher-margin products and reducing the material cost of our products, a change in the total mix of our sales toward lower margin products, a decrease in the margins on our products as a result of competitive pressures and lower cost imported products driving down the average selling price of our products, lower sales volumes, our substantial fixed manufacturing facility overhead and promotional programs to increase sales volumes could reduce our profitability and result in a material adverse effect on our results of operations, financial condition and cash flows. Furthermore, average selling prices may be further negatively impacted by market over-supply conditions, product feature cannibalization by competitors or component providers, low-cost non-traditional sales methods by new market entrants, and comparison of our retrofit fixture products with replacement lamp equivalents. In our highly competitive lighting industry, we must be able to innovate and release new products on a regular basis with features and benefits that generate increases in our average selling prices and average gross margins. There can be no assurance we will be successful in achieving these goals.

We operate in a highly competitive industry and, if we are unable to compete successfully, our results of operations, financial condition and cash flows will likely be materially adversely affected.

We face strong competition primarily from manufacturers and distributors of energy management products and services, as well as from ESCOs and electrical contractors. We are also facing increased imported products competition from manufacturers in low-cost countries. We compete primarily on the basis of customer relationships, price, quality, energy efficiency, customer service and marketing support. Our products are in direct competition with the expanding availability of LED products, HID technology, as well as HIF products and older fluorescent technology in the lighting systems retrofit market.

Many of our competitors are better capitalized than we are, have strong customer relationships, greater name recognition, and more extensive engineering, manufacturing, sales and marketing capabilities. In addition, the LED market has seen increased convergence in recent years, resulting in our competition gaining increased market share and resources. 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, or require us to lower our average selling prices in order to remain competitive, any of which could have a material adverse effect on our results of operations, financial condition and cash flows.

The reduction or elimination of investments in, or incentives to adopt, LED lighting or the elimination of, or changes in, policies, incentives or rebates in certain states or countries that encourage the use of LEDs over some traditional lighting technologies could cause the growth in demand for our products to slow, which could have a material adverse effect on our results of operations, financial condition and cash flows.

Reductions in (including as a result of any budgetary constraints), or the elimination of, government investment and favorable energy policies designed to accelerate the adoption of LED lighting could result in decreased demand for our products and decrease our results of operations, financial condition and cash flows. Further, if our products fail to qualify for any financial incentives or rebates provided by governmental agencies or utilities for which our competitors' products qualify, such programs may diminish or eliminate our ability to compete by offering products at lower prices than ours.

The elimination of, or changes in, policies, incentives or rebates in certain states that encourage the use of solar power over other traditional power sources could cause the revenue from our sale of solar-related tax credits to third parties to decrease, which could have a material adverse effect on our results of operations, financial condition and cash flows.

We have long-lived assets associated with our legacy solar business and recognize revenue from the sale to third parties of tax credits received from operating these solar assets. There is currently legislation pending which may decrease the future cash flows associated with the sale of these tax credits. Such a decrease could have a material adverse effect on our results of operations, financial condition and cash flows. Depending on the result of this pending legislation change, we may be required to record a non-cash impairment charge in a future period.

Changes in government budget priorities and political gridlock, and future potential government shutdown, could negatively impact our results of operations, financial condition and cash flows.

Actual and perceived changes in governmental budget priorities, and future potential government shutdown, could adversely affect our results of operations, financial condition and cash flows. Certain government agencies purchase certain products and services directly from us. When the government changes budget priorities, such as in times of war or financial crisis, including as a result of the COVID-19 pandemic, or reallocates spending to areas unrelated to our business, our results of operations, financial condition and cash flows can be negatively impacted. For example, demand and payment for our products and services may be affected by public sector budgetary cycles, funding authorizations or rebates. Funding reductions or delays, including delays caused by political gridlock and the impact of the COVID-19 pandemic, and future potential government shutdown, could negatively impact demand and payment for our products and services. If any of these events occur, our results of operations, financial condition and cash flows could be materially adversely affected.

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, copper, certain rare earth minerals, electronic drivers, chips, ballasts, power supplies and lamps. In particular, our cost of aluminum can be subject to commodity price fluctuation. We also source certain finished goods externally. Limitations inherent within our supply chain of certain of these component parts, including competitive, governmental, and legal limitations, natural disasters, and other events, could impact costs, and future increases in the costs of these items, including, for example, the adoption of new tariffs by the United States and other countries and the worldwide COVID-19 pandemic could adversely affect our profitability and availability of raw materials or components, as there can be no assurance that future price increases will be successfully passed through to customers or that we will be able to find alternative suppliers. Further, suppliers' inventories of certain components that our products require may be limited and are subject to acquisition by others. As a result of disruption to our supply chain due to COVID-19, we have purchased quantities of certain components that are critical to our product manufacturing and that are in excess of our estimated near-term requirements as a result of supplier delivery constraints and concerns over component availability. We may need to continue to do so in the future. As a result, we have had, and may need to continue, to devote additional working capital to support 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 the supply of our components or raw materials could disrupt our operations. If any of these events occur, our results of operations, financial condition and cash flows could be materially adversely affected.

Our ability to balance customer demand and capacity and increased employee turnover could negatively impact our business.

In addition, as customer demand for our products changes, we must be able to adjust our production capacity, including increasing or decreasing our employee workforce, to meet demand. We are continually taking steps to address our manufacturing capacity needs for our products. If we are not able to increase or decrease our production capacity at our targeted rate or if there are unforeseen costs associated with adjusting our capacity levels, our ability to execute our operating plan could be adversely affected.

We have, from time to time, experienced increased employee turnover. The increased turnover has resulted in the loss of numerous long-term employees, along with their institutional knowledge and expertise, and the reallocation of certain employment responsibilities, all of which could adversely affect operational efficiencies, employee performance and retention. Such turnover has also placed a significant burden on our continuing employees, has resulted in higher recruiting expenses as we have sought to recruit and train employees, and introduced increased instability in our operations as responsibilities were reallocated to new or different employees. To the extent that we are unable to effectively reallocate employee responsibilities, retain key employees and reduce employee turnover, our operations and our ability to execute our operating plan could be adversely affected.

Our inability to attract and retain key employees, our reseller network members or manufacturer representative agencies could adversely affect our operations and our ability to execute on our operating plan and growth strategy.

We rely upon the knowledge, experience and skills of key employees throughout our organization, particularly our senior management team, our sales group that require technical knowledge or contacts in, and knowledge of, the LED industry, and our innovation and engineering team. In addition, our ability to attract talented new employees, particularly in our sales group and our innovation and engineering team, is also critical to our success. We also depend on our distribution channels and network of manufacturer representative agencies. If we are unable to attract and retain key employees, resellers, and manufacturer representative agencies because of competition or, in the case of employees, inadequate compensation or other factors, our results of operations and our ability to execute our operating plan could be adversely affected. In addition, if key employees terminate their employment, become ill as a result of the COVID-19 pandemic, or if an insufficient number of employees are retained to maintain effective operations, our business activities may be adversely affected.

If our information technology systems security measures are breached or fail, our products may be perceived as not being secure, customers may curtail or stop buying our products, we may incur significant legal and financial exposure, and our results of operations, financial condition and cash flows could be materially adversely affected.

Our information technology systems involve the storage of our confidential information and trade secrets, as well as our customers' personal and proprietary information in our equipment, networks and corporate systems. Security breaches expose us to a risk of loss of this information, litigation and increased costs for security measures, loss of revenue, damage to our reputation and potential liability. Security breaches or unauthorized access may in the future result in a combination of significant legal and financial exposure, increased remediation and other costs, theft and/or unauthorized use or publication of our trade secrets and other confidential business information, damage to our reputation and a loss of confidence in the security of our products, services and networks that could have an adverse effect upon our business. While we take steps to prevent unauthorized access to our corporate systems, because the techniques used to obtain unauthorized access, disable or sabotage systems change frequently or may be designed to remain dormant until a triggering event, we may be unable to anticipate these techniques or implement adequate preventative measures. Further, the risk of a security breach or disruption, particularly through cyber-attacks, or cyber intrusion, including by computer hackers, foreign governments, and cyber terrorists, has generally increased as cyber-attacks have become more prevalent and harder to detect and fight against. In addition, hardware, software or applications we procure from third parties may contain defects in design or manufacture or other problems that could unexpectedly compromise network and data security. Any breach or failure 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, financial condition and cash flows

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

The efficient operation of our business is dependent on our information technology systems. We rely on those systems generally to manage day-to-day operations, 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, enhance and/or replace our information technology systems, or any compromise of the integrity or security of the data we generate from our information technology systems, could have a materially adverse effect on 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, financial condition and cash flows.

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 virtually all 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, financial condition and cash flows.

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

We own numerous 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 upon our patents, or that we will have adequate resources to enforce our patents. Effective protection of our United States patents may be unavailable or limited in jurisdictions outside the United States, as the intellectual property laws of foreign countries sometimes offer less protection or have onerous filing requirements. In addition, 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's 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. Also, 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 upon existing or future proprietary rights of others. Any successful infringement claims could subject us to significant liabilities, require us to seek licenses on unfavorable terms, prevent us from manufacturing or selling products, services and business methods and require us to redesign or, in the case of trademark claims, re-brand our company or products, any of which could have a material adverse effect on our results of operations, financial condition and cash flows.

We are subject to financial and operating covenants in our credit agreement and any failure to comply with such covenants, or obtain waivers in the event of non-compliance, could limit our borrowing availability under the credit agreement, resulting in our being unable to borrow under our credit agreement and materially adversely impact our liquidity.

Our credit agreement with Western Alliance Bank contains provisions that limit our future borrowing availability and require us to maintain a minimum amount of cash on deposit and available borrowing capacity under such credit agreement as of the end of each month. The credit agreement also contains other customary covenants, including certain restrictions on our ability to incur additional indebtedness, consolidate or merge, enter into acquisitions, make investments, pay any dividend or distribution on our stock, redeem, repurchase or retire shares of our stock, or pledge or dispose of assets.

There can be no assurance that we will be able to comply with the financial and other covenants in our credit agreement. Our failure to comply with these covenants could cause us to be unable to borrow under the credit agreement and may constitute an event of default which, if not cured or waived, could result in the acceleration of the maturity of any indebtedness then outstanding under the credit agreement, which would require us to pay all amounts then outstanding. Such an event could materially adversely affect our financial condition and liquidity. Additionally, such events of non-compliance could impact the terms of any additional borrowings and/or any credit renewal terms. Any failure to comply with such covenants may be a disclosable event and may be perceived negatively. Such perception could adversely affect the market price for our common stock and our ability to obtain financing in the future.

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 which may have a material adverse effect on our results of operations, financial condition and cash flows.

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

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 that could adversely affect our results of operations, financial condition and cash flows.

Our corporate office building is currently listed for sale or lease; any sale of our building will likely result in a non-cash impairment charge.

We currently own, but have listed for sale or lease, our corporate office building in Manitowoc, Wisconsin. We evaluate long-lived assets, including property, plant, and equipment, for impairment whenever events or circumstances indicate that the carrying value of the assets recognized in our financial statements may not be recoverable; as of March 31, 2020, the value of our long-lived assets was deemed recoverable. However, any sale of our building will likely result in a non-cash impairment charge, as the building is currently listed for sale at a price below its net book value and, as a result, will have an adverse impact on our results of operations during the period the impairment charge is incurred.

Our net operating loss carryforwards provide a future benefit only if we are profitable and may be subject to limitation based upon ownership changes.

We have significant federal net operating loss carryforwards and state net operating loss carryforwards. While our federal and state net operating loss carryforwards are fully reserved for, if we are unable to maintain our recent profitability, we may not be able to fully utilize these tax benefits. Furthermore, 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 carry-forwards attributable to the period prior to such change. As a result, our ability to use our net operating loss carry-forwards attributable to the period prior to such ownership change to offset taxable income will be subject to limitations in a particular year, which could potentially result in increased future tax liability for us.

If we fail to establish and maintain effective internal controls over financial reporting, our business and financial results could be harmed.

Our management is responsible for establishing and maintaining effective internal control over financial reporting. Internal control over financial reporting is a process to provide reasonable assurance regarding the reliability of financial reporting for external purposes in accordance with accounting principles generally accepted in the United States. Because of its inherent limitations, internal control over financial reporting is not intended to provide absolute assurance that we would prevent or detect a misstatement of our financial statements or fraud. As of March 31, 2020, our Chief Executive Officer and Chief Financial Officer concluded that our internal controls were designed and operating effectively. There can be no assurance that we will not experience another material weakness in our internal control over financial reporting in the future. A material weakness is defined as a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of our annual or interim financial statements will not be prevented or detected on a timely basis. A failure to maintain an effective system of internal control over financial reporting could limit our ability to report our financial results accurately and in a timely manner or to detect and prevent fraud, could result in a restatement of our financial statements, and could also cause a loss of investor confidence and decline in the market price 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. Our results for any particular quarter are not 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 current 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 results of operations, financial condition and cash flows.

If securities or industry analysts do not continue to publish research or publish inaccurate or unfavorable research about our business, our stock price and trading volume could decline.

The trading market for our common stock will continue to depend in part on the research and reports that securities or industry analysts publish about our business or us. If these analysts do not continue to provide adequate research coverage or if one or more of the analysts who covers us downgrades our stock or publishes inaccurate or unfavorable research about our business, our stock price would likely decline. If one or more of these analysts ceases coverage of our company or fails to publish reports on us regularly, demand for our stock could decrease, which could cause our stock price and trading volume to decline.

The market price of our common stock could be adversely affected by future sales of our common stock in the public market by us or our executive officers and directors.

We and our executive officers and directors may from time to time sell shares of our common stock in the public market or otherwise. We cannot predict the size or the effect, if any, that future sales of shares of our common stock by us or our executive officers and directors, or the perception of such sales, would have on the market price of our common stock.

We are not currently paying dividends and will likely not pay any dividends for the foreseeable future.

We have never paid or declared any 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, and we do not anticipate paying any cash dividends in the foreseeable future. In addition, the terms of our existing revolving credit agreement restrict the payment of cash dividends on our common stock. Any future determination to pay dividends will be at the discretion of our board of directors and will depend on our financial condition, results of operations, capital requirements, contractual restrictions and other factors that our board of directors deems relevant. The restriction on and decision not to pay dividends may impact our ability to attract investors and raise funds, if necessary, in the capital markets.

Anti-takeover provisions included in the Wisconsin Business Corporation Law, provisions in our amended and restated articles of incorporation or bylaws and the common share purchase rights that accompany shares of our common stock 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 certain provisions 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 common stock. These and other provisions in our amended and restated articles of incorporation, 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 acquirers 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.

Each currently outstanding share of our common stock includes, and each newly issued share of our common stock will include, a common share purchase right. The rights are attached to, and trade with, the shares of common stock and generally are not exercisable. The rights will become exercisable if a person or group acquires, or announces an intention to acquire, 20% or more of our outstanding common stock. The rights have some anti-takeover effects and generally will cause substantial dilution to a person or group that attempts to acquire control of us without conditioning the offer on either redemption of the rights or amendment of the rights to prevent this dilution. The rights could have the effect of delaying, deferring or preventing a change of control.

In addition, our employment arrangements with senior management provide for severance payments and accelerated vesting of benefits, including accelerated vesting of stock options and restricted stock awards, upon a change of control and a subsequent

qualifying termination. These provisions could limit the price that investors might be willing to pay in the future for shares of our common stock, thereby adversely affecting the market price of our common stock. These provisions may also discourage or prevent a change of control or result in a lower price per share paid to our shareholders.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

We lease our approximately 196,000 square foot manufacturing and distribution facility located in Manitowoc, Wisconsin. On January 31, 2020, we entered a new lease for the facility with a ten-year term, and an option to terminate after six years.

We own our approximately 70,000 square foot technology center and corporate headquarters adjacent to our leased Manitowoc manufacturing and distribution facility, of which we sub-lease a portion to third parties. We also lease approximately 10,500 square feet of office space in Jacksonville, Florida.

The facilities noted above are utilized by all our business segments.

ITEM 3. LEGAL PROCEEDINGS

We are subject to various claims and legal proceedings arising in the ordinary course of business. As of the date of this report, we do not believe that the final resolution of any of such claims or legal proceedings would have a material adverse effect on our future results of operations.

ITEM 4. MINE SAFETY DISCLOSURES

None.

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED SHAREHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Shares of our common stock are traded on the NASDAQ Capital Market under the symbol "OESX".

Shareholders

As of May 31, 2020, there were approximately 182 record holders of the 30,274,101 outstanding shares of our common stock. The number of record holders does not include shareholders for whom shares are held in a "nominee" or "street" name.

Dividend Policy

We have never paid or declared any 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, and we do not anticipate paying any cash dividends in the foreseeable future. In addition, the terms of our existing credit agreement restrict the payment of cash dividends on our common stock. Any future determination to pay dividends will be at the discretion of our board of directors and will depend on our financial condition, results of operations, capital requirements, contractual restrictions (including those under our loan agreements) and other factors that our board of directors deems relevant.

Securities Authorized for Issuance under Equity Compensation Plans

The following table represents shares outstanding under our 2004 Stock and Incentive Awards Incentive Plan, and our 2016 Omnibus Incentive Plan as of March 31, 2020.

	Equity Compensation Plan Information		
Plan Category	Number of Shares to be Issued Upon Exercise of Outstanding Options and Vesting of Restricted Shares	Weighted Average Exercise Price of Outstanding Options	Number of Shares Remaining Available for Future Issuances Under the 2016 Omnibus Incentive Plan (1)
Equity Compensation plans approved by security holders	1,169,020	\$ 2.80	1,725,845
Equity Compensation plans not approved by security holders	—	—	—
Total	1,169,020	\$ 2.80	1,725,845

(1) Excludes shares reflected in the column titled “Number of Shares to be Issued Upon Exercise of Outstanding Options and Vesting of Restricted Shares”.

Issuer Purchase of Equity Securities

We did not purchase shares of our common stock during the fiscal year ended March 31, 2020.

Unregistered Sales of Securities

We did not make any unregistered sales of our common stock during the year ended March 31, 2020 that were not previously disclosed in a Quarterly Report on Form 10-Q or a current report on Form 8-K during such period.

ITEM 6. SELECTED FINANCIAL DATA

You should read the following selected consolidated financial data in conjunction with Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated financial statements and the related notes included in Item 8. "Financial Statements and Supplementary Data" of this report. The selected historical consolidated financial data are not necessarily indicative of future results.

	Fiscal Year Ended March 31,				
	2020	2019	2018	2017	2016
(in thousands, except per share amounts)					
Consolidated statements of operations data:					
Product revenue	\$ 113,352	\$ 56,261	\$ 55,595	\$ 66,224	\$ 64,897
Service revenue	37,489	9,493	4,705	3,987	2,745
Total revenue	150,841	65,754	60,300	70,211	67,642
Cost of product revenue (1)(2)	83,588	44,111	41,415	49,630	49,630
Cost of service revenue (1) (3)	30,130	7,091	4,213	3,244	2,015
Total cost of revenue	113,718	51,202	45,628	52,874	51,645
Gross profit	37,123	14,552	14,672	17,337	15,997
General and administrative expenses (1)(4)	11,184	10,231	13,159	14,777	16,884
Impairment of assets (5)	—	—	710	250	6,023
Sales and marketing expenses (1) (6)	11,113	9,104	11,879	12,833	11,343
Research and development expenses (1) (7)	1,716	1,374	1,905	2,004	1,668
Income (loss) from operations	13,110	(6,157)	(12,981)	(12,527)	(19,921)
Other income	28	80	248	215	—
Interest expense	(279)	(493)	(333)	(163)	(297)
Amortization of debt issue costs	(243)	(101)	(92)	(110)	—
Dividend and interest income	5	11	15	36	128
Income (loss) before income tax	12,621	(6,660)	(13,143)	(12,549)	(20,090)
Income tax expense (benefit)	159	14	(15)	(261)	36
Net income (loss)	\$ 12,462	\$ (6,674)	\$ (13,128)	\$ (12,288)	\$ (20,126)
Net income (loss) per share attributable to common shareholders:					
Basic	\$ 0.41	\$ (0.23)	\$ (0.46)	\$ (0.44)	\$ (0.73)
Diluted	\$ 0.40	\$ (0.23)	\$ (0.46)	\$ (0.44)	\$ (0.73)
Weighted-average shares outstanding:					
Basic	30,105	29,430	28,784	28,156	27,628
Diluted	30,965	29,430	28,784	28,156	27,628

(1) Includes stock-based compensation expense recognized under Financial Accounting Standards Board Accounting Standards Codification Topic 718, or ASC Topic 718, as follows:

	Fiscal Year Ended March 31,				
	2020	2019	2018	2017	2016
(in thousands)					
Cost of product revenue	\$ 3	\$ 2	\$ 12	\$ 30	\$ 36
Cost of service revenue	(1)	3	—	—	—
General and administrative expenses	576	764	929	1,337	1,148
Sales and marketing expenses	2	54	155	139	235
Research and development expenses	38	2	6	99	43
Total stock-based compensation expense	\$ 618	\$ 825	\$ 1,102	\$ 1,605	\$ 1,462

(2) Fiscal 2020 includes expenses of \$0.1 million related to restructuring. Fiscal 2018 includes expenses of \$34 thousand related to restructuring. Fiscal 2017 includes expenses of \$2.2 million related to an increase in inventory reserves and other inventory adjustments.

(3) Fiscal 2020 includes expenses of \$0.1 million related to restructuring.

- (4) Fiscal 2020 includes expenses of \$28 thousand related to restructuring. Fiscal 2018 includes \$1.8 million of restructuring expense and \$1.4 million benefit on the reversal of an accrual for a loss contingency. Fiscal 2016 includes a \$1.4 million loss contingency accrual.
- (5) Fiscal 2018 includes an intangible asset impairment of \$0.7 million. Fiscal 2017 includes an intangible asset impairment of \$0.3 million. Fiscal 2016 includes expenses of \$4.4 million related to the impairment of goodwill and \$1.6 million related to the write-down to fair value of the manufacturing facility.
- (6) Fiscal 2020 includes expenses of \$0.2 million related to restructuring. Fiscal 2018 includes expenses of \$0.2 million related to restructuring.
- (7) Fiscal 2018 includes expenses of \$0.1 million related to restructuring.

	As of March 31,				
	2020	2019	2018	2017	2016
	(in thousands)				
Consolidated balance sheet data:					
Cash and cash equivalents	\$ 28,751	\$ 8,729	\$ 9,424	\$ 17,307	\$ 15,542
Total assets	72,563	56,021	45,325	62,051	70,875
Long term borrowings	10,063	9,283	4,013	6,819	4,021
Shareholder notes receivable	—	—	—	(4)	(4)
Total shareholders' equity	31,035	17,970	23,424	35,450	45,983

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of our financial condition and results of operations should be read together with our audited consolidated financial statements and related notes included in this Annual Report on Form 10-K for the fiscal year ended March 31, 2020. See also "Forward-Looking Statements" and Item 1A "Risk Factors".

Overview

We provide state-of-the-art LED lighting, wireless Internet of Things ("IoT") enabled control solutions, and energy project management. We research, design, develop, manufacture, market, sell, install, and implement energy management systems consisting primarily of high-performance, energy-efficient commercial and industrial interior and exterior lighting systems and related services. Our products are targeted for applications in three primary market segments: commercial office and retail, area lighting, and industrial applications, although we do sell and install products into other markets. Virtually all of our sales occur within North America.

Our lighting products consist primarily of light emitting diode ("LED") lighting fixtures, many of which include IoT enabled control systems. Our principal customers include large national account end-users, Federal and State government facilities, large regional account end-users, electrical distributors, electrical contractors and energy service companies ("ESCOs"). Currently, substantially all of our products are manufactured at our leased production facility located in Manitowoc, Wisconsin, although as the LED and related IoT market continues to evolve, we are increasingly sourcing products and components from third parties in order to provide versatility in our product development.

We have experienced recent success offering our comprehensive project management services to national account customers to retrofit their multiple locations. Our comprehensive services include initial site surveys and audits, utility incentive and government subsidy management, engineering design, and project management from delivery through to installation and controls integration.

We believe the market for LED lighting products and related controls continues to grow. Due to their size and flexibility in application, we also believe that LED lighting systems can address opportunities for retrofit applications that cannot be satisfied by other lighting technologies. Our LED lighting technologies have become the primary component of our revenue as we continue to strive to be a leader in the LED market.

In fiscal 2020, we began to successfully capitalize on our capability of being a full service, turn-key provider of LED lighting and controls systems with design, build, installation and project management services, including being awarded a very large project for a major national account. As a result of this success, we have begun to evolve our business strategy to focus on further expanding the nature and scope of our products and services offered to our customers. This further expansion of our products and services includes pursuing projects to develop recurring revenue streams, including providing lighting and electrical maintenance services and utilizing control sensor technology to collect data and assisting customers in the digitization of this data, along with other potential services. We also plan to pursue the expansion of our IoT, "smart-building" and "connected ceiling" and other related technology, software and controls products and services that we offer to our customers. We currently plan on investing significant time, resources and capital into expanding our offerings in these areas with no expectation that they will result in us realizing material revenue in the near term and without any assurance they will succeed or be profitable. In fact, it is likely that these efforts will reduce our profitability, at least in the near term as we invest resources and incur expenses to develop these offerings. While we intend to pursue these expansion strategies organically, we also are actively exploring potential business acquisitions which would more quickly add these types of expanded and different capabilities to our product and services offerings. It is possible that one or more of such potential acquisitions, if successfully completed, could significantly change, and potentially transform, the nature and extent of our business.

We generally do not have long-term contracts with our customers that provide us with recurring revenue from period to period and we typically generate substantially all of our revenue from sales of lighting and control systems and related services to governmental, commercial and industrial customers on a project-by-project basis. We also perform work under master services or product purchasing agreements with major customers with sales completed on a purchase order basis. In addition, in order to provide quality and timely service under our multi-location master retrofit agreements we are required to make substantial working capital expenditures and advance inventory purchases that we may not be able to recoup if the agreements or a substantial volume of purchase orders under the agreements are delayed or terminated. For example, while we received a master retrofit agreement in January 2020

for approximately \$18-20 million in revenue from our largest customer, due to the closure of its facilities to external activities because of the COVID-19 pandemic, this customer deferred retrofit installations related to the project during March 2020, thereby resulting in the deferral of our realization of expected revenue during our fiscal 2020 fourth quarter. The loss of, or substantial reduction in sales to, any of our significant customers, or our current single largest customer, or the termination or delay of a significant volume of purchase orders by one or more key customers, could have a material adverse effect on our results of operations in any given future period.

We typically sell our lighting systems in replacement of our customers' existing 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 lighting systems on a wholesale basis, principally to electrical distributors and ESCOs to sell to their own customer bases.

The gross margins of our products can vary significantly depending upon the types of products we sell, with margins typically ranging from 10% to 50%. As a result, a change in the total mix of our sales among higher or lower margin products can cause our profitability to fluctuate from period to period.

Our fiscal year ends on March 31. We refer to our just completed fiscal year, which ended on March 31, 2020, as "fiscal 2020", and our prior fiscal years which ended on March 31, 2019 and March 31, 2018 as "fiscal 2019" and "fiscal 2018", respectively. Our fiscal first quarter of each fiscal year ends on June 30, our fiscal second quarter ends on September 30, our fiscal third quarter ends on December 31 and our fiscal fourth quarter ends on March 31.

Reportable segments are components of an entity that have separate financial data that the entity's chief operating decision maker ("CODM") regularly reviews when allocating resources and assessing performance. Our CODM is our chief executive officer. Orion has three reportable segments: Orion Engineered Systems Division ("OES"), and Orion Distribution Services Division ("ODS"), and Orion U.S. Markets Division ("USM").

Major Developments in Fiscal 2020

During fiscal 2020, we executed on a series of master contracts for a major national account customer with our state-of-the-art LED lighting systems and wireless IoT enabled control solutions at locations nationwide. This one national account customer represented 74.1% of our total revenue in fiscal 2020 and was the primary driver for our growth over the prior year period. During March 2020, this customer suspended our installations at a significant number of locations that were scheduled for installation during our fiscal 2020 fourth quarter and our fiscal 2021 first quarter. Although circumstances may change, further installations at this customer's locations are currently not expected to recommence until calendar year 2021. We expect further revenue opportunity with this national account customer in fiscal 2021 and beyond; however, due to the COVID-19 pandemic, the timing, and volume of revenue, including our ability to realize these potential revenue opportunities is uncertain.

Impact of COVID-19 and Fiscal 2021 Outlook

The COVID-19 pandemic has disrupted business, trade, commerce, financial and credit markets, in the U.S. and globally. Our business has been adversely impacted by measures taken by government entities and others to control the spread of the virus beginning in March 2020. As an essential business, we provide products and services to ensure energy and lighting infrastructure and we therefore continue to operate throughout the pandemic. Nonetheless, we did experience a curtailment of activity in the last few weeks of our 2020 fiscal year.

As part of our recent response to the impacts of the COVID-19, we have taken a number of cost reduction and cash conservation measures, including reducing headcount. While restrictions have begun to lessen in certain jurisdictions during our fiscal 2021 first quarter, stay-at-home or lockdown orders remain in effect in others, with employees asked to work remotely if possible. Some customers and projects are in areas where travel restrictions have been imposed, certain customers have either closed or reduced on-site activities, and timelines for the completion of several projects have been delayed, extended or terminated. These modifications to our business practices, including any future actions we take, may cause us to experience reductions in productivity and disruptions to our business routines. In addition, we are required to make substantial working capital expenditures and advance inventory purchases that we may not be able to recoup if the agreements or a substantial volume of purchase orders under the agreements are delayed or terminated as a result of COVID-19. As of the date of this report, it is not possible to predict the overall impact the COVID-19 pandemic will have on the Company's business, liquidity, capital resources or financial results, although we expect that the economic

and regulatory impacts of COVID-19 will significantly reduce our revenue and profitability in at least the first half of fiscal 2021. If the COVID-19 pandemic becomes more pronounced in our markets or experiences a resurgence in markets recovering from the spread of COVID-19, or if another significant natural disaster or pandemic were to occur in the future, our operations in areas impacted by such events could experience further adverse financial impacts due to market changes and other resulting events and circumstances.

The impact of COVID-19 has caused significant uncertainty and volatility in the credit markets. We rely on the credit markets to provide us with liquidity to operate and grow our businesses beyond the liquidity that operating cash flows provide. If our access to capital were to become significantly constrained or if costs of capital increased significantly due to the impact of COVID-19, including volatility in the capital markets, a reduction in our credit ratings or other factors, then our financial condition, results of operations and cash flows could be adversely affected.

In addition to the managing the adverse financial impact of the COVID-19 pandemic, our ability to achieve our desired revenue growth and profitability goals depends on our ability to effectively execute on the following key strategic initiatives. We may identify strategic acquisition candidates that would help support these initiatives.

Focus on executing and marketing our turnkey LED retrofit capabilities to large national account customers. We believe one of our competitive advantages is our ability to deliver full turnkey LED lighting project capabilities. These turnkey services were the principal reason we achieved significant revenue growth in fiscal 2020 as we executed on our commitment to retrofit multiple locations for a major national account customer. Our success in the national account market segment centers on our turnkey design, engineering, manufacturing and project management capabilities, which represent a very clear competitive advantage for us among large enterprises seeking to benefit from the illumination benefits and energy savings of LED lighting across locations nationwide. Few LED lighting providers are organized to serve every step of a custom retrofit project in a comprehensive, non-disruptive and timely fashion, from custom fixture design and initial site surveys to final installations. Incrementally, we are also able to help customers deploy state-of-the-art control systems that provide even greater long-term value from their lighting system investments.

Looking forward, we are focused on continuing to successfully execute on existing national account opportunities while also actively pursuing new national account opportunities that leverage our customized, comprehensive turnkey project solutions, and expanding our addressable market with high-quality, basic lighting systems to meet the needs of value-oriented customer segments served by our other market channels. Given our unique value proposition, capabilities and focus on customer service, we are optimistic about our business prospects and working to build sales momentum with existing and new customers.

Continued Product Innovation. We continue to innovate, developing lighting fixtures and features that address specific customer requirements, while also working to maintain a leadership position in energy efficiency, smart product design and installation benefits. For interior building applications, we have recently launched an antimicrobial troffer fixture which supports the suppression of bacteria, mold, fungi, and mildew, and are currently developing an air circulation troffer to support improved air circulation. We also continue to deepen our capabilities in the integration of smart lighting controls. Our goal is to provide state-of-the-art lighting products with modular plug-and-play designs to enable lighting system customization from basic controls to advanced IoT capabilities.

Leverage of Orion's Smart Lighting Systems to Support Internet of Things Applications. We believe we are ideally positioned to help customers to efficiently deploy new IoT controls and applications by leveraging the "Smart Ceiling" capabilities of their Orion solid state lighting system. IoT capabilities can include the management and tracking of facilities, personnel, resources and customer behavior, driving both sales and lowering costs. As a result, these added capabilities provide customers an even greater return on investment from their lighting system and make us an even more attractive partner. We plan to pursue the expansion of our IoT, "smart-building" and "connected ceiling" and other related technology, software and controls products and services that we offer to our customers. While we intend to pursue these expansion strategies organically, we also are actively exploring potential business acquisitions which would more quickly add these types of expanded and different capabilities to our product and services offerings.

Develop Maintenance Service Offerings. We believe we can leverage our construction management process expertise to develop a high-quality, quick-response, multi-location maintenance service offering. Our experience with large national customers and our large installed base of fixtures position us well to extend a maintenance offering to historical customers, as well as to new customers. Development of this recurring revenue stream is in the preliminary stage, but we believe there is significant market opportunity.

Support success of our ESCO and agent-driven distribution sales channels. We continue to focus on building our relationships and product and sales support for our ESCO and agent driven distribution channels. These efforts include an array of product and sales training efforts as well as the development of new products to cater to the unique needs of these sales channels.

Tariffs and Trade Policies

The United States government has been implementing various monetary, regulatory, and trade importation restraints, penalties, and tariffs. Certain sourced finished products and certain of the components used in our products have been impacted by imposed tariffs on China imports. Our efforts to mitigate the impact of added costs resulting from these government actions include a variety of activities, such as sourcing from non-tariff impacted countries and raising prices. If we are unable to successfully mitigate the impacts of these tariffs and other trade policies, our results of operations may be adversely affected. We believe that these mitigation activities will assist to offset added costs, and we currently believe that such tariffs will have a limited adverse financial effect on our results of operations. Any future policy changes that may be implemented could have a positive or negative consequence on our financial performance depending on how the changes would influence many factors, including business and consumer sentiment.

Results of Operations: Fiscal 2020 versus Fiscal 2019

The following table sets forth the line items of our consolidated statements of operations and as a relative percentage of our total revenue for each applicable period, together with the relative percentage change in such line item between applicable comparable periods (in thousands, except percentages):

	Fiscal Year Ended March 31,				
	2020	2019	% Change	2020	2019
	Amount	Amount		% of Revenue	% of Revenue
Product revenue	\$ 113,352	\$ 56,261	101.5%	75.1%	85.6%
Service revenue	37,489	9,493	294.9%	24.9%	14.4%
Total revenue	150,841	65,754	129.4%	100.0%	100.0%
Cost of product revenue	83,588	44,111	89.5%	55.4%	67.1%
Cost of service revenue	30,130	7,091	324.9%	20.0%	10.8%
Total cost of revenue	113,718	51,202	122.1%	75.4%	77.9%
Gross profit	37,123	14,552	155.1%	24.6%	22.1%
General and administrative expenses	11,184	10,231	9.3%	7.4%	15.6%
Sales and marketing expenses	11,113	9,104	22.1%	7.4%	13.8%
Research and development expenses	1,716	1,374	24.9%	1.1%	2.0%
Income (loss) from operations	13,110	(6,157)	NM	8.7%	(9.4)%
Other income	28	80	(65.0)%	0.0%	0.1%
Interest expense	(279)	(493)	(43.4)%	(0.2)%	(0.7)%
Amortization of debt issue costs	(243)	(101)	140.6%	(0.2)%	(0.2)%
Interest income	5	11	(54.5)%	0.0%	0.0%
Income (loss) before income tax	12,621	(6,660)	NM	8.5%	(10.0)%
Income tax expense (benefit)	159	14	NM	0.4%	0.1%
Net income (loss) and comprehensive income (loss)	\$ 12,462	\$ (6,674)	NM	8.1%	(10.1)%

* NM = Not Meaningful

Revenue. Product revenue increased by 101.5%, or \$57.1 million, for fiscal 2020 versus fiscal 2019. This increase in product revenue was primarily a result of higher sales volume through our national account channel, and almost exclusively as a result of a major retrofit project for multiple locations for one of our national account customers. Service revenue increased by 294.9%, or \$28.0 million, due to higher sales volume through our national account channel for the major retrofit project for one customer and the timing of those project installations. In fiscal 2020, sales to this one national account customer represented 74.1% of our total revenue. Total revenue increased by 129.4%, or \$85.1 million, due to the items discussed above.

Cost of Revenue and Gross Margin. Cost of product revenue increased by 89.5%, or \$39.5 million, in fiscal 2020 versus the comparable period in fiscal 2019 primarily due to the corresponding increase in sales. Cost of service revenue increased by 324.9%, or \$23.0 million, in fiscal 2020 versus fiscal 2019 primarily due to the corresponding increase in service revenue. Gross margin increased from 22.1% of revenue in fiscal 2019 to 24.6% in fiscal 2020, due to our higher sales levels covering fixed costs.

Operating Expenses

General and Administrative. General and administrative expenses increased 9.3%, or \$1.0 million, in fiscal 2020 compared to fiscal 2019, primarily due to higher bonus and employment costs.

Sales and Marketing. Our sales and marketing expenses increased 22.1%, or \$2.0 million, in fiscal 2020 compared to fiscal 2019. The increase year over year was primarily due to an increase in commission expense on higher sales and higher employment costs.

Research and Development. Research and development expenses increased by 24.9%, or \$0.3 million in fiscal 2020 compared to fiscal 2019 primarily due to higher employment costs.

Other income. Other income in fiscal 2020 and fiscal 2019 represented product royalties received from licensing agreements for our patents.

Interest Expense. Interest expense in fiscal 2020 decreased by 43.4%, or \$0.2 million, from fiscal 2019. The decrease in interest expense was due to fewer sales of receivables.

Amortization of debt issue costs. Amortization of debt issue costs in fiscal 2020 increased 140.6%, or \$0.1 million from fiscal 2019. The increase was due to the timing of the execution of our credit agreement.

Interest Income. Interest income in fiscal 2020 remained relatively flat compared to fiscal 2019. Interest income relates to interest earned on sweep bank accounts.

Income Taxes. Income tax expense in fiscal 2020 increased by 1,000.0%, or \$0.1 million, from fiscal 2019. Both periods include income tax expense for state tax liabilities. The increase in expense was driven by fiscal 2020 book income.

Results of Operations: Fiscal 2019 versus Fiscal 2018

The following table sets forth the line items of our consolidated statements of operations and as a relative percentage of our total revenue for each applicable period, together with the relative percentage change in such line item between applicable comparable periods (in thousands, except percentages):

	Fiscal Year Ended March 31,				
	2019	2018	% Change	2019	2018
	Amount	Amount		% of Revenue	% of Revenue
Product revenue	\$ 56,261	\$ 55,595	1.2%	85.6%	92.2%
Service revenue	9,493	4,705	101.8%	14.4%	7.8%
Total revenue	65,754	60,300	9.0%	100.0%	100.0%
Cost of product revenue	44,111	41,415	6.5%	67.1%	68.7%
Cost of service revenue	7,091	4,213	68.3%	10.8%	7.0%
Total cost of revenue	51,202	45,628	12.2%	77.9%	75.7%
Gross profit	14,552	14,672	(0.8)%	22.1%	24.3%
General and administrative expenses	10,231	13,159	(22.3)%	15.6%	21.8%
Impairment of assets	—	710	NM	0.0%	1.1%
Sales and marketing expenses	9,104	11,879	(23.4)%	13.8%	19.7%
Research and development expenses	1,374	1,905	(27.9)%	2.0%	3.2%
Loss from operations	(6,157)	(12,981)	52.6%	(9.4)%	(21.5)%
Other income	80	248	(67.7)%	0.1%	0.4%
Interest expense	(493)	(333)	48.0%	(0.7)%	(0.6)%
Amortization of debt issue costs	(101)	(92)	9.8%	(0.1)%	(0.1)%
Interest income	11	15	(26.7)%	—%	—%
Loss before income tax	(6,660)	(13,143)	49.3%	(10.1)%	(21.8)%
Income tax benefit	14	(15)	NM	—%	(0.0)%
Net loss and comprehensive loss	\$ (6,674)	\$ (13,128)	49.2%	(10.1)%	(21.8)%

Revenue. Product revenue increased by 1.2%, or \$0.7 million, for fiscal 2019 versus fiscal 2018. The increase in product revenue was primarily a result of higher sales volume through our national account channel, and primarily the result of a major retrofit project for multiple locations for one of our national account customers. Service revenue increased by 101.8%, or \$4.8 million, primarily due to higher sales volume through our national account channel and the timing of project installations. Total revenue increased by 9.0%, or \$5.5 million, due to the items discussed above. Excluding the impact of the adoption of ASC 606, Product revenue increased by 5.1%, or \$2.9 million, Service revenue increased by 56.2%, or \$2.6 million, and Total revenue increased by 9.1%, or \$5.5 million, compared to fiscal year 2018.

Cost of Revenue and Gross Margin. Cost of product revenue increased by 6.5%, or \$2.7 million, in fiscal 2019 versus the fiscal 2018 primarily due to the increase in sales. Cost of service revenue by increased 68.3%, or \$2.9 million, in fiscal 2019 versus fiscal 2018 primarily due to the increase in service revenue. Gross margin decreased from 24.3% of revenue in fiscal 2018 to 22.1% in fiscal 2019, primarily due to our product mix on higher sales to one large national account customer. Excluding the impact of the adoption of ASC 606, gross margin for fiscal 2019 was 24.4%.

Operating Expenses

General and Administrative. General and administrative expenses decreased by 22.3%, or \$2.9 million, in fiscal 2019 compared to fiscal 2018, primarily due to \$1.8 million in employee separation costs incurred in fiscal 2018, offset by the release of a \$1.4 million loss contingency accrual, which did not recur in fiscal 2019, as well as reduced employee costs and consulting expense as a result of our prior year cost reduction plan.

Impairment of assets. No impairment charge was recorded in fiscal 2019. During fiscal 2018, we performed a review of our definite and indefinite-lived tangible and intangible assets for impairment. In conjunction with this review, we determined that the carrying value of our Harris trade name intangible asset exceeded its fair value. As a result, we recorded an impairment charge of \$0.7 million in fiscal 2018.

Sales and Marketing. Our sales and marketing expenses decreased by 23.4%, or \$2.8 million, in fiscal 2019 compared to fiscal 2018. Excluding the impact of the adoption of ASC 606, Sales and marketing expenses decreased by 11.1%, or \$1.3 million, in fiscal 2019 compared to fiscal 2018. The decrease year over year was primarily due to reduced employee costs due to the impact of our prior year cost reduction plan, and lower travel and entertainment and marketing expenses.

Research and Development. Research and development expenses decreased by 27.9%, or \$0.5 million in fiscal 2019 compared to fiscal 2018 primarily due to lower employee costs as a result of our prior year cost reduction plan, as well as a decrease in testing costs based on timing of new product rollouts and reduced consulting expenses.

Other income. Other income in fiscal 2019 and fiscal 2018 represented product royalties received from licensing agreements for our patents.

Interest Expense. Interest expense in fiscal 2019 increased by 48.0%, or \$0.2 million, from fiscal 2018. The increase in interest expense was due to increased third party financing costs related to the sale of receivables.

Amortization of debt issue costs. Amortization of debt issue costs in fiscal 2019 increased by 9.8%, or \$9 thousand from fiscal 2018. The increase was due to the execution of our new revolving credit facility.

Interest Income. Interest income in fiscal 2019 remained relatively flat compared to fiscal 2018. Interest income relates to interest earned on sweep bank accounts.

Income Taxes. Income tax expense in fiscal 2019 increased immaterially from fiscal 2018. Both periods include income tax expense for minimum state tax liabilities. In fiscal 2018 we received refunds from previously filed tax returns. In both periods, the impact of the Tax Cuts and Jobs Act on tax expense was immaterial due to the valuation allowance.

Orion Engineered Systems Division

The OES segment develops and sells lighting products and provides construction and engineering services for our commercial lighting and energy management systems. OES provides turnkey solutions for large national accounts, governments, municipalities and schools.

The following table summarizes our OES segment operating results (dollars in thousands):

	Fiscal Year Ended March 31,		
	2020	2019	2018
Revenues	\$ 122,744	\$ 30,925	\$ 23,827
Operating income (loss)	\$ 16,164	\$ (1,237)	\$ (3,792)
Operating margin	13.2%	(4.0)%	(15.9)%

Fiscal 2020 Compared to Fiscal 2019

OES revenue increased in fiscal 2020 by 296.9%, or \$91.8 million, compared to fiscal 2019 almost exclusively as the result of a major retrofit project for multiple locations for one of our national account customers.

OES operating income in fiscal 2020 was \$16.2 million, which improved from a net loss position of \$(1.2) million in fiscal 2019. The improvement in the segment's operating income was the result of increased sales covering fixed costs.

Fiscal 2019 Compared to Fiscal 2018

OES revenue increased in fiscal 2019 by 29.8%, or \$7.1 million, compared to fiscal 2018 primarily as a result of the increase in volume of turnkey projects, specifically to one large national account customer, which continued in fiscal 2020.

OES operating loss in fiscal 2019 was \$1.2 million, an improvement of \$2.6 million from fiscal 2018. The improvement in the segment's operating loss was the result of increased sales, the benefit of lower corporate allocated costs due to the impact of cost reduction initiatives, and a non-recurring asset impairment charge of \$0.5 million in fiscal 2018.

Orion Distribution Services Division

The ODS segment focuses on selling lighting products through manufacturer representative agencies and a network of broadline North American distributors.

The following table summarizes our ODS segment operating results (dollars in thousands):

	Fiscal Year Ended March 31,		
	2020	2019	2018
Revenues	\$ 15,087	\$ 24,173	\$ 27,906
Operating loss	\$ (852)	\$ (1,742)	\$ (325)
Operating margin	(5.6)%	(7.2)%	(1.2)%

Fiscal 2020 Compared to Fiscal 2019

ODS revenue decreased in fiscal 2020 by 37.6%, or \$9.1 million, compared to fiscal 2019, primarily due to a decrease in sales volume through our distribution channel.

ODS operating loss in fiscal 2020 was \$(0.9) million, an improvement of \$0.9 million from fiscal 2019. The decrease in segment operating loss was primarily due to lower operating costs on lower employment expenses and commissions.

Fiscal 2019 Compared to Fiscal 2018

ODS revenue decreased in fiscal 2019 by 13.4%, or \$3.7 million, compared to fiscal 2018, primarily due to a decrease in sales volume through our distribution channel.

ODS operating loss in fiscal 2019 was \$(1.7) million, an increased loss of \$1.4 million from fiscal 2018. The increase in segment operating loss was primarily due to decreased sale.

Orion U.S. Markets Division

The USM segment sells commercial lighting systems and energy management systems to the wholesale contractor markets. USM customers are primarily comprised of ESCOs.

The following table summarizes our USM segment operating results (dollars in thousands):

	Fiscal Year Ended March 31,		
	2020	2019	2018
Revenues	\$ 13,010	\$ 10,656	\$ 8,567
Operating income (loss)	\$ 2,447	\$ 1,132	\$ (3,123)
Operating margin	18.8%	10.6%	(36.5)%

Fiscal 2020 Compared to Fiscal 2019

USM revenue increased in fiscal 2020 by 22.1%, or \$2.4 million, compared to fiscal 2019, primarily due to an increase in sales volume as a result of our reengagement in the sales channel.

USM operating income in fiscal 2020 was \$2.4 million, an increase of \$1.3 million from fiscal 2019. The improvement was primarily due to better coverage of costs on higher sales.

Fiscal 2019 Compared to Fiscal 2018

USM revenue increased in fiscal 2019 by 24.3%, or \$2.1 million, compared to fiscal 2018, primarily due to an increase in sales volume as a result of our reengagement in the sales channel.

USM operating income in fiscal 2019 was \$1.1 million, an improvement of \$4.3 million over the operating loss in fiscal 2018. The improvement was primarily due to better operating leverage on lower allocated corporate costs, as well as a non-recurring asset impairment charge of \$0.2 million in fiscal 2018.

Liquidity and Capital Resources

Overview

We had \$28.8 million in cash and cash equivalents as of March 31, 2020, compared to \$8.7 million at March 31, 2019. Our cash position increased primarily as a result of our increased net income and the timing of working capital changes.

On October 26, 2018, we entered into a secured revolving Business Financing Agreement with Western Alliance Bank, as lender (the "Credit Agreement"). The Credit Agreement, as amended, provides for a revolving credit facility (the "Credit Facility") that matures on October 26, 2021. Borrowings under the Credit Facility are limited to \$20.15 million subject to a borrowing base requirement based on eligible receivables and inventory. The Credit Agreement includes a \$2.0 million sublimit for the issuance of letters of credit. As of March 31, 2020, our borrowing base was \$11.2 million, and we had \$10.0 million in borrowings outstanding which were included in non-current liabilities in the accompanying Consolidated Balance Sheets. As of March 31, 2020, we had no outstanding letters of credit leaving total additional borrowing availability of \$1.2 million.

Additional information on our New Credit Agreement can be found in the "Indebtedness" section located below.

In March 2020, we filed a universal shelf registration statement with the Securities and Exchange Commission. Under our shelf registration statement, we currently have the flexibility to publicly offer and sell from time to time up to \$100.0 million of debt and/or equity securities. The filing of the shelf registration statement may help facilitate our ability to raise public equity or debt capital to expand existing businesses, fund potential acquisitions, invest in other growth opportunities, repay existing debt, or for other general corporate purposes. The COVID-19 pandemic has had a negative near-term impact on the capital markets and may impact the Company's ability to access this capital.

We also are exploring various alternative sources of liquidity, including the sale or mortgage of our tech center office building, to help ensure that we will have the best allocation of investing capital to satisfy our working capital needs.

Our future liquidity needs and forecasted cash flows are dependent upon many factors, including our relative revenue, gross margins, cash management practices, cost containment, working capital management, capital expenditures. Further, as discussed in the "Risk Factors," we expect our forecasted cash flows, particularly during the first half of fiscal 2021, to be materially adversely impacted by the COVID-19 pandemic, the magnitude and period of impact of which is uncertain. While we believe that we will likely have adequate available cash and equivalents and credit availability under our Credit Agreement to satisfy our currently anticipated working capital and liquidity requirements during the next 12 months based on our current cash flow forecast, there can be no assurance to that effect. If we experience significant liquidity constraints, we may be required to issue equity or debt securities, reduce our sales efforts, implement additional cost savings initiatives or undertake other efforts to conserve our cash.

Cash Flows

The following table summarizes our cash flows for our fiscal 2020, fiscal 2019 and fiscal 2018:

	Fiscal Year Ended March 31,		
	2020	2019	2018
	(in thousands)		
Operating activities	\$ 20,343	\$ (5,058)	\$ (4,415)
Investing activities	(936)	(449)	(585)
Financing activities	615	4,812	(2,883)
Increase (decrease) in cash and cash equivalents	<u>\$ 20,022</u>	<u>\$ (695)</u>	<u>\$ (7,883)</u>

Cash Flows Related to Operating Activities. Cash used in operating activities primarily consisted of a net income adjusted for certain non-cash items including depreciation and amortization, stock-based compensation expenses, provisions for reserves, and the effect of changes in working capital and other activities.

Cash provided by operating activities for fiscal 2020 was \$20.3 million and consisted of a net income adjusted for non-cash expense items of \$15.2 million and net cash provided by changes in operating assets and liabilities of \$5.2 million. Cash used by changes in operating assets and liabilities consisted primarily of an increase in Inventory of \$1.3 million due to delayed shipments at the end of the fiscal year as a result of COVID-19. Cash provided by changes in operating assets and liabilities included a decrease in Accounts receivable of \$3.6 million due to the timing of billing and customer collections, a decrease in Revenue earned but not billed of \$3.2 million due to timing on revenue recognition compared to invoicing.

Cash used in operating activities for fiscal 2019 was \$5.1 million and consisted of a net loss adjusted for non-cash expense items of \$4.1 million and net cash used in changes in operating assets and liabilities of \$1.0 million. Cash used by changes in operating assets and liabilities consisted of an increase of \$5.8 million in Accounts receivable due to the timing of billing and customer collections on comparatively higher fourth quarter sales, an increase in Inventory of \$4.7 million due to higher backlog for anticipated first quarter fiscal 2020 sales, and an increase of \$1.4 million in Revenue earned but not billed due to timing on revenue recognition compared to invoicing. Cash provided by changes in operating assets and liabilities included an increase of \$8.9 million in Accounts payable based on timing of payments and an increase of \$2.0 million in Accrued expenses and other primarily due to increased accrued project costs on higher installation volume.

Cash used in operating activities for fiscal 2018 was \$4.4 million and consisted of a net loss adjusted for non-cash expense items of \$8.0 million and net cash provided by changes in operating assets and liabilities of \$3.6 million. Cash used by changes in operating assets and liabilities consisted of a decrease of \$1.7 million in Accrued expenses and other primarily due to the timing of payment of commissions and lower accrued bonuses in the current fiscal year, a decrease of \$0.1 million in Deferred revenue, current and long term due to the timing of project completion and a decrease of \$0.1 million in Deferred contract costs due to the timing of project completions. Cash provided by changes in operating assets and liabilities included a decrease of \$0.4 million in Accounts receivable due to the decline in sales and the timing of customer collections, a decrease in Inventory of \$4.7 million as a result of increased focus on inventory management in consideration of the lower sales volume, a decrease of \$0.5 million in Prepaid and other current assets primarily due to the timing of project billings, and a negligible decrease in accounts payable.

Cash Flows Related to Investing Activities. Cash used in investing activities in fiscal 2020 was \$0.9 million and consisted primarily of purchases of property and equipment of \$0.8 million.

Cash used in investing activities in fiscal 2019 was \$0.4 million and consisted primarily of purchases of property and equipment of \$0.4 million.

Cash used in investing activities in fiscal 2018 was \$0.6 million and consisted of purchases of property and equipment of \$0.5 million and investment in patents and licenses of \$0.1 million.

Cash Flows Related to Financing Activities. Cash provided by financing activities in fiscal 2020 was \$0.6 million. This cash provided consisted primarily of net proceeds of \$0.8 million from our Credit Facility, offset by \$0.1 million in debt issue costs due to the Credit Facility and \$0.1 million of payment of long-term debt.

Cash provided by financing activities in fiscal 2019 was \$4.8 million. This cash provided consisted primarily of net proceeds of \$5.3 million from our Credit Facility, offset by \$0.4 million in debt issue costs due to the Credit Facility and \$0.1 million of payment of long-term debt.

Cash used in financing activities in fiscal 2018 was \$2.9 million and was due almost entirely to the net repayment of our prior revolving credit facility.

Working Capital

Our net working capital as of March 31, 2020 was \$27.8 million, consisting of \$55.0 million in current assets and \$27.2 million in current liabilities. Our net working capital as of March 31, 2019 was \$14.0 million, consisting of \$41.4 million in current assets and \$27.3 million in current liabilities. Our Cash and cash equivalents, net balance increased by \$20.0 million from the fiscal 2019 year-end due primarily to increased net income and working capital changes. Our current Accounts receivable, net balance decreased by \$4.4 million from the fiscal 2019 year-end due to the timing of billing and customer collections. Our Revenue earned but not billed balance decreased by \$3.1 million from the fiscal 2019 year-end due to the timing of billing. Our Inventories, net increased \$1.1 million from the fiscal 2019 year-end due to higher backlog as of March 31, 2020 as a result of delayed shipments as impacted by COVID-19.

We generally attempt to maintain at least a three-month supply of on-hand inventory of purchased components and raw materials to meet anticipated demand, as well as to reduce our risk of unexpected raw material or component shortages or supply interruptions. Our accounts receivables, inventory and payables may increase to the extent our revenue and order levels increase. In addition, in order to provide quality and timely service under our multi-location master retrofit agreements we are required to make substantial working capital expenditures and advance inventory purchases, including purchases to support the provision of products and services to our largest customer. As a result of our largest customer deferring retrofit installations in March 2020, we are working with the customer to come to an equitable accommodation with respect to our advance purchases. In late fiscal 2020 and early fiscal 2021, we also made increased pre-purchases of components for our products to help mitigate the impact of the COVID-19 pandemic on our supply chain.

Indebtedness

Revolving Credit Agreement

On October 26, 2018, we entered into the Credit Agreement. On June 3, 2019, we and certain of our subsidiaries entered into an amendment (the "First Amendment") to the Credit Agreement, which increased the maximum borrowing base credit available for certain of the customer receivables included in our borrowing base and provided for a borrowing base credit of up to \$3.0 million based on inventory, in each case, subject to certain conditions. On August 2, 2019, we and certain of our subsidiaries entered into a second amendment (the "Second Amendment") to the Credit Agreement, which established a rent reserve in an amount equal to three months' rent payable at any leased location where we maintain inventory included in our borrowing base and provided for a reduction of the borrowing base credit that we may receive for inventory if we default under the lease for any such location. As of the date of the Second Amendment, this rent reserve equaled \$0.1 million. On November 21, 2019, we entered into a third amendment (the "Third Amendment") to the Credit Agreement, which extended the maturity date from October 26, 2020 to October 26, 2021; increased the sublimit under the Credit Agreement for advances under business credit cards from \$1.5 million to \$3 million; created a new \$2 million sublimit permitting entry into foreign currency forward contracts with the lender; expanded our ability to make capital expenditures and incur other debt from time to time; and permitted the lender to amend the financial covenant included in the Credit Agreement (which requires the maintenance of a certain amount of unrestricted cash on deposit with the lender at the end of each month) upon receipt of the our annual projections.

The Credit Agreement, as amended, provides for a Credit Facility that matures on October 26, 2021. Borrowings under the Credit Facility are currently limited to \$20.15 million, subject to a borrowing base requirement based on eligible receivables and inventory. The Credit Agreement includes a \$2.0 million sublimit for the issuance of letters of credit. As of March 31, 2020, our borrowing base was \$11.2 million, and we had \$10.0 million in borrowings outstanding which were included in non-current liabilities in the accompanying Consolidated Balance Sheets. We had no outstanding letters of credit leaving total borrowing availability of \$1.2 million.

The Credit Agreement is secured by a security interest in substantially all of our and our subsidiaries' personal property.

Borrowings under the Credit Agreement generally bear interest at floating rates based upon the prime rate (but not less than 5.00% per year) plus an applicable margin determined by reference to our quick ratio (defined as the aggregate amount of unrestricted cash, unrestricted marketable securities and, with certain adjustments, receivables convertible into cash divided by the total current

liabilities, including the obligations under the Credit Agreement). As of March 31, 2020, the applicable interest rate was 5.25%. Among other fees, we are required to pay an annual facility fee equal to 0.45% of the credit limit under the Credit Agreement, which was paid at commencement (October 26, 2018) and is due on each anniversary thereof.

The Credit Agreement requires us to maintain nine months' of "RML" as of the end of each month. For purposes of the Credit Agreement, RML is defined as, as of the applicable determination date, unrestricted cash on deposit with the lender plus availability under the Credit Agreement divided by an amount equal to, for the applicable trailing three-month period, consolidated net profit before tax, plus depreciation expense, amortization expense and stock-based compensation, minus capital lease principal payments, tested as of the end of each month. As of March 31, 2020, we were in compliance with this RML requirement.

The Credit Agreement also contains customary events of default and other covenants, including certain restrictions on our ability to incur additional indebtedness, consolidate or merge, enter into acquisitions, pay any dividend or distribution on our stock, redeem, retire or purchase shares of our stock, make investments or pledge or transfer assets. If an event of default under the Credit Agreement occurs and is continuing, then the lender may cease making advances under the Credit Agreement and declare any outstanding obligations under the Credit Agreement to be immediately due and payable. In addition, if we become the subject of voluntary or involuntary proceedings under any bankruptcy or similar law, then any outstanding obligations under the Credit Agreement will automatically become immediately due and payable.

Capital Spending

Our capital expenditures are primarily for general corporate purposes for our corporate headquarters and technology center, production equipment and tooling and for information technology systems. Our capital expenditures totaled \$0.8 million in fiscal 2020, \$0.5 million in fiscal 2019, and \$0.5 million in fiscal 2018. Given the uncertain impact on financial results due to the COVID-19 pandemic, our estimate of forecasted capital expenditures in fiscal 2021 is uncertain. Our capital spending plans predominantly consist of investments related to new product development tooling and equipment and information technology systems. We expect to finance these capital expenditures primarily through our existing cash, equipment secured loans and leases, to the extent needed, long-term debt financing, or by using our Credit Facility.

Contractual Obligations

Information regarding our known contractual obligations of the types described below as of March 31, 2020 is set forth in the following table (dollars in thousands):

	Payments Due By Period				
	Total	Less than 1 Year	1-3 Years (in thousands)	3-5 Years	More than 5 Years
Bank debt obligations	\$ 10,013	\$ —	\$ 10,013	\$ —	\$ —
Other debt obligations	85	35	30	20	—
Cash interest payments on debt	6	3	3	—	—
Lease obligations (1)	4,137	692	1,368	1,449	628
Purchase order and capital expenditure commitments (2)	7,740	7,740	—	—	—
Total	<u>\$ 21,981</u>	<u>\$ 8,470</u>	<u>\$ 11,414</u>	<u>\$ 1,469</u>	<u>\$ 628</u>

- (1) Does not reflect the contract modification signed in the first quarter of fiscal 2021 extending the Jacksonville lease another three years.
(2) Reflects non-cancellable purchase commitments primarily for certain inventory items entered into in order to secure better pricing and ensure materials on hand.

Off-Balance Sheet Arrangements

We have no off-balance sheet arrangements.

Inflation

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

Critical Accounting Policies and Estimates

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

Revenue Recognition. We generate revenue primarily by selling commercial lighting fixtures and components and by installing these fixtures in our customer's facilities. We recognize revenue in accordance with the guidance in "Revenue from Contracts with Customers" (Topic 606) ("ASC 606") when control of the goods or services being provided (which we refer to as a performance obligation) is transferred to a customer at an amount that reflects the consideration we expect to receive in exchange for those goods or services. Prices are generally fixed at the time of order confirmation. The amount of expected consideration includes estimated deductions and early payment discounts calculated based on historical experience, customer rebates based on agreed upon terms applied to actual and projected sales levels over the rebate period, and any amounts paid to customers in conjunction with fulfilling a performance obligation.

If there are multiple performance obligations in a single contract, the contract's total sales price is allocated to each individual performance obligation based on their relative standalone selling price. A performance obligation's standalone selling price is the price at which we would sell such promised good or service separately to a customer. We use an observable price to determine the stand-alone selling price for separate performance obligations or a cost-plus margin approach when one is not available. The cost-plus margin approach is used to determine the stand-alone selling price for the installation performance obligation and is based on average historical installation margin.

Revenue derived from customer contracts which include only performance obligation(s) for the sale of lighting fixtures and components is classified as Product revenue in the Consolidated Statements of Operations. The revenue for these transactions is recorded at the point in time when management believes that the customer obtains control of the products, generally either upon shipment or upon delivery to the customer's facility. This point in time is determined separately for each contract and requires judgment by management of the contract terms and the specific facts and circumstances concerning the transaction.

Revenue from a customer contract which includes both the sale of fixtures and the installation of such fixtures (which we refer to as a turnkey project) is allocated between each lighting fixture and the installation performance obligation based on relative standalone selling prices.

Revenue from turnkey projects that is allocated to the sale of the lighting fixtures is recorded at the point in time when management believes the customer obtains control of the product(s) and is reflected in Product revenue. This point in time is determined separately for each customer contract based upon the terms of the contract and the nature and extent of our control of the light fixtures during the installation. Product revenue associated with turnkey projects can be recorded (a) upon shipment or delivery, (b) subsequent to shipment or delivery and upon customer payments for the light fixtures, (c) when an individual light fixture is installed and working correctly, or (d) when the customer acknowledges that the entire installation project is substantially complete. Determining the point in time when a customer obtains control of the lighting fixtures in a turnkey project can be a complex judgment and is applied separately for each individual light fixture included in a contract. In making this judgment, management considers the timing of various factors, including, but not limited to, those detailed below:

- when there is a legal transfer of ownership;
- when the customer obtains physical possession of the products;

- when the customer starts to receive the benefit of the products;
- the amount and duration of physical control that we maintain on the products after they are shipped to, and received at, the customer's facility;
- whether we are required to maintain insurance on the lighting fixtures when they are in transit and after they are delivered to the customer's facility;
- when each light fixture is physically installed and working correctly;
- when the customer formally accepts the product; and
- when we receive payment from the customer for the light fixtures.

Revenue from turnkey projects that is allocated to the single installation performance obligation is reflected in Service revenue. Service revenue is recorded over-time as we fulfill our obligation to install the light fixtures. We measure our performance toward fulfilling our performance obligations for installations using an output method that calculates the number of light fixtures completely removed and installed as of the measurement date in comparison to the total number of light fixtures to be removed and installed under the contract.

Most products are manufactured in accordance with our standard specifications. However, some products are manufactured to a customer's specific requirements with no alternative use to us. In such cases, and when we have an enforceable right to payment, Product revenue is recorded on an over-time basis measured using an input methodology that calculates the costs incurred to date as compared to total expected costs. There was no over-time revenue related to custom products recognized in fiscal year 2020 or 2019.

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

We also record revenue in conjunction with several limited power purchase agreements ("PPAs") still outstanding. Those PPAs are supply-side agreements for the generation of electricity. Our last PPA expires in 2031. Revenue associated with the sale of energy generated by the solar facilities under these PPAs is within the scope of ASC 606. Revenues are recognized over-time and are equal to the amount billed to the customer, which is calculated by applying the fixed rate designated in the PPAs to the variable amount of electricity generated each month. This approach is in accordance with the "right to invoice" practical expedient provided for in ASC 606. We also recognize revenue upon the sale to third parties of tax credits received from operating the solar facilities and from amortizing a grant received from the federal government during the period starting when the power generating facilities were constructed until the expiration of the PPAs; these revenues are not derived from contracts with customers and therefore not under the scope of ASC 606.

Inventories. Inventories are stated at the lower of cost or net realizable 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. If the net realizable value, which is based upon the estimated selling price, less estimated costs of completion, disposal, and transportation, falls below cost, then the inventory value is reduced to its net realizable value. Our inventory obsolescence reserves at March 31, 2020 were \$2.4 million, or 14.3% of gross inventory, and \$2.8 million, or 17.4% of gross inventory, at March 31, 2019.

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 twenty-eight thousand dollars, or 0.3% of gross receivables, at March 31, 2020 and \$0.2 million, or 1.4% of gross receivables, at March 31, 2019.

Recoverability of Long-Lived Assets. We evaluate long-lived assets such as property, equipment and definite lived intangible assets, such as patents, customer relationships, developed technology, and non-competition agreements, for impairment whenever events or circumstances indicate that the carrying value of the assets recognized in our financial statements may not be recoverable. Factors that we consider include whether there has been a significant decrease in the market value of an asset, a significant change in the way an asset is being utilized, or a significant change, delay or departure in our strategy for that asset, or a significant change in the macroeconomic environment, such as the impact of the COVID-19 pandemic. Our assessment of the recoverability of long-lived assets involves significant judgment and estimation. These assessments reflect our assumptions, which, we believe, are consistent with the assumptions hypothetical marketplace participants use. Factors that we must estimate when performing recoverability and impairment tests include, among others, forecasted revenue, margin costs and the economic life of the asset. If impairment is indicated, we first determine if the total estimated future cash flows on an undiscounted basis are less than the carrying amounts of the asset or assets. If so, an impairment loss is measured and recognized.

As of March 31, 2020, due to the forecasted change in the macroeconomic conditions due to the COVID-19 pandemic, a triggering event occurred requiring us to evaluate our long-lived assets for impairment. Due to the central nature of our operations, our tangible and intangible definite-lived assets support our full operations, are utilized by all three of our reportable segments, and do not generate separately identifiable cash flows. As such, these assets together represent a single asset group. We performed the recoverability test for the asset group by comparing the carrying value to the group's expected future undiscounted cash flows. We concluded that the undiscounted cash flows of the definite lived asset group exceeded the carrying value. As such the asset group was deemed recoverable and no impairment was recorded.

During the second quarter of fiscal 2019, we listed our corporate office building in Manitowoc, Wisconsin for sale or lease to increase liquidity through the divestiture of a non-core asset. Because of the uncertainty of a sale of our building, management concluded that the sale is not probable within the next twelve months, therefore the building continues to be classified as held for use as of March 31, 2020. The building is included in our long-lived asset group, which was evaluated for impairment during the second quarter of fiscal 2020; the asset group was deemed recoverable and no impairment was recorded. However, as the building is currently listed for below its net book value, the sale of our building could result in a non-cash impairment charge in future reporting periods.

Our impairment loss calculations require that we apply judgment in identifying asset groups, estimating future cash flows, determining asset fair values, and estimating asset's useful lives. To make these judgments, we may use internal discounted cash flow estimates, quoted market prices, when available, and independent appraisals, as appropriate, to determine fair value.

If actual results are not consistent with our assumptions and judgments used in estimating future cash flows and asset fair values, we may be required to recognize future impairment losses which could be material to our results of operations.

Indefinite Lived Intangible Assets. We test indefinite lived intangible assets for impairment at least annually on the first day of our fiscal fourth quarter, or when indications of potential impairment exist. We monitor for the existence of potential impairment indicators throughout the fiscal year. Our annual impairment test may begin with a qualitative test to determine whether it is more likely than not that an indefinite lived intangible asset's carrying value is greater than its fair value. If our qualitative assessment reveals that asset impairment is more likely than not, we perform a quantitative impairment test by comparing the fair value of the indefinite lived intangible asset to its carrying value. Alternatively, we may bypass the qualitative test and initiate impairment testing with the quantitative impairment test.

We performed a qualitative assessment in conjunction with our annual impairment test of our indefinite lived intangible assets as of January 1, 2020. This qualitative assessment considered our operating results for the first nine months of fiscal 2019 in comparison to prior years as well as its anticipated fourth quarter results and fiscal 2020 plan. As a result of the conditions that existed as of the assessment date, an asset impairment was not deemed to be more likely than not and a quantitative analysis was not required.

Stock-Based Compensation. We currently issue restricted stock awards to our employees, executive officers and directors. Prior to fiscal 2015, we also issued stock options to these individuals. We apply the provisions of ASC 718, *Compensation - Stock Compensation*, to these restricted stock and stock option awards which requires us to expense the estimated fair value of the awards

based on the fair value of the award on the date of grant. Compensation costs for equity incentives are recognized in earnings, on a straight-line basis over the requisite service period.

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. For fiscal 2020, 2019, and 2018 we have recorded a full valuation allowance against our net federal and net state deferred tax assets due to our cumulative three-year taxable losses. In making these determinations, we considered all available positive and negative evidence, including projected future taxable income, tax planning strategies, recent financial performance and ownership changes.

We believe that past issuances and transfers of our stock caused an ownership change in fiscal 2007 that affected the timing of the use of our net operating loss carry-forwards, but we do not believe the ownership change affects the use of the full amount of the net operating loss carry-forwards. As a result, our ability to use our net operating loss carry-forwards attributable to the period prior to such ownership change to offset taxable income will be subject to limitations in a particular year, which could potentially result in increased future tax liability for us.

As of March 31, 2020, we had net operating loss carryforwards of approximately \$75.3 million for federal tax purposes and \$61.7 million for state tax purposes. As of the prior fiscal year, this amount is inclusive of the entire loss carryforward on the filed returns.

We also had federal tax credit carryforwards of \$1.3 million and state tax credit carryforwards of \$0.8 million, which are fully reserved for as part of our valuation allowance. Of these tax attributes, \$8.5 million of the federal and state net operating loss carryforwards are not subject to time restrictions on use but may only be used to offset 80% of future adjusted taxable income. The \$128.5 federal and state net operating loss and tax credit carryforwards will begin to expire in varying amounts between 2024 and 2040.

We recognize penalties and interest related to uncertain tax liabilities in income tax expense. Penalties and interest were immaterial as of the date of adoption and are included in unrecognized tax benefits.

By their nature, tax laws are often subject to interpretation. Further complicating matters is that in those cases where a tax position is open to interpretation, differences of opinion can result in differing conclusions as to the amount of tax benefits to be recognized under Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 740, Income Taxes. ASC 740 utilizes a two-step approach for evaluating tax positions. Recognition (Step 1) occurs when an enterprise concludes that a tax position, based solely on its technical merits, is more likely than not to be sustained upon examination. Measurement (Step 2) is only addressed if Step 1 has been satisfied. Under Step 2, the tax benefit is measured as the largest amount of benefit, determined on a cumulative probability basis that is more likely than not to be realized upon ultimate settlement. Consequently, the level of evidence and documentation necessary to support a position prior to being given recognition and measurement within the financial statements is a matter of judgment that depends on all available evidence. As of March 31, 2020, the balance of gross unrecognized tax benefits was approximately \$0.3 million, of which \$0.2 million would reduce our effective tax rate if recognized. We believe that our estimates and judgments discussed herein are reasonable, however, actual results could differ, which could result in gains or losses that could be material.

Recent Accounting Pronouncements

See Note 3 – Summary of Significant Accounting Policies to our accompanying audited consolidated financial statements for a full description of recent accounting pronouncements including the respective expected dates of adoption and expected effects on results of operations and financial condition.

Item 7A. 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.

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

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. Our investments consist primarily of investments in money market funds. While the instruments we hold are subject to changes in the financial standing of the issuer of such securities, we do not believe that we are subject to any material risks arising from changes in interest rates, foreign currency exchange rates, commodity prices, equity prices or other market changes that affect market risk sensitive instruments. It is our policy not to enter into interest rate derivative financial instruments. As a result, we do not currently have any significant interest rate exposure.

As of March 31, 2020, \$10.0 million of our \$10.1 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 \$0.1 million.

Commodity Price Risk. We are exposed to certain commodity price risks associated with our purchases of raw materials, most significantly our aluminum purchases. A hypothetical 20% increase in aluminum prices would have had a negative impact of \$0.7 million on our net income in fiscal 2020. We have not experienced any material adverse impacts from commodity price risk due to the COVID-19 pandemic; however, as of the date of this report, we are not able to predict the future impact of COVID-19 on this risk.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA
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Shareholders and Board of Directors

Orion Energy Systems, Inc.

Manitowoc, Wisconsin

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of Orion Energy Systems, Inc. (the “Company”) as of March 31, 2020 and 2019, the related consolidated statements of operations, shareholders’ equity, and cash flows for each of the three years in the period ended March 31, 2020, and the related notes (collectively referred to as the “consolidated financial statements”). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at March 31, 2020 and 2019, and the results of its operations and its cash flows for each of the three years in the period ended March 31, 2020, in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matter – COVID-19

As more fully described in Note 2 to the consolidated financial statements, the Company has been negatively impacted by the outbreak of a novel coronavirus (COVID-19), which was declared a global pandemic by the World Health Organization in March 2020.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s consolidated financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (“PCAOB”) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting 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.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ BDO USA, LLP

We have served as the Company’s auditor since 2012.

Milwaukee, Wisconsin

June 5, 2020

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

	March 31,	
	2020	2019
Assets		
Cash and cash equivalents	\$ 28,751	\$ 8,729
Accounts receivable, net	10,427	14,804
Revenue earned but not billed	560	3,746
Inventories, net	14,507	13,403
Prepaid expenses and other current assets	723	695
Total current assets	54,968	41,377
Property and equipment, net	11,817	12,010
Other intangible assets, net	2,216	2,469
Long-term accounts receivable	760	
Other long-term assets	2,802	165
Total assets	\$ 72,563	\$ 56,021
Liabilities and Shareholders' Equity		
Accounts payable	\$ 19,834	\$ 19,706
Accrued expenses and other	7,228	7,410
Deferred revenue, current	107	123
Current maturities of long-term debt	35	96
Total current liabilities	27,204	27,335
Revolving credit facility	10,013	9,202
Long-term debt, less current maturities	50	81
Deferred revenue, long-term	715	791
Other long-term liabilities	3,546	642
Total liabilities	41,528	38,051
Commitments and contingencies (Note 15)		
Shareholders' equity:		
Preferred stock, \$0.01 par value: Shares authorized: 30,000,000 shares at March 31, 2020 and 2019; no shares issued and outstanding at March 31, 2020 and 2019	—	—
Common stock, no par value: Shares authorized: 200,000,000 at March 31, 2020 and 2019; shares issued: 39,729,569 and 39,037,969 at March 31, 2020 and 2019; shares outstanding: 30,265,997 and 29,600,158 at March 31, 2020 and 2019	—	—
Additional paid-in capital	156,503	155,828
Treasury stock: 9,463,572 and 9,437,811 common shares at March 31, 2020 and 2019	(36,163)	(36,091)
Retained deficit	(89,305)	(101,767)
Total shareholders' equity	31,035	17,970
Total liabilities and shareholders' equity	\$ 72,563	\$ 56,021

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

	Fiscal Year Ended March 31,		
	2020	2019	2018
Product revenue	\$ 113,352	\$ 56,261	\$ 55,595
Service revenue	37,489	9,493	4,705
Total revenue	150,841	65,754	60,300
Cost of product revenue	83,588	44,111	41,415
Cost of service revenue	30,130	7,091	4,213
Total cost of revenue	113,718	51,202	45,628
Gross profit	37,123	14,552	14,672
Operating expenses:			
General and administrative	11,184	10,231	13,159
Impairment of intangible assets	—	—	710
Sales and marketing	11,113	9,104	11,879
Research and development	1,716	1,374	1,905
Total operating expenses	24,013	20,709	27,653
Income (loss) from operations	13,110	(6,157)	(12,981)
Other income (expense):			
Other income	28	80	248
Interest expense	(279)	(493)	(333)
Amortization of debt issue costs	(243)	(101)	(92)
Interest income	5	11	15
Total other expense	(489)	(503)	(162)
Income (loss) before income tax	12,621	(6,660)	(13,143)
Income tax expense (benefit)	159	14	(15)
Net income (loss)	\$ 12,462	\$ (6,674)	\$ (13,128)
Basic net income (loss) per share attributable to common shareholders	\$ 0.41	\$ (0.23)	\$ (0.46)
Weighted-average common shares outstanding	30,104,552	29,429,540	28,783,830
Diluted net income (loss) per share	\$ 0.40	\$ (0.23)	\$ (0.46)
Weighted-average common shares and share equivalents outstanding	30,964,777	29,429,540	28,783,830

ORION ENERGY SYSTEMS, INC. AND SUBSIDIARIES
STATEMENTS OF SHAREHOLDERS' EQUITY
(in thousands, except share amounts)

	Shareholders' Equity					
	Common Stock		Treasury Stock	Shareholder Notes Receivable	Retained Earnings (Deficit)	Total Shareholders' Equity
Shares	Additional Paid-in Capital					
Balance, March 31, 2017	28,317,490	\$ 153,901	\$ (36,081)	\$ (4)	\$ (82,366)	\$ 35,450
Issuance of stock for services	24,747	—	—	—	—	—
Shares issued under Employee Stock Purchase Plan	10,057	—	11	—	—	11
Stock-based compensation	612,601	1,102	—	—	—	1,102
Employee tax withholdings on stock-based compensation	(10,482)	—	(11)	—	—	(11)
Collections on stockholder notes	(1,230)	—	(4)	4	—	—
Net loss	—	—	—	—	(13,128)	(13,128)
Balance, March 31, 2018	28,953,183	155,003	(36,085)	—	(95,494)	23,424
Shares issued under Employee Stock Purchase Plan	4,642	—	4	—	—	4
Stock-based compensation	653,394	825	—	—	—	825
Employee tax withholdings on stock-based compensation	(11,061)	—	(10)	—	—	(10)
Cumulative effect of accounting change due to adoption of ASC 606	—	—	—	—	401	401
Net loss	—	—	—	—	(6,674)	(6,674)
Balance, March 31, 2019	29,600,158	155,828	(36,091)	—	(101,767)	17,970
Exercise of stock options and warrants for cash	22,362	57	—	—	—	57
Shares issued under Employee Stock Purchase Plan	2,361	—	7	—	—	7
Stock-based compensation	669,238	618	—	—	—	618
Employee tax withholdings on stock-based compensation	(28,122)	—	(79)	—	—	(79)
Net income	—	—	—	—	12,462	12,462
Balance, March 31, 2020	30,265,997	\$ 156,503	\$ (36,163)	\$ —	\$ (89,305)	\$ 31,035

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

	Fiscal Year Ended March 31,		
	2020	2019	2018
Operating activities			
Net income (loss)	\$ 12,462	\$ (6,674)	\$ (13,128)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Depreciation	1,203	1,339	1,404
Amortization of intangible assets	359	444	607
Stock-based compensation	618	825	1,102
Amortization of debt issue costs	243	101	92
Impairment of intangible assets	—	—	710
Loss on sale of property and equipment	10	—	—
Provision for inventory reserves	205	(202)	1,261
Provision for bad debts	—	56	22
Other	57	57	(94)
Changes in operating assets and liabilities:			
Accounts receivable	3,616	(5,840)	419
Revenue earned but not billed	3,186	(1,390)	—
Inventories	(1,319)	(4,689)	4,706
Deferred contract costs	—	—	(65)
Prepaid expenses and other assets	66	68	391
Accounts payable	(79)	8,916	20
Accrued expenses and other liabilities	(192)	1,975	(1,736)
Deferred revenue, current and long-term	(92)	(44)	(126)
Net cash provided by (used in) operating activities	20,343	(5,058)	(4,415)
Investing activities			
Purchase of property and equipment	(814)	(381)	(512)
Additions to patents and licenses	(131)	(68)	(73)
Proceeds from sales of property, plant and equipment	9	—	—
Net cash used in investing activities	(936)	(449)	(585)
Financing activities			
Payment of long-term debt	(92)	(80)	(158)
Proceeds from revolving credit facility	74,100	60,270	68,734
Payment of revolving credit facility	(73,289)	(54,976)	(71,456)
Payments to settle employee tax withholdings on stock-based compensation	(76)	(10)	(9)
Debt issue costs	(91)	(396)	—
Net proceeds from employee equity exercises	63	4	6
Net cash provided by (used in) financing activities	615	4,812	(2,883)
Net increase (decrease) in cash and cash equivalents	20,022	(695)	(7,883)
Cash and cash equivalents at beginning of period	8,729	9,424	17,307
Cash and cash equivalents at end of period	<u>\$ 28,751</u>	<u>\$ 8,729</u>	<u>\$ 9,424</u>
Supplemental cash flow information:			
Cash paid for interest	\$ (254)	\$ (176)	\$ (147)
Cash (paid) received for income taxes	\$ (28)	\$ 12	\$ 17
Supplemental disclosure of non-cash investing and financing activities:			
Purchase of property, plant and equipment by issuing a debt	\$ —	\$ 74	\$ —
Operating lease assets obtained in exchange for new operating lease liabilities	\$ 2,757	\$ —	\$ —

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

NOTE 1 — DESCRIPTION OF BUSINESS

Orion includes Orion Energy Systems, Inc., a Wisconsin corporation, and all consolidated subsidiaries. Orion is a developer, manufacturer and seller of lighting and energy management systems to commercial and industrial businesses, and federal and local governments, predominantly in North America.

Orion's corporate offices and leased primary manufacturing operations are located in Manitowoc, Wisconsin. Orion also leases office space in Jacksonville, Florida.

NOTE 2 — IMPACT OF COVID-19

The COVID-19 pandemic has disrupted business, trade, commerce, financial and credit markets, in the U.S. and globally. Orion's business has been adversely impacted by measures taken by government entities and others to control the spread of the virus beginning in March 2020, the last month of its fiscal 2020 year. As an essential business, Orion provides products and services to ensure energy and lighting infrastructure and Orion therefore continues to operate throughout the pandemic. Nonetheless, Orion did experience a material adverse effect from the COVID-19 pandemic due to the curtailment of activity in the last few weeks of the 2020 fiscal year and during the first quarter of fiscal 2021, including the delay of project installations for a major national account customer. Although circumstances may change, further installations at this customer's locations are currently not expected to recommence until calendar year 2021.

As part of the Orion's response to the impacts of the COVID-19, Orion has taken a number of cost reduction and cash conservation measures, including reducing headcount. See Note 20 – Restructuring Expense.

While restrictions have begun to lessen in certain jurisdictions during Orion's fiscal 2021 first quarter, stay-at-home or lockdown orders remain in effect in others, with employees asked to work remotely if possible. Some customers and projects are in areas where travel restrictions have been imposed, certain customers have either closed or reduced on-site activities, and timelines for the completion of multiple projects have been extended. As of the date of this report, it is not possible to predict the overall impact the COVID-19 pandemic will have on Orion's business, liquidity, capital resources or financial results. However, Orion does expect that the economic and regulatory impacts of COVID-19 will materially and adversely impact revenue and profitability in at least the first half of fiscal 2021. If there is prolonged adverse impact, the carrying values of Orion's business, liquidity, capital resources, financial results, and the carrying values of Orion's property, plant and equipment and intangible assets may be impacted negatively. Orion will continue to actively monitor the situation and may take further actions that alter business operations.

Due to the forecasted change in macroeconomic conditions due to the COVID-19 pandemic, as of March 31, 2020, a triggering event occurred requiring Orion to evaluate its long-lived assets for impairment. Orion performed the Step 1 recoverability test for the asset group, and the asset group was deemed recoverable. See Note 8 – Property and Equipment.

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security (CARES) Act was signed into law and includes certain income tax provisions relevant to businesses. The Company is required to recognize the effect on the consolidated financial statements in the period the law was enacted, which is the period ended March 31, 2020. For the fiscal year ended March 31, 2020, the CARES Act did not have a material impact on the Company's consolidated financial statements.

NOTE 3 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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.

Use of Estimates

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

Cash and Cash Equivalents

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

Fair Value of Financial Instruments

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

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

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

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

Allowance for Doubtful Accounts

Orion performs ongoing evaluations of its customers and continuously monitors collections and payments. Orion estimates an allowance for doubtful accounts based upon the aging of the underlying receivables, historical experience with write-offs and specific customer collection issues that have been identified. See Note 5 – Accounts Receivable for further discussion of the allowance for doubtful accounts.

Incentive Plan

Orion's compensation committee approved an Executive Fiscal Year 2020 Annual Cash Incentive Program. The program provided for performance cash bonus payments ranging from 50-100% of the fiscal 2020 base salaries of Orion's named executive officers and other key employees. The program provided for bonuses to be paid out on the basis of achieving positive net income in fiscal 2020. Based upon the results for the year ended March 31, 2020, Orion accrued approximately \$0.8 million of expense related to this plan.

Orion's compensation committee approved an Executive Fiscal Year 2019 Annual Cash Incentive Program. The program provided for performance cash bonus payments ranging from 50-100% of the fiscal 2019 base salaries of Orion's named executive officers and other key employees. The program provided for bonuses to be paid out on the basis of achieving positive net income above \$0.1 million in fiscal 2019. Based upon the results for the year ended March 31, 2019, Orion did not accrue any expense related to this plan.

Orion's compensation committee approved an Executive Fiscal Year 2018 Annual Cash Incentive Program. The program provided for performance cash bonus payments ranging from 50-100% of the fiscal 2018 base salaries of Orion's named executive officers and other key employees. The program provided for bonuses to be paid out on the basis of achieving positive EBITDA in fiscal 2018. Based upon the results for the year ended March 31, 2018, Orion did not accrue any expense related to this plan.

Revenue Recognition

Periods prior to April 1, 2018

Revenue was recognized in accordance with the revenue recognition requirements in "Revenue Recognition" (Topic 605) ("ASC 605") when the following criteria were met:

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

Revenue was recorded net of estimated provisions for returns, early payment discounts and rebates and other consideration paid to Orion's customers. Revenues were presented net of sales tax and other sales related taxes.

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

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

To determine the selling price in multiple-element arrangements, Orion establishes the selling price for its energy management system products using management's best estimate of the selling price, as VSOE and TPE do not exist. Product revenue is recognized when title and risk of loss for the products transfers. For product revenue, management's best estimate of selling price is determined using a cost plus gross profit margin method.

In addition, Orion records in service revenue the selling price for its installation and recycling services using management's best estimate of selling price, as VSOE and TPE do not exist. Service revenue is recognized when services are completed and customer acceptance has been received. Recycling services provided in connection with installation entail the disposal of the customer's legacy lighting fixtures. Orion's service revenues, other than for installation and recycling that are completed prior to delivery of the product, are included in product revenue using management's best estimate of selling price, as VSOE and TPE do not exist. These services include comprehensive site assessment, site field verification, utility incentive and government subsidy management, engineering design, and project management. For these services, along with Orion's installation and recycling services, under a multiple-element arrangement, management's best estimate of selling price is determined using a cost plus gross profit margin method with consideration given to other relevant economic conditions and trends, customer demand, pricing practices, and margin objectives. The determination of an estimated selling price is made through consultation with and approval by management, taking into account the preceding factors.

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

Period Commencing April 1, 2018

General Information

Orion generates revenues primarily by selling commercial lighting fixtures and components and by installing these fixtures in its customer's facilities. Orion recognizes revenue in accordance with the guidance in "Revenue from Contracts with Customers" (Topic 606) ("ASC 606") when control of the goods or services being provided (which Orion refers to as a performance obligation) is transferred to a customer at an amount that reflects the consideration that management expects to receive in exchange for those goods or services. Prices are generally fixed at the time of order confirmation. The amount of expected consideration includes estimated deductions and early payment discounts calculated based on historical experience, customer rebates based on agreed upon terms applied to actual and projected sales levels over the rebate period, and any amounts paid to customers in conjunction with fulfilling a performance obligation.

If there are multiple performance obligations in a single contract, the contract's total sales price is allocated to each individual performance obligation based on their relative standalone selling price. A performance obligation's standalone selling price is the price at which Orion would sell such promised good or service separately to a customer. Orion uses an observable price to determine the stand-alone selling price for separate performance obligations or a cost-plus margin approach when one is not available. The cost-plus margin approach is used to determine the stand-alone selling price for the installation performance obligation and is based on average historical installation margin.

Revenue derived from customer contracts which include only performance obligation(s) for the sale of lighting fixtures and components is classified as Product revenue in the Consolidated Statements of Operations. The revenue for these transactions is recorded at the point in time when management believes that the customer obtains control of the products, generally either upon shipment or upon delivery to the customer's facility. This point in time is determined separately for each contract and requires judgment by management of the contract terms and the specific facts and circumstances concerning the transaction.

Revenue from a customer contract which includes both the sale of fixtures and the installation of such fixtures (which Orion refers to as a turnkey project) is allocated between each lighting fixture and the installation performance obligation based on relative standalone selling prices.

Revenue from turnkey projects that is allocated to the sale of the lighting fixtures is recorded at the point in time when management believes the customer obtains control of the product(s) and is reflected in Product revenue. This point in time is determined separately for each customer contract based upon the terms of the contract and the nature and extent of Orion's control of the light fixtures during the installation. Product revenue associated with turnkey projects can be recorded (a) upon shipment or delivery, (b) subsequent to shipment or delivery and upon customer payments for the light fixtures, (c) when an individual light fixture is installed and working correctly, or (d) when the customer acknowledges that the entire installation project is substantially complete. Determining the point in time when a customer obtains control of the lighting fixtures in a turnkey project can be a complex judgment and is applied separately for each individual light fixture included in a contract. In making this judgment, management considers the timing of various factors, including, but not limited to, those detailed below:

- when there is a legal transfer of ownership;
- when the customer obtains physical possession of the products;
- when the customer starts to receive the benefit of the products;
- the amount and duration of physical control that Orion maintains on the products after they are shipped to, and received at, the customer's facility;
- whether Orion is required to maintain insurance on the lighting fixtures when they are in transit and after they are delivered to the customer's facility;
- when each light fixture is physically installed and working correctly;
- when the customer formally accepts the product; and
- when Orion receives payment from the customer for the light fixtures.

Revenue from turnkey projects that is allocated to the single installation performance obligation is reflected in Service revenue. Service revenue is recorded over-time as Orion fulfills its obligation to install the light fixtures. Orion measures its performance toward fulfilling its performance obligations for installations using an output method that calculates the number of light fixtures removed and installed as of the measurement date in comparison to the total number of light fixtures to be removed and installed under the contract.

Most products are manufactured in accordance with Orion's standard specifications. However, some products are manufactured to a customer's specific requirements with no alternative use to Orion. In such cases, and when Orion has an enforceable right to payment, Product revenue is recorded on an over-time basis measured using an input methodology that calculates the costs incurred to date as compared to total expected costs. There was no over-time revenue related to custom products recognized in fiscal year 2020 or 2019.

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

Orion also records revenue in conjunction with several limited power purchase agreements ("PPAs") still outstanding. Those PPAs are supply-side agreements for the generation of electricity. Orion's last PPA expires in 2031. Revenue associated with the sale of energy generated by the solar facilities under these PPAs is within the scope of ASC 606. Revenues are recognized over-time and are equal to the amount billed to the customer, which is calculated by applying the fixed rate designated in the PPAs to the variable amount of electricity generated each month. This approach is in accordance with the "right to invoice" practical expedient provided for in ASC 606. Orion also recognizes revenue upon the sale to third parties of tax credits received from operating the solar facilities and from amortizing a grant received from the federal government during the period starting when the power generating facilities were constructed until the expiration of the PPAs; these revenues are not derived from contracts with customers and therefore not under the scope of ASC 606.

When shipping and handling activities are performed after a customer obtains control of the product, Orion has elected to treat shipping and handling costs as an activity necessary to fulfill the performance obligation to transfer product to the customer and not as

a separate performance obligation. Any shipping and handling costs charged to customers are recorded in Product revenue. Shipping and handling costs are accrued and included in Cost of product revenue.

See Note 11 – Accrued Expenses and Other for a discussion of Orion’s accounting for the warranty it provides to customers for its products and services.

Sales taxes collected from customers and remitted to governmental authorities are accounted for on a net (excluded from revenues) basis.

Shipping and Handling Costs

Orion records costs incurred in connection with shipping and handling of products as cost of product revenue. Amounts billed to customers in connection with these costs are included in product revenue.

Research and Development

Orion expenses research and development costs as incurred. Amounts are included in the Statement of Operations and Comprehensive Income on the line item Research and development.

Income Taxes

Orion 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. For the fiscal year ended March 31, 2020, Orion decreased its full valuation allowance by \$3.2 million against its deferred tax assets due to the decrease in its deferred tax assets.

ASC 740, *Income Taxes*, also prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of tax positions taken or expected to be taken in a tax return. For those benefits to be recognized, a tax position must be more-likely-than-not to be sustained upon examination. Orion 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. Orion recognizes penalties and interest related to uncertain tax liabilities in income tax expense. Penalties and interest are immaterial and are included in the unrecognized tax benefits.

Stock Based Compensation

Orion’s share-based payments to employees are measured at fair value and are recognized against earnings, on a straight-line basis over the requisite service period.

Orion accounts for stock-based compensation in accordance with ASC 718, *Compensation - Stock Compensation*. Under the fair value recognition provisions of ASC 718, stock-based compensation is measured at the grant date based on the fair value of the award and is recognized as expense ratably over the requisite service period. As more fully described in Note 17 – Stock Options and Restricted Shares, Orion currently awards non-vested restricted stock (and in some cases, in conjunction with associated cash award accounted for as a liability) to employees, executive officers and directors. Orion did not issue any stock options during fiscal 2020, fiscal 2019 or fiscal 2018.

Orion has not paid dividends in the past and does not plan to pay any dividends in the foreseeable future. Orion estimates its forfeiture rate of unvested stock awards based on historical experience.

Concentration of Credit Risk and Other Risks and Uncertainties

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

Orion purchases components necessary for its lighting products, including ballasts, lamps and LED components, from multiple suppliers. For fiscal 2020, one supplier account for 11.8% of total cost of revenue. For fiscal 2019, no supplier accounted for more than 10% of total cost of revenue.

In fiscal 2020, one customer accounted for 74.1% of revenue. In fiscal 2019, one customer accounted for 20.7% of total revenue. In fiscal 2018, two customers accounted for 11.7% and 10.8% of total revenue.

As of March 31, 2020, two customers accounted for 37.3% and 13.0% of accounts receivable, respectively, and as of March 31, 2019, one customer accounted for 56.2% of accounts receivable.

Recent Accounting Pronouncements

Issued: Not Yet Adopted

In June 2016, the FASB issued ASU No. 2016-13, Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments ("ASU 2016-13"), which requires an entity to assess impairment of its financial instruments based on its estimate of expected credit losses. Since the issuance of ASU 2016-13, the FASB released several amendments to improve and clarify the implementation guidance. The provisions of ASU 2016-13 and the related amendments are effective for Orion for fiscal years (and interim reporting periods within those years) beginning after December 15, 2022. Entities are required to apply these changes through a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is effective. Orion is currently evaluating the impact of adoption of this standard on its consolidated statements of operations, cash flows, and the related footnote disclosures.

Recently Adopted Standards

In April 2018, Orion adopted ASU 2014-09 and subsequent amendments, which is included in the Accounting Standards Codification as "Revenue from Contracts with Customers" (Topic 606) ("ASC 606") and Sub-Topic 340-40 ("ASC 340-40"), using the modified retrospective approach. ASC 606 superseded the revenue recognition requirements in "Revenue Recognition" (Topic 605) ("ASC 605") and provides guidance on the accounting for other assets and deferred costs associated with contracts with customers. ASC 606 requires entities to recognize revenue when control of the promised goods or services is transferred to customers at an amount that reflects the consideration to which the entity expects to be entitled to in exchange for those goods or services. ASC 340-40 limits the circumstances that an entity can recognize an asset from the costs incurred to obtain or fulfill a contract that are not subject to the guidance in other portions in the Accounting Standards Codification, such as those related to inventory. The provisions of ASC 606 and ASC 340-40 require entities to use more judgments and estimates than under previous guidance when allocating the total consideration in a contract to the individual promises to customers ("performance obligations") and determining when a performance obligation has been satisfied and revenue can be recognized. Orion's adoption of ASC 606 did not have a material effect on Orion's financial statements. Orion has updated its processes and controls necessary for implementing ASC 606, including the increased footnote disclosure requirements.

In August 2016, the FASB issued ASU 2016-15, "Classification of Certain Cash Receipts and Cash Payments," which provided clarification and additional guidance as to the presentation and classification of certain cash receipts and cash payments in the statement of cash flows. This ASU provided guidance as to the classification of a number of transactions including: contingent consideration payments made after a business combination, proceeds from the settlement of insurance claims, proceeds from the settlement of corporate-owned life insurance policies, and distributions received from equity method investees. This new ASU was

effective for Orion beginning in the first quarter of fiscal 2019 and has been applied through retrospective adjustment to all periods presented. The adoption of this ASU did not have a material impact on Orion's consolidated financial statements.

In May 2017, the FASB issued ASU 2017-09, "Compensation-Stock Compensation: Scope of Modification Accounting" which provides guidance about which changes to the terms or conditions of a share-based payment award would require an entity to apply modification accounting. The provisions of this ASU were effective for Orion beginning on April 1, 2018. The adoption of this ASU did not have a material impact on Orion's consolidated financial statements.

In April 2019, Orion adopted Accounting Standards Update 2016-02, and subsequent amendments, which is included in the Accounting Standards Codification ("ASC") as Topic 842, Leases ("ASC 842"), retrospectively through a cumulative-effect adjustment. Orion elected the package of practical expedients provided for in ASU 842, which among other things, allows companies to carry forward their historical lease classification. Previously, Orion followed the guidance set forth in ASC 840, Leases.

For Orion, the most significant difference between ASC 840 and ASC 842 is the requirement that lessees recognize right-of-use assets and liabilities on the balance sheet for the rights and obligations created by long-term operating leases. Previously, the financial impact associated with operating leases was recorded only in Orion's statement of operations. Determining whether a contract includes a lease, and assessing whether the lease should be accounted for as a finance lease or an operating lease, is a matter of judgment based on whether the risks and rewards, as well as substantive control of the associated assets specified in the contract, have been transferred from the lessor to the lessee.

Adoption of ASC 842 resulted in the recording of additional lease assets and lease liabilities of approximately \$0.2 million as of April 1, 2019. There was no impact to retained earnings. The adoption of ASC 842 did not materially impact Orion's consolidated results of operations and had no impact on Orion's cash flows. Orion has updated its processes and controls necessary for implementing ASC 842, including the increased footnote disclosure requirements.

NOTE 4 — REVENUE

Changes in Accounting Policies

Orion adopted ASC 606 and ASC 340-40 (the "new standards") as of April 1, 2018 for contracts with customers that were not fully complete as of April 1, 2018 using the modified retrospective transition method. The cumulative effect of initially applying the new standards was recorded as a \$0.4 million adjustment to the opening balance of retained deficit within Orion's Consolidated Statement of Shareholders' Equity.

The new standards are applied separately for each contract between Orion and a customer. While the impact of the new standards vary for each contract based on its specific terms, in general, the new standards result in Orion (a) delaying the recognition of some of its Product revenue from the point of shipment until a later date during the installation period, (b) recording Service revenue associated with installing lighting fixtures as such fixtures are installed instead of recording all Service revenue at the completion of the installation, and (c) recording costs associated with installing lighting fixtures as they are incurred instead of deferring such costs and recognizing them at the time Service revenue was recorded.

The adoption of the new standards also resulted in reclassifications (a) between Product revenue and Service revenue, and between Cost of service revenue and Sales and marketing expenses in Orion's Consolidated Statements of Operations, and (b) between Accounts receivable, net, Revenue earned but not billed, Inventories, net, Deferred contract costs, Prepaid expenses and other current assets, Accounts payable, Accrued expenses and other, Deferred revenue, current, Deferred revenue, long-term, and Other long-term liabilities in Orion's Consolidated Balance Sheets.

In accordance with the modified retrospective transition method, the historical information within Orion's financial statements has not been restated and continues to be reported under the accounting standard in effect for those periods. As a result, Orion has disclosed the accounting policies in effect prior to April 1, 2018, as well as the policies applied starting April 1, 2018.

General Information

Orion generates revenues primarily by selling commercial LED lighting fixtures and components, including controls and integrated IoT capabilities, and by installing these fixtures in its customer's facilities on a turnkey basis via a dedicated installation and support team. Orion recognizes revenue in accordance with the guidance in ASC 606 when control of the goods or services being provided (which Orion refers to as a performance obligation) is transferred to a customer at an amount that reflects the consideration that management expects to receive in exchange for those goods or services. Prices are generally fixed at the time of order confirmation. The amount of expected consideration includes estimated deductions and early payment discounts calculated based on historical experience, customer rebates based on agreed upon terms applied to actual and projected sales levels over the rebate period, and any amounts paid to customers in conjunction with fulfilling a performance obligation.

If there are multiple performance obligations in a contract, the contract's total sales price is allocated to each individual performance obligation based on their relative standalone selling price. A performance obligation's standalone selling price is the price at which Orion would sell such promised good or service separately to a customer. Orion uses an observable price to determine the stand-alone selling price for separate performance obligations or a cost-plus margin approach when one is not available. The cost-plus margin approach is used to determine the stand-alone selling price for the installation performance obligation and is based on average historical installation margin.

Revenue derived from customer contracts which include only performance obligation(s) for the sale of lighting fixtures and components is classified as Product revenue in the Consolidated Statements of Operations. The revenue for these transactions is recorded at the point in time when management believes that the customer obtains control of the products, generally either upon shipment or upon delivery to the customer's facility. This point in time is determined separately for each contract and requires judgment by management of the contract terms and the specific facts and circumstances concerning the transaction.

Revenue from a customer contract which includes both the sale of fixtures and the installation of such fixtures (which Orion refers to as a turnkey project) is allocated between each lighting fixture and the installation performance obligation based on relative standalone selling prices.

Revenue from turnkey projects that is allocated to the sale of the lighting fixtures is recorded at the point in time when management believes the customer obtains control of the product(s) and is reflected in Product revenue. This point in time is determined separately for each customer contract based upon the terms of the contract and the nature and extent of Orion's control of the light fixtures during the installation. Product revenue associated with turnkey projects can be recorded (a) upon shipment or delivery, (b) subsequent to shipment or delivery and upon customer payments for the light fixtures, (c) when an individual light fixture is installed and working correctly, or (d) when the customer acknowledges that the entire installation project is substantially complete. Determining the point in time when a customer obtains control of the lighting fixtures in a turnkey project can be a complex judgment and is applied separately for each individual light fixture included in a contract. In making this judgment, management considers the timing of various factors, including, but not limited to, those detailed below:

- when there is a legal transfer of ownership;
- when the customer obtains physical possession of the products;
- when the customer starts to receive the benefit of the products;
- the amount and duration of physical control that Orion maintains on the products after they are shipped to, and received at, the customer's facility;
- whether Orion is required to maintain insurance on the lighting fixtures when they are in transit and after they are delivered to the customer's facility;
- when each light fixture is physically installed and working correctly;
- when the customer formally accepts the product; and
- when Orion receives payment from the customer for the light fixtures.

Revenue from turnkey projects that is allocated to the single installation performance obligation is reflected in Service revenue. Service revenue is recorded over-time as Orion fulfills its obligation to install the light fixtures. Orion measures its performance toward fulfilling its performance obligations for installations using an output method that calculates the number of light fixtures removed and installed as of the measurement date in comparison to the total number of light fixtures to be removed or installed under the contract.

Most products are manufactured in accordance with Orion's standard specifications. However, some products are manufactured to a customer's specific requirements with no alternative use to Orion. In such cases, and when Orion has an enforceable right to payment, Product revenue is recorded on an over-time basis measured using an input methodology that calculates the costs incurred to

date as compared to total expected costs. There was no over-time revenue related to custom products recognized in the twelve months ended March 31, 2020 or March 31, 2019.

Orion also records revenue in conjunction with several limited power purchase agreements (“PPAs”) still outstanding. Those PPAs are supply-side agreements for the generation of electricity. Orion’s last PPA expires in 2031. Revenue associated with the sale of energy generated by the solar facilities under these PPAs is within the scope of ASC 606. Revenues are recognized over-time and are equal to the amount billed to the customer, which is calculated by applying the fixed rate designated in the PPAs to the variable amount of electricity generated each month. This approach is in accordance with the “right to invoice” practical expedient provided for in ASC 606. Orion also recognizes revenue upon the sale to third parties of tax credits received from operating the solar facilities and from amortizing a grant received from the federal government during the period starting when the power generating facilities were constructed until the expiration of the PPAs; these revenues are not derived from contracts with customers and therefore not under the scope of ASC 606.

When shipping and handling activities are performed after a customer obtains control of the product, Orion has elected to treat shipping and handling costs as an activity necessary to fulfill the performance obligation to transfer product to the customer and not as a separate performance obligation. Any shipping and handling costs charged to customers are recorded in Product revenue. Shipping and handling costs are accrued and included in Cost of product revenue.

See Note 11 – Accrued Expenses and Other for a discussion of Orion’s accounting for the warranty it provides to customers for its products and services.

Sales taxes collected from customers and remitted to governmental authorities are accounted for on a net (excluded from revenues) basis.

Revenue Recognition

See Note 3 – Summary of Significant Accounting Policies for a discussion of Orion’s accounting policies in effect prior to April 1, 2018, as well as the policies applied starting April 1, 2018 related to revenue recognition.

Contract Fulfillment Costs

Costs associated with product sales are accumulated in inventory as the fixtures are manufactured and are transferred to Cost of product revenue at the time revenue is recorded. See Note 6 – Inventories. Costs associated with installation sales are expensed as incurred.

Disaggregation of Revenue

Orion’s Product revenue includes revenue from contracts with customers accounted for under the scope of ASC 606 and revenue which is accounted for under other guidance. For fiscal year 2020, Product revenue included \$1.4 million derived from sales-type leases for light fixtures, \$0.2 million derived from the sale of tax credits generated from Orion’s legacy operation for distributing solar energy, and \$0.1 million derived from the amortization of federal grants received in 2010 and 2011 as reimbursement for a portion of the costs to construct the legacy solar facilities which are not under the scope of ASC 606. All remaining Product revenue, and all Service revenue, are derived from contracts with customers as defined in ASC 606.

The primary end-users of Orion’s lighting products and services are (a) the federal government, and (b) commercial or industrial companies.

The federal government obtains Orion products and services primarily through turnkey project sales that Orion makes to a select group of contractors who focus on the federal government. Revenues associated with government end-users are primarily included in the Orion Engineered Systems Division segment.

Commercial or industrial end-users obtain Orion products and services through turnkey project sales or by purchasing products either direct from Orion or through distributors or energy service companies (“ESCOs”). Revenues associated with commercial and industrial end-users are included within each of Orion’s segments, dependent on the sales channel.

See Footnote 18 - Segment Data, for additional discussion concerning Orion’s reportable segments.

The following table provides detail of Orion's total revenues for the year ended March 31, 2020 (dollars in thousands):

	Year Ended March 31, 2020		
	Product	Services	Total
Revenue from contracts with customers:			
Lighting revenues, by end user			
Federal government	\$ 922	\$ 379	\$ 1,301
Commercial and industrial	110,742	37,110	147,852
Total lighting	111,664	37,489	149,153
Solar energy related revenues	56	—	56
Total revenues from contracts with customers	111,720	37,489	149,209
Revenue accounted for under other guidance	1,632	—	1,632
Total revenue	\$ 113,352	\$ 37,489	\$ 150,841

Cash Flow Considerations

Customer payments for material only orders are due shortly after shipment.

Turnkey projects where the end-user is a commercial or industrial company typically span between one week to three months. Customer payment requirements for these projects vary by contract. Some contracts provide for customer payments for products and services as they are delivered, other contracts specify that the customer will pay for the project in its entirety upon completion of the installation.

Turnkey projects where the end-user is the federal government typically span a three to six-month period. The contracts for these sales often provide for monthly progress payments equal to ninety percent (90%) of the value provided by Orion during the month.

Orion provides long-term financing to one customer who frequently engages Orion in large turnkey projects that span between three and nine months. The customer executes an agreement providing for monthly payments of the contract price, plus interest, over a five-year period. The total transaction price in these contracts is allocated between product and services in the same manner as all other turnkey projects. The portion of the transaction associated with the installation is accounted for consistently with all other installation related performance obligations. The portion of the transaction associated with the sale of the multiple individual light fixtures is accounted for as sales-type leases in accordance with the guidance for leases. Revenues associated with the sales-type leases are included in Product revenue and recorded for each fixture separately based on the customer's monthly acknowledgment that specified fixtures have been installed and are operating as specified.

The payments associated with these transactions that are due during the twelve months subsequent to March 31, 2020 are included in Accounts receivable, net in Orion's Consolidated Balance Sheets. The remaining amounts due that are associated with these transactions are included in Long-term accounts receivable in Orion's Consolidated Balance Sheets.

The customer's monthly payment obligation commences after completion of the turnkey project. Orion generally sells the receivable from the customer to an independent financial institution either during, or shortly after completion of, the installation period. Upon execution of the receivables purchase / sales agreement, all amounts due from the customer are included in Revenues earned but not billed on Orion's Consolidated Balance Sheets until cash is received from the financial institution. The financial institution releases funds to Orion based on the customer's monthly acknowledgment of the progress Orion has achieved in fulfilling its installation obligation. Orion provides the progress certifications to the financial institution one month in arrears.

The total amount received from the sales of these receivables during the twelve months ended March 31, 2020, and 2019 was \$4.4 million and \$6.9 million, respectively. Orion's losses on these sales aggregated to \$0.1 million and \$0.3 million for the twelve months ended March 31, 2020, and 2019, respectively, and are included in Interest expense in the Consolidated Statements of Operations.

Practical Expedients and Exemptions

Orion expenses sales commissions when incurred because the amortization period is one year or less. These costs are recorded within Sales and marketing expense. There are no other capitalizable costs associated with obtaining contracts with customers.

Orion's performance obligations related to lighting fixtures typically do not exceed nine months in duration. As a result, Orion has elected the practical expedient that provides an exemption to the disclosure requirements regarding information about value assigned to remaining performance obligations on contracts that have original expected durations of one year or less.

Orion has also adopted the practical expedient that provides an exemption to the disclosure requirement of the value assigned to performance obligations associated with contracts that were not complete as of April 1, 2018.

Orion also elected the practical expedient that permits companies to not disclose quantitative information about the future revenue when revenue is recognized as invoices are issued to customers for services performed.

Other than the turnkey projects which result in sales-type leases discussed above, Orion generally receives full payment for satisfied performance obligations in less than one year. Accordingly, Orion does not adjust revenues for the impact of any potential significant financing component as permitted by the practical expedients provided in ASC 606.

Contract Balances

A receivable is recognized when Orion has an enforceable right to payment in accordance with contract terms and an invoice has been issued to the customer. Payment terms on invoiced amounts are typically 30 days from the invoice date.

Revenue earned but not billed represents revenue that has been recognized in advance of billing the customer, which is a common practice in Orion turnkey contracts. Once Orion has an unconditional right to consideration under a turnkey contract, Orion typically bills the customer accordingly and reclassifies the amount to Accounts receivable, net. Revenue earned but not billed as of March 31, 2020 and March 31, 2019 includes \$39 thousand and \$0.7 million, respectively, which was not derived from contracts with customers and therefore not classified as a contract asset as defined by the new standards.

Long term accounts receivable as of March 31, 2020, includes \$0.6 million of contract assets related to the service portion of the long-term financing agreement provided one customer.

Deferred revenue, current as of March 31, 2020, includes \$31 thousand of contract liabilities which represented consideration received from customers prior to the point that Orion has fulfilled the promises included in a performance obligation and recorded revenue.

Deferred revenue, long-term consists of the unamortized portion of the funds received from the federal government in 2010 and 2011 as reimbursement for the costs to build the two facilities related to the PPAs. As the transaction is not considered a contract with a customer, this value is not a contract liability as defined by the new standards.

The following chart shows the balance of Orion's receivables arising from contracts with customers, contract assets and contract liabilities as of March 31, 2020, and March 31, 2019, after the adoption of the new standards (dollars in thousands):

	March 31, 2020	March 31, 2019
Accounts receivable, net	\$ 10,427	\$ 14,804
Contract assets	\$ 1,082	\$ 3,005
Contract liabilities	\$ 31	\$ 48

There were no significant changes in the contract assets outside of standard reclassifications to Accounts receivable, net upon billing. There were no significant changes to contract liabilities.

NOTE 5 — ACCOUNTS RECEIVABLE

Orion's accounts receivable are due from companies in the commercial, governmental, industrial and agricultural industries, as well as wholesalers. Credit is extended based on an evaluation of a customer's financial condition. Generally, collateral is not required for end users; however, the payment of certain trade accounts receivable from wholesalers is secured by irrevocable standby letters of credit and/or guarantees. Accounts receivable are generally due within 30-60 days. Accounts receivable are stated at the amount Orion expects to collect from outstanding balances. Orion 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 Orion has used reasonable collection efforts are written off through a charge to the allowance for doubtful accounts and a credit to accounts receivable. Orion's accounts receivable and allowance for doubtful accounts balances were as follows (dollars in thousands):

	2020	2019
Accounts receivable, gross	\$ 10,455	\$ 15,011
Allowance for doubtful accounts	(28)	(207)
Accounts receivable, net	<u>\$ 10,427</u>	<u>\$ 14,804</u>

NOTE 6 — INVENTORIES

Inventories consist of raw materials and components, such as drivers, metal sheet and coil stock and molded parts; work in process inventories, such as frames and reflectors; and finished goods, including completed fixtures and systems, and accessories. All inventories are stated at the lower of cost or net realizable value with cost determined using the first-in, first-out (FIFO) method. Orion reduces the carrying value of its inventories for differences between the cost and estimated net realizable value, taking into consideration usage in the preceding 9 to 12 months, expected demand, and other information indicating obsolescence. Orion 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, 2020 and 2019, Orion's inventory balances were as follows (dollars in thousands):

	Cost	Excess and Obsolescence Reserve	Net
As of March 31, 2020			
Raw materials and components	\$ 9,639	\$ (1,244)	\$ 8,395
Work in process	699	(305)	394
Finished goods	6,598	(880)	5,718
Total	<u>\$ 16,936</u>	<u>\$ (2,429)</u>	<u>\$ 14,507</u>
As of March 31, 2019			
Raw materials and components	\$ 9,161	\$ (1,393)	\$ 7,768
Work in process	1,010	(269)	741
Finished goods	6,056	(1,162)	4,894
Total	<u>\$ 16,227</u>	<u>\$ (2,824)</u>	<u>\$ 13,403</u>

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.

NOTE 7 — PREPAID EXPENSES AND OTHER CURRENT ASSETS

Prepaid expenses and other current assets consist primarily of prepaid subscription fees, prepaid insurance premiums, debt issue costs, and sales tax receivable.

NOTE 8 — 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 and

equipment sold, or otherwise disposed of, are removed from the property and equipment accounts, with gains or losses on disposal credited or charged to income from operations.

Orion periodically reviews the carrying values of property and equipment for impairment in accordance with ASC 360, Property, Plant and Equipment, if 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.

As of March 31, 2020, due to the forecasted change in the macroeconomic conditions due to the COVID-19 pandemic, a triggering event occurred requiring Orion to evaluate its long-lived assets for impairment. Due to the central nature of its operations, Orion's tangible and intangible definite-lived assets support its full operations, are utilized by all three of its reportable segments, and do not generate separately identifiable cash flows. As such, these assets together represent a single asset group. Orion performed the recoverability test for the asset group by comparing its carrying value to the group's expected future undiscounted cash flows. Orion concluded that the undiscounted cash flows of the long-lived asset group exceeded its carrying value. As such the asset group was deemed recoverable and no impairment was recorded.

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

	March 31, 2020	March 31, 2019
Land and land improvements	\$ 433	\$ 433
Buildings and building improvements	9,470	9,245
Furniture, fixtures and office equipment	7,270	7,238
Leasehold improvements	324	324
Equipment leased to customers	4,997	4,997
Plant equipment	12,021	12,211
Construction in progress	15	43
	34,530	34,491
Less: accumulated depreciation and amortization	(22,713)	(22,481)
Net property and equipment	<u>\$ 11,817</u>	<u>\$ 12,010</u>

Depreciation is recognized over the estimated useful lives of the respective assets, using the straight-line method. Orion recorded depreciation expense of \$1.2 million, \$1.3 million and \$1.4 million for the years ended March 31, 2020, 2019 and 2018, respectively.

Depreciable lives by asset category are as follows:

Land improvements	10-15 years
Buildings and building improvements	10-39 years
Furniture, fixtures and office equipment	2-10 years
Leasehold improvements	Shorter of asset life or life of lease
Equipment leased to customers under Power Purchase Agreements	20 years
Plant equipment	3-10 years

No interest was capitalized for construction in progress during fiscal 2020 or fiscal 2019.

NOTE 9 — LEASES

From time to time, Orion leases assets from third parties. Orion also leases certain assets to third parties. Effective April 1, 2019, leases are accounted for, and reported upon, following the requirements of ASC 842, Leases. Previously, leases were accounted for, and reported upon, following the requirements of ASC 840, Leases.

For Orion, the most significant difference between ASC 840 and ASC 842 is the requirement that it recognize right-of-use ("ROU") assets and lease liabilities on the balance sheet whenever it leases assets from a third party. Previously, under ASC 840, only assets leased from third parties that meet certain requirements, referred to as finance leases, were recorded on Orion's balance sheet. Previously, the financial impact of all other leases, referred to as operating leases, was limited to Orion's results of operations.

Whether it is the lessee or the lessor, Orion's determination of whether a contract includes a lease, and assessing how the lease should be accounted for, is a matter of judgment based on whether the risks and rewards, as well as substantive control of the assets specified in the contract, have been transferred from the lessor to the lessee. The judgement considers matters such as whether the assets are transferred from the lessor to the lessee at the end of the contract, the term of the agreement in relation to the asset's remaining economic useful life, and whether the assets are of such a specialized nature that the lessor will not have an alternative use for such assets at the termination of the agreement. Other matters requiring judgement are the lease term when the agreement includes renewal or termination options and the interest rate used when initially determining the ROU asset and lease liability.

ROU assets represent Orion's right to use an underlying asset for the lease term and lease liabilities represent Orion's obligation to make lease payments arising from the lease. Under ASC 842, both finance and operating lease ROU assets and lease liabilities for leases with initial terms in excess of 12 months are recognized at the commencement date based on the present value of lease payments over the lease term. When available, Orion uses the implicit interest rate in the lease when completing this calculation. However, as most of Orion's operating lease agreements generating ROU assets do not provide the implicit rate, Orion's incremental borrowing rate under its line of credit, adjusted for differences in duration and the relative collateral value in relation to the payment obligation, at the commencement of the lease is generally used in this calculation. The lease term includes options to extend or renew the agreement, or for early termination of the agreement, when it is reasonably certain that Orion will exercise such option. ROU assets are depreciated using the straight-line method over the lease term.

Orion recognizes lease expense for leases with an initial term of 12 months or less, referred to as short term leases, on a straight-line basis over the lease term.

One of Orion's frequent customers purchases products and installation services under agreements that provide for monthly payments, at a fixed monthly amount, of the contract price, plus interest, typically over a five-year period. While Orion retains ownership of the light fixtures during the financing period, the transaction terms and the underlying economics associated with used lighting fixtures results in Orion essentially ceding ownership of the lighting fixtures to the customer after completion of the agreement. The portions of the transaction associated with the sale of the light fixtures is accounted for as a sales-type lease. The total transaction price in these contracts is allocated between the lease and non-lease components in the same manner as the total transaction price of other turnkey projects containing lighting fixtures and installation services.

Orion leases portions of its corporate headquarters to third parties; all such agreements have been, and continue to be, classified as operating leases under the applicable authoritative accounting guidance. The assets being leased continue to be included in Property and equipment, net. Lease payments earned are recorded as a reduction in administrative expenses.

Assets Orion Leases from Other Parties

On January 31, 2020, Orion entered into the current lease for its approximately 196,000 square foot primary manufacturing and distribution facility in Manitowoc, WI. The lease has a 10-year term, with the option to terminate after six years. Orion is responsible for the costs of insurance and utilities for the facility. These costs are considered variable lease costs. The agreement is classified as an operating lease.

The prior lease agreement for this facility provided the lessor the right to terminate the lease agreement at any time with 12 months' notice to Orion. As a result, the agreement was previously classified as a short-term lease.

In February 2014, Orion entered into a multi-year lease agreement for use of approximately 10,500 square feet of office space in a multi-use office building in Jacksonville, Florida. As of March 31, 2020, the lease had been extended to June 30, 2020. Subsequent to year-end, this lease was extended for another three-year term. The agreement is classified as an operating lease.

Orion has leased other assets from third parties, principally office and production equipment. The terms of our other leases vary from contract to contract and expire at various dates through 2020.

The weighted average discount rate for Orion's lease obligations as of March 31, 2020 is 5.5%. The weighted average remaining lease term as of March 31, 2020 is 5.8 years.

A summary of Orion's assets leased from third parties follows (dollars in thousands):

	Balance sheet classification	March 31, 2020	
Assets			
Operating lease assets	Other long-term assets	\$	2,745
Liabilities			
Current liabilities			
Operating lease liabilities	Accrued expenses and other		691
Non-current liabilities			
Operating lease liabilities	Other long-term liabilities		2,830
Total lease liabilities		\$	3,521

Orion had operating lease costs of \$0.7 million for the year ended March 31, 2020. This includes short-term leases and variable lease costs, which are immaterial.

The estimated maturity of lease liabilities for each of the next five years is shown below (dollars in thousands):

Maturity of Lease Liabilities	Operating Leases	
Fiscal 2021	\$	692
Fiscal 2022		675
Fiscal 2023		693
Fiscal 2024		714
Fiscal 2025		735
Thereafter		628
Total lease payments	\$	4,137
Less: Interest		(616)
Present value of lease liabilities	\$	3,521

Assets Orion Leases to Other Parties

Orion provides long-term financing to one customer who frequently engages Orion in large turnkey projects that span between three and nine months. The customer executes an agreement providing for monthly payments, at a fixed monthly amount, of the contract price, plus interest, over typically a five-year period. The total transaction price in these contracts is allocated between product and services in the same manner as all other turnkey projects. The portion of the transaction associated with the installation is accounted for consistently with all other installation related performance obligations under ASC 606.

While Orion retains ownership of the light fixtures during the financing period, the transaction terms and the underlying economics associated with used lighting fixtures results in Orion essentially ceding ownership of the lighting fixtures to the customer after completion of the agreement. Therefore, the portions of the transaction associated with the sale of the multiple individual light fixtures is accounted for as a sales-type lease under ASC 842.

Revenues, and production and acquisition costs, associated with sales-type leases are included in Product revenue and Costs of product revenues in the Consolidated Statement of Operations. These amounts are recorded for each fixture separately based on the customer's monthly acknowledgment that specified fixtures have been installed and are operating as specified. The execution of the acknowledgement is considered the commencement date as defined in ASC 842.

The following chart shows the amount of revenue and cost of sales arising from sales-type leases during the year ended March 31, 2020 (dollars in thousands):

	March 31, 2020	
Product revenue	\$	1,362
Cost of product revenue		1,208

The Consolidated Balance Sheets as of March 31, 2020 includes an immaterial amount related to the net investment in sales-type leases. The Balance Sheet as of and March 31, 2019 does not include a net investment in sales-type leases as all amounts due from the customer associated with lighting fixtures that were acknowledged to be installed and working correctly prior to period end were transferred to the financing institution prior to the respective balance sheet dates.

Other Agreements where Orion is the Lessor

Orion has leased unused portions of its corporate headquarters to third parties. The length and payment terms of the leases vary from contract to contract and, in some cases, include options for the tenants to extend the lease terms. Annual lease payments are recorded as a reduction in administrative operating expenses and not material in the year ended March 31, 2020. Orion accounts for these transactions as operating leases.

NOTE 10 — OTHER INTANGIBLE ASSETS

The costs of specifically identifiable intangible assets that do not have an indefinite life are amortized over their estimated useful lives. Intangible assets with indefinite lives are not amortized.

Amortizable intangible assets are amortized over their estimated economic useful life to reflect the pattern of economic benefits consumed based upon the following lives and methods:

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

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

Indefinite lived intangible assets are evaluated for impairment at least annually on the first day of Orion's fiscal fourth quarter, or when indications of potential impairment exist. This annual impairment review may begin with a qualitative test to determine whether it is more likely than not that an indefinite lived intangible asset's carrying value is greater than its fair value. If the qualitative assessment reveals that asset impairment is more likely than not, a quantitative impairment test is performed comparing the fair value of the indefinite lived intangible asset to its carrying value. Alternatively, the qualitative test may be bypassed and the quantitative impairment test may be immediately performed. If the fair value of the indefinite lived intangible asset exceeds its carrying value, the indefinite lived intangible asset is not impaired and no further review is performed. If the carrying value of the indefinite lived intangible asset exceeds its fair value, an impairment loss would be recognized in an amount equal to such excess. Once an impairment loss is recognized, the adjusted carrying value becomes the new accounting basis of the indefinite lived intangible asset.

Orion performed a qualitative assessment in conjunction with its annual impairment test of its indefinite lived intangible assets as of January 1, 2020. This qualitative assessment considered Orion's operating results for the first nine months of fiscal 2020 in comparison to prior years as well as its anticipated fourth quarter results and fiscal 2021 plan. As a result of the conditions that existed as of the assessment date, an asset impairment was not deemed to be more likely than not and a quantitative analysis was not required.

During the second quarter of fiscal 2018, as a result of lower than anticipated operating results in the first half of fiscal 2018, Orion revised its full year fiscal 2018 forecast. As such, a triggering event occurred as of September 30, 2017, requiring Orion to evaluate its long-lived assets for impairment. Orion performed a quantitative impairment review of its indefinite lived intangible assets related to the Harris trade name applying the royalty replacement method to determine the asset's fair value as of September 30, 2017. Under the royalty replacement method, the fair value of the Harris tradename was determined based on a market participant's view of the royalty that would be paid to license the right to use the tradename. This quantitative analysis incorporated several assumptions including forecasted future revenues and cash flows, estimated royalty rate, based on similar licensing transactions and market royalty rates, and discount rate, which incorporates assumptions such as weighted-average cost of capital and risk premium. As a result of this impairment test, the carrying value of the Harris trade name exceeded its estimated fair value and an impairment of \$0.7 million was

recorded to Impairment of intangible assets during the quarter ended September 30, 2017 to reduce the asset's carrying value to its calculated fair value. This fair value determination was categorized as Level 3 in the fair value hierarchy.

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

	March 31, 2020			March 31, 2019		
	Gross Carrying Amount	Accumulated Amortization	Net	Gross Carrying Amount	Accumulated Amortization	Net
Patents	\$ 2,766	\$ (1,700)	\$ 1,066	\$ 2,667	\$ (1,529)	\$ 1,138
Licenses	58	(58)	—	58	(58)	—
Trade name and trademarks	1,014	—	1,014	1,007	—	1,007
Customer relationships	3,600	(3,545)	55	3,600	(3,459)	141
Developed technology	900	(819)	81	900	(717)	183
Total	\$ 8,338	\$ (6,122)	\$ 2,216	\$ 8,232	\$ (5,763)	\$ 2,469

As of March 31, 2020, the weighted average useful life of intangible assets was 5.13 years. The estimated amortization expense for each of the next five years is shown below (dollars in thousands):

Fiscal 2021	\$ 292
Fiscal 2022	194
Fiscal 2023	103
Fiscal 2024	99
Fiscal 2025	91
Thereafter	423
	\$ 1,202

Amortization expense is set forth in the following table (dollars in thousands):

	Fiscal Year Ended March 31,		
	2020	2019	2018
Amortization included in cost of sales:			
Patents	\$ 171	\$ 171	\$ 159
Total	\$ 171	\$ 171	\$ 159
Amortization included in operating expenses:			
Customer relationships	\$ 86	\$ 133	\$ 272
Developed technology	102	135	156
Non-competition agreements	—	5	20
Total	188	273	448
Total amortization of intangible assets	\$ 359	\$ 444	\$ 607

Orion's management periodically reviews the carrying value of patent applications and related costs. When a patent application is probable of being unsuccessful or a patent is no longer in use, Orion writes off the remaining carrying value as a charge to general and administrative expense within its Consolidated Statement of Operations. In fiscal years 2020, 2019, and 2018, write-offs were immaterial.

Included in other income are product royalties received from licensing agreements for our patents.

NOTE 11 — ACCRUED EXPENSES AND OTHER

As of March 31, 2020 and March 31, 2019, Accrued expenses and other included the following (dollars in thousands):

	March 31, 2020	March 31, 2019
Compensation and benefits	\$ 2,594	\$ 1,212
Sales tax	513	713
Contract costs	1,173	3,293
Legal and professional fees	312	356
Warranty	708	282
Sales returns reserve (1)	98	141
Credits due to customers (1)	932	987
Other accruals	898	426
Total	<u>\$ 7,228</u>	<u>\$ 7,410</u>

(1) Sales returns reserve was previously classified in Accounts receivable, net and Credits due to customers was previously classified in Accounts payable. As of April 1, 2018, in conjunction with the adoption of ASC 606, these balances are now included in Accrued expenses and other on the Consolidated Balance Sheets.

Orion generally offers a limited warranty of one to 10 years on its lighting products including the pass through of standard warranties offered by major original equipment component manufacturers. The manufacturers' warranties cover lamps, ballasts, LED modules, LED chips, LED drivers, control devices, and other fixture related items, which are significant components in Orion's lighting products.

Changes in Orion's warranty accrual (both current and long-term) were as follows (dollars in thousands):

	March 31,	
	2020	2019
Beginning of year	\$ 657	\$ 673
Reclassification on adoption of ASC 606	—	73
Accruals	863	158
Warranty claims (net of vendor reimbursements)	(451)	(247)
Ending balance	<u>\$ 1,069</u>	<u>\$ 657</u>

NOTE 12 — NET INCOME (LOSS) PER COMMON SHARE

Basic net income (loss) per common share is computed by dividing net income (loss) attributable to common shareholders by the weighted-average number of common shares outstanding for the period and does not consider common stock equivalents.

Diluted net income (loss) per common share reflects the dilution that would occur if stock options were exercised and restricted shares vested. In the computation of diluted net income (loss) per common share, Orion uses the treasury stock method for outstanding options and restricted shares. Because of the net loss for the years ended March 31, 2019 and March 31, 2018, potentially dilutive securities would be anti-dilutive, and therefore diluted net income (loss) per common share is the same as basic net income (loss) per common share for the years ended March 31, 2019 and March 31, 2018. Net income (loss) per common share is calculated based upon the following shares:

	Fiscal Year Ended March 31,		
	2020	2019	2018
Numerator:			
Net income (loss) (dollars in thousands)	\$ 12,462	\$ (6,674)	\$ (13,128)
Denominator:			
Weighted-average common shares outstanding	30,104,552	29,429,540	28,783,830
Weighted-average effect of assumed conversion of stock options and restricted stock	860,225	—	—
Weighted-average common shares and share equivalents outstanding	<u>30,964,777</u>	<u>29,429,540</u>	<u>28,783,830</u>
Net income (loss) per common share:			
Basic	\$ 0.41	\$ (0.23)	\$ (0.46)
Diluted	\$ 0.40	\$ (0.23)	\$ (0.46)

The following table indicates the number of potentially dilutive securities excluded from the calculation of Diluted net income (loss) per common share because their inclusion would have been anti-dilutive. The number of shares is as of the end of each period:

	March 31,		
	2020	2019	2018
Common stock options	164,072	467,836	629,667
Restricted shares	—	1,312,593	1,485,799
Total	<u>164,072</u>	<u>1,780,429</u>	<u>2,115,466</u>

NOTE 13 — LONG-TERM DEBT

Long-term debt as of March 31, 2020 and 2019 consisted of the following (dollars in thousands):

	March 31,	
	2020	2019
Revolving credit facility	\$ 10,013	\$ 9,202
Equipment debt obligations	85	177
Total long-term debt	10,098	9,379
Less current maturities	(35)	(96)
Long-term debt, less current maturities	<u>\$ 10,063</u>	<u>\$ 9,283</u>

Revolving Credit Agreement

On October 26, 2018, Orion and its subsidiaries entered into a new secured revolving Business Financing Agreement with Western Alliance Bank, as lender (the "Credit Agreement"). On June 3, 2019, Orion and certain of its subsidiaries entered into an amendment (the "First Amendment") to the Credit Agreement, which increased the maximum borrowing base credit available for certain of the customer receivables included in Orion's borrowing base and provided for a borrowing base credit of up to \$3.0 million based on inventory, in each case, subject to certain conditions. On August 2, 2019, Orion and certain of its subsidiaries entered into a second amendment (the "Second Amendment") to the Credit Agreement, which established a rent reserve in an amount equal to three months' rent payable at any leased location where Orion maintains inventory included in its borrowing base and provided for a reduction of the borrowing base credit that Orion may receive for inventory if Orion defaults under the lease for any such location. As of March 31, 2020, this rent reserve equaled \$0.1 million. On November 21, 2019, Orion and certain of its subsidiaries entered into a third amendment (the "Third Amendment") to the Credit Agreement, which extended the maturity date from October 26, 2020 to October 26, 2021; increased the sublimit under the Credit Agreement for advances under business credit cards from \$1.5 million to \$3 million; created a new \$2 million sublimit permitting entry into foreign currency forward contracts with the lender; expanded the Company's ability to make capital expenditures and incur other debt from time to time; and permitted the lender to amend the financial covenant included in the Credit Agreement (which requires the maintenance of a certain amount of unrestricted cash on deposit with the lender at the end of each month) upon receipt of the Company's annual projections.

The Credit Agreement, as amended provides for a revolving credit facility (the "Credit Facility") that matures on October 26, 2021. Borrowings under the Credit Facility are currently limited to \$20.15 million, subject to a borrowing base requirement based on eligible receivables and inventory. The Credit Agreement includes a \$2.0 million sublimit for the issuance of letters of credit. As of March 31, 2020, Orion's borrowing base was \$11.2 million, and Orion had \$10.0 million in borrowings outstanding which were included in non-current liabilities in the accompanying Consolidated Balance Sheets. Orion had no outstanding letters of credit leaving total borrowing availability of \$1.2 million.

The Credit Agreement is secured by a security interest in substantially all of Orion's and its subsidiaries' personal property.

Borrowings under the Credit Agreement generally bear interest at floating rates based upon the prime rate (but not less than 5.00% per year) plus an applicable margin determined by reference to Orion's quick ratio (defined as the aggregate amount of unrestricted cash, unrestricted marketable securities and, with certain adjustments, receivables convertible into cash divided by total current liabilities, including the obligations under the Credit Agreement). As of March 31, 2020, the applicable interest rate was 5.25%. Among other fees, Orion is required to pay an annual facility fee equal to 0.45% of the credit limit under the Credit Agreement, which was paid at commencement (October 26, 2018) and is due on each anniversary thereof.

The Credit Agreement requires Orion to maintain nine months' of "RML" as of the end of each month. For purposes of the Credit Agreement, RML is defined as, as of the applicable determination date, unrestricted cash on deposit with the lender plus availability under the Credit Agreement divided by an amount equal to, for the applicable trailing three-month period, consolidated net profit before tax, plus depreciation expense, amortization expense and stock-based compensation, minus capital lease principal payments, tested as of the end of each month. As of March 31, 2020, Orion was in compliance with this RML requirement.

The Credit Agreement also contains customary events of default and other covenants, including certain restrictions on Orion's ability to incur additional indebtedness, consolidate or merge, enter into acquisitions, pay any dividend or distribution on Orion's stock, redeem, retire or purchase shares of Orion's stock, make investments or pledge or transfer assets. If an event of default under the Credit Agreement occurs and is continuing, then the lender may cease making advances under the Credit Agreement and declare any outstanding obligations under the Credit Agreement to be immediately due and payable. In addition, if Orion becomes the subject of voluntary or involuntary proceedings under any bankruptcy or similar law, then any outstanding obligations under the Credit Agreement will automatically become immediately due and payable.

As of March 31, 2020, Orion is in compliance with all debt covenants.

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

	Fiscal Year Ended March 31,		
	2020	2019	2018
Statutory federal tax rate	21.0%	21.0%	30.8%
State taxes, net	6.5%	5.6%	2.2%
Federal tax credit	—%	(0.3)%	(0.3)%
Change in valuation reserve	(25.0)%	(23.8)%	51.4%
Permanent items	(1.0)%	(1.1)%	(1.4)%
Change in tax contingency reserve	0.2%	—%	(0.1)%
Federal refunds	0.0%	0.3%	0.3%
U.S. tax reform, corporate rate reduction	—%	—%	(75.2)%
Equity compensation cancellations	0.2%	(1.0)%	(15.7)%
Federal loss, ASU 2016-09	—%	—%	7.7%
Other, net	(0.6)%	(0.9)%	0.4%
Effective income tax rate	1.3%	(0.2)%	0.1%

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

	March 31,	
	2020	2019
Inventory, accruals and reserves	1,046	1,118
Interest deduction carry-forward	—	127
Federal and state operating loss carry-forwards	19,540	22,909
Tax credit carry-forwards	1,916	1,921
Equity compensation	250	288
Deferred revenue	18	(90)
Lease liability	903	—
Lease ROU asset	(704)	—
Fixed assets	(689)	(781)
Intangible assets	(248)	(300)
Other	121	194
Valuation allowance	(22,228)	(25,386)
Total net deferred tax liabilities	\$ (75)	\$ —

The Tax Cut and Jobs Act ("Act") was enacted December 22, 2017. The Act significantly changes U.S. tax law by, among other things, reducing the U.S. federal corporate tax rate from 35% to 21%, imposing a one-time transition tax on earnings of certain foreign subsidiaries that were previously tax deferred, and creating new taxes on certain foreign sourced earnings.

Orion remeasured its deferred tax assets based on the rates at which they are expected to reverse in the future, which is generally the 21% federal corporate tax rate. The provisional amount recorded related to the remeasurement of its deferred tax balance decreased deferred tax assets by \$9.9 million in fiscal 2018. Substantially all of this decrease to deferred tax assets was offset by a corresponding decrease to the valuation allowance. There was no impact on the prior year income tax expense for the federal corporate tax rate change due to Orion's prior year taxable loss.

The Act also required companies to pay a one-time transition tax on Orion's total post-1986 earnings and profits ("E&P") of its foreign subsidiary that were previously tax deferred from US income taxes. Since Orion's foreign subsidiary had negative E&P, Orion estimated there was no transition tax to be reported in income tax expense.

The CARES Act includes significant business tax provisions that, among other things, temporarily eliminate the taxable income limit for certain NOLs, allow businesses to carry back tax year 2018-2020 NOLs to the five prior tax years, accelerate refunds of corporate AMT credits, and generally decrease the amount of disallowed business interest expense. Because of Orion's loss

carryforwards, Orion does not anticipate the income tax provisions of the CARES Act to result in a material cash or financial statement impact.

As of March 31, 2020, Orion has federal NOL carryforwards of approximately \$75.3 million, and state NOL carryforwards of approximately \$61.7 million. Upon adoption of ASU 2016-09, *Compensation-Stock Compensation (Topic 718) Improvements to Employee Share-Based Payment Accounting*, in fiscal year 2018, the federal and state loss NOL carryforwards associated with historic exercises of Non-Qualified Stock Options have been recorded as deferred tax assets. Orion also has federal tax credit carryforwards of approximately \$1.3 million and state tax credits of \$0.8 million. All of Orion's tax credit carryforwards and \$128.5 million of its NOL carryforwards will begin to expire in varying amounts between 2024 and 2040. The remaining \$8.5 million of its federal and state NOL carryforwards are not subject to time restrictions but may only be used to offset 80% of adjusted taxable income. All of its carryforwards are offset by a valuation allowance

For the fiscal year ended March 31, 2020, Orion recorded a valuation allowance of \$22.2 million against its net deferred tax assets due to the uncertainty of its realization value in the future. For the fiscal year ended March 31, 2020, the valuation allowance against Orion's net federal and net state deferred tax assets decreased \$3.2 million, primarily due to the current year loss usage. For the fiscal year ended March 31, 2019, the valuation allowance increased \$1.6 million, primarily due to the fiscal 2019 loss. Orion considers future taxable income and ongoing prudent and feasible tax planning strategies in assessing the need for the valuation allowance. In the event that Orion determines that the deferred tax assets are able to be realized, an adjustment to the deferred tax asset would increase income in the period such determination is made.

Generally, a change of more than 50% in the ownership of Orion's stock, by value, over a three-year period constitutes an ownership change for federal income tax purposes as defined under Section 382 of the Internal Revenue Code. As a result, Orion's ability to use its net operating loss carryforwards, attributable to the period prior to such ownership change, to offset taxable income can be subject to limitations in a particular year, which could potentially result in increased future tax liability for Orion. There was no limitation of NOL carryforwards that occurred for fiscal 2020, fiscal 2019, or fiscal 2018.

Orion records its tax provision based on the respective tax rules and regulations for the jurisdictions in which it operates. Where Orion believes that a tax position is supportable for income tax purposes, the item is included in their income tax returns. Where treatment of a position is uncertain, a liability is recorded based upon the expected most likely outcome taking into consideration the technical merits of the position based on specific tax regulations and facts of each matter. These liabilities may be affected by changing interpretations of laws, rulings by tax authorities, or the expiration of the statute of limitations.

Orion files income tax returns in the United States federal jurisdiction and in several state jurisdictions. The Company's federal tax returns for tax years beginning April 1, 2016 or later are open. For states in which Orion files state income tax returns, the statute of limitations is generally open for tax years ended March 31, 2016 and forward.

State income tax returns are generally subject to examination for a period of 3 to 5 years after filing of the respective return. The state effect of any federal changes remains subject to examination by various states for a period of up to two years after formal notification to the states. Orion currently has no state income tax return positions in the process of examination, administrative appeals or litigation.

Uncertain tax positions

As of March 31, 2020, the balance of gross unrecognized tax benefits was approximately \$0.3 million, \$0.2 million of which would affect Orion's effective tax rate if recognized.

Orion 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. Orion recognizes penalties and interest related to uncertain tax liabilities in income tax expense. Penalties and interest are included in the unrecognized tax benefits. Orion had the following unrecognized tax benefit activity (dollars in thousands):

	Fiscal Year Ended March 31,		
	2020	2019	2018
Unrecognized tax benefits as of beginning of fiscal year	\$ 130	\$ 129	\$ 113
Additions based on tax positions related to the current period positions	23	1	2
Additions/(Reductions) for tax positions of prior years	106	—	14
Unrecognized tax benefits as of end of fiscal year	<u>\$ 259</u>	<u>\$ 130</u>	<u>\$ 129</u>

NOTE 15 — COMMITMENTS AND CONTINGENCIES

Purchase Commitments

Orion enters into non-cancellable purchase commitments for certain inventory items in order to secure better pricing and ensure materials on hand. As of March 31, 2020, Orion had entered into \$7.7 million of purchase commitments related primarily to inventory purchases.

Retirement Savings Plan

Orion 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 contributions by Orion. In fiscal 2020, Orion made matching contributions of \$0.1 million. In fiscal 2019 and 2018, Orion made matching contributions of approximately \$9 thousand in each of the fiscal years.

Litigation

Orion is subject to various claims and legal proceedings arising in the ordinary course of business. As of the date of this report, Orion does not believe that the final resolution of any of such claims or legal proceedings would have a material adverse effect on its future results of operations. In addition to ordinary-course litigation, Orion was or is a party to the proceedings described below.

State Tax Assessment

During fiscal year 2018, Orion was notified of a pending sales and use tax audit by the Wisconsin Department of Revenue for the period covering April 1, 2013 through March 31, 2017. Although the final resolution of the Company's sales and use tax audit is uncertain, based on current information, in the opinion of the Company's management, the ultimate disposition of these matters will not have a material adverse effect on the Company's consolidated balance sheet, statements of operations, or liquidity.

During fiscal 2019, Orion was notified of a pending sales and use tax audit by the California Department of Tax and Fee Administration for the period covering April 1, 2015 through March 31, 2018. During fiscal 2020, the sales and use tax audit was finalized. The ultimate disposition of this matter did not have a material adverse effect on the Orion's Consolidated Balance Sheets, statements of operations, or liquidity.

NOTE 16 — SHAREHOLDERS' EQUITY

Share Repurchase Program and Treasury Stock

In 2011 and 2012, Orion's Board approved several share repurchase programs authorizing Orion to repurchase in aggregate up to a maximum of \$ 7,500,000 of Orion's outstanding common stock. As of March 31, 2020, Orion had repurchased 3,022,349 shares of common stock at a cost of \$6.8 million under these programs. Orion did not repurchase any shares in fiscal 2020, fiscal 2019 or fiscal 2018 and currently does not intend to repurchase any additional common stock under this program in the near-term.

Shareholder Rights Plan

On January 3, 2019, Orion entered into Amendment No. 1 to the Rights Agreement, which amended the Rights Agreement dated as of January 7, 2009 and extended its terms by three years to January 7, 2022. Under the amendment, each common share purchase right (a "Right"), if exercisable, will initially represent the right to purchase from Orion, one share of Orion's common stock, no par value per share, for a purchase price of \$7.00 per share (the "Purchase Price").

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

If a person becomes an Acquiring Person, holders of Rights (except as otherwise provided in the Rights Agreement) will have the right to receive that number of shares of Orion'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, Orion 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 Rights Agreement) 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 Orion. At any time prior to a person becoming an Acquiring Person, the Board of Directors of Orion 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, 2022.

Employee Stock Purchase Plan

In August 2010, Orion's Board of Directors approved a non-compensatory employee stock purchase plan, or ESPP. The ESPP authorizes 2,500,000 shares to be issued from treasury or authorized shares to satisfy employee share purchases under the ESPP. All full-time employees of Orion are eligible to be granted a non-transferable purchase right each calendar quarter to purchase directly from Orion up to \$20,000 of Orion's common stock at a purchase price equal to 100% of the closing sale price of Orion's common stock on The NASDAQ Capital Market on the last trading day of each quarter. In prior years, Orion issued loans to non-executive employees to purchase shares of its stock. The loan program has been discontinued and new loans are no longer issued. Orion had the following shares issued from treasury during fiscal 2020 and fiscal 2019:

	As of March 31, 2020	
	Shares Issued Under ESPP Plan	Closing Market Price
Quarter Ended March 31, 2020	512	\$ 3.70
Quarter Ended December 31, 2019	666	\$ 3.35
Quarter Ended September 30, 2019	570	\$ 2.85
Quarter Ended June 30, 2019	613	\$ 2.97
Total	2,361	\$ 2.85 - 3.70

	As of March 31, 2019		
	Shares Issued Under ESPP Plan		Closing Market Price
Quarter Ended March 31, 2019	1,581	\$	0.89
Quarter Ended December 31, 2018	1,708	\$	0.57
Quarter Ended September 30, 2018	938	\$	0.96
Quarter Ended June 30, 2018	415	\$	1.10
Total	4,642	\$	0.57 - 1.10

NOTE 17 — STOCK OPTIONS AND RESTRICTED SHARES

At Orion's 2019 annual meeting of shareholders held on August 7, 2019, Orion's shareholders approved the Orion Energy Systems, Inc. 2016 Omnibus Incentive Plan, as amended and restated (the "Amended 2016 Plan"). Approval of the Amended 2016 Plan increased the number of shares of Orion's common stock available for issuance under the Amended 2016 Plan from 1,750,000 shares to 3,500,000 shares (an increase of 1,750,000 shares); added a minimum vesting period for all awards granted under the Amended 2016 Plan (with limited exceptions); and added a specific prohibition on the payment of dividends and dividend equivalents on unvested awards. As of March 31, 2020, the number of shares available for grant under the plans was 1,725,845.

The Amended 2016 Plan authorizes grants of equity-based and incentive cash awards to eligible participants designated by the Plan's administrator. Awards under the Amended 2016 Plan may consist of stock options, stock appreciation rights, performance shares, performance units, common stock, restricted stock, restricted stock units, incentive awards or dividend equivalent units.

Prior to the 2016 Omnibus Incentive Plan, the Company maintained its 2004 Stock and Incentive Awards Plan, as amended, which authorized the grant of cash and equity awards to employees (the "2004 Plan"). No new awards are being granted under the 2004 Plan; however, all awards granted under the 2004 Plan that are outstanding will continue to be governed by the 2004 Plan. Forfeited awards originally issued under the 2004 Plan are canceled and are not available for subsequent issuance under the 2004 Plan or under the Amended 2016 Plan.

Certain non-employee directors have elected to receive stock awards in lieu of cash compensation pursuant to elections made under Orion's non-employee director compensation program. The Amended 2016 Plan and the 2004 Plan also permit accelerated vesting in the event of certain changes of control of Orion as well as under other special circumstances.

Orion historically granted stock options and restricted stock under the Former Plan. Orion has not issued stock options since fiscal 2014 and instead has issued restricted stock.

Orion accounts for stock-based compensation in accordance with ASC 718, Compensation - Stock Compensation. Under the fair value recognition provisions of ASC 718, stock-based compensation is measured at the grant date based on the fair value of the award and is recognized as expense ratably over the requisite service period.

In fiscal 2020, an aggregate of 279,468 restricted shares were granted valued at a price per share between \$2.69 and \$3.03, which was the closing market price as of each grant date. In fiscal 2019, an aggregate of 529,000 restricted shares were granted valued at a price per share between \$0.84 and \$1.00, which was the closing market price as of each grant date. In fiscal 2018, an aggregate of 730,410 restricted shares were granted valued at a price per share between \$0.88 and \$1.95, which was the closing market price as of each grant date.

The following amounts of stock-based compensation expense for restricted shares and options were recorded (dollars in thousands):

	Fiscal Year Ended March 31,		
	2020	2019	2018
Cost of product revenue	\$ 3	\$ 2	\$ 12
Cost of service revenue	(1)	3	—
General and administrative	576	764	929
Sales and marketing	2	54	155
Research and development	38	2	6
	<u>\$ 618</u>	<u>\$ 825</u>	<u>\$ 1,102</u>

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

	Number of Shares	Weighted Average Exercise Price
Outstanding at March 31, 2017	1,520,953	\$ 3.36
Granted	—	\$ —
Exercised	—	\$ —
Forfeited	(891,286)	\$ 3.51
Outstanding at March 31, 2018	629,667	\$ 3.36
Granted	—	\$ —
Exercised	—	\$ —
Forfeited	(161,831)	\$ 3.61
Outstanding at March 31, 2019	467,836	\$ 3.14
Granted	—	\$ —
Exercised	(22,362)	\$ 2.51
Forfeited	(49,174)	\$ 4.63
Outstanding at March 31, 2020	396,300	\$ 2.80
Exercisable at March 31, 2020	396,300	

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 Orion's closing common stock price of \$3.70 as of March 31, 2020.

The following table summarizes the range of exercise prices on outstanding stock options at March 31, 2020:

	March 31, 2020		
	Outstanding and Vested	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price
\$1.62 - 2.20	133,292	1.79	\$ 1.92
\$2.41 - 2.75	98,936	2.22	2.48
\$2.86 - 4.28	164,072	0.86	3.70
	<u>396,300</u>	1.48	\$ 2.80

During fiscal 2020, Orion recognized seven thousand dollars of stock-based compensation expense related to stock options.

During fiscal 2020, Orion granted restricted shares as follows:

Balance at March 31, 2019	1,312,593
Shares issued	279,468
Shares vested	(669,238)
Shares forfeited	(150,103)
Shares outstanding at March 31, 2020	772,720
Per share price on grant date	\$2.69 - 3.03

During fiscal 2020, Orion recognized \$0.6 million of stock-based compensation expense related to restricted shares.

As of March 31, 2020, the weighted average grant-date fair value of restricted shares granted was \$3.02.

Unrecognized compensation cost related to non-vested common stock-based compensation as of March 31, 2020 is expected to be recognized as follows (dollars in thousands):

Fiscal 2021	\$	502
Fiscal 2022		310
Fiscal 2023		108
Fiscal 2024		12
Thereafter		6
	\$	938
Remaining weighted average expected term		2.1 years

NOTE 18 — SEGMENT DATA

Orion has the following business segments: Orion Engineered Services Division (“OES”), Orion Distribution Services Division (“ODS”), and Orion U.S. Markets Division (“USM”). The accounting policies are the same for each business segment as they are on a consolidated basis.

Orion Engineered Systems Division (“OES”)

The OES segment develops and sells lighting products and provides construction and engineering services for Orion's commercial lighting and energy management systems. OES provides engineering, design, lighting products and in many cases turnkey solutions for large national accounts, governments, municipalities, schools and other customers.

Orion Distribution Services Division (“ODS”)

The ODS segment sells lighting products through manufacturer representative agencies and a network of North American broadline electrical distributors and contractors.

Orion U.S. Markets Division (“USM”)

The USM segment sells commercial lighting systems and energy management systems to the wholesale contractor markets. USM customers include ESCOs and contractors.

Corporate and Other

Corporate and Other is comprised of operating expenses not directly allocated to Orion's segments and adjustments to reconcile to consolidated results (dollars in thousands).

(dollars in thousands)	Revenues For the year ended March 31,			Operating Income (Loss) For the year ended March 31,		
	2020	2019	2018	2020	2019	2018
Segments:						
Engineered Systems	\$ 122,744	\$ 30,925	\$ 23,827	\$ 16,164	\$ (1,237)	\$ (3,792)
Distribution Services	15,087	24,173	27,906	(852)	(1,742)	(325)
U.S. Markets	13,010	10,656	8,567	2,447	1,132	(3,123)
Corporate and Other	—	—	—	(4,649)	(4,310)	(5,741)
	<u>\$ 150,841</u>	<u>\$ 65,754</u>	<u>\$ 60,300</u>	<u>\$ 13,110</u>	<u>\$ (6,157)</u>	<u>\$ (12,981)</u>
	Depreciation and Amortization For the year ended March 31,			Capital Expenditures For the year ended March 31,		
	2020	2019	2018	2020	2019	2018
Segments:						
Engineered Systems	\$ 1,013	\$ 774	\$ 988	\$ 302	\$ 165	\$ 151
Distribution Services	187	485	275	81	44	217
U.S. Markets	126	233	267	78	31	73
Corporate and Other	236	291	481	353	215	71
	<u>\$ 1,562</u>	<u>\$ 1,783</u>	<u>\$ 2,011</u>	<u>\$ 814</u>	<u>\$ 455</u>	<u>\$ 512</u>
	Total Assets					
	March 31, 2020			March 31, 2019		
Segments:						
Engineered Systems	\$ 22,354			\$ 28,486		
Distribution Services	5,502			5,704		
U.S. Markets	4,859			4,578		
Corporate and Other	39,848			17,253		
	<u>\$ 72,563</u>			<u>\$ 56,021</u>		

Orion's revenue outside the United States is insignificant and Orion has no long-lived assets outside the United States.

NOTE 19 — RESTRUCTURING EXPENSE

During the fourth quarter of fiscal 2020, as part of Orion's response to the impacts of the COVID-19 pandemic, Orion entered into separation agreements with multiple employees, and recognized \$0.4 million of expense. Orion's restructuring expense for the 12 months ended March 31, 2020 and March 31, 2019 is reflected within its consolidated statements of operations as follows (dollars in thousands):

	Year Ended March 31, 2020	Year Ended March 31, 2019
Cost of product revenue	\$ 82	\$ —
Cost of product service	74	—
General and administrative	28	26
Sales and marketing	207	17
Total	<u>\$ 391</u>	<u>\$ 43</u>

Total restructuring expense by segment was recorded as follows (dollars in thousands):

	Year Ended March 31, 2020	Year Ended March 31, 2019
Orion Engineered Systems	\$ 139	\$ —
Orion Distribution Systems	142	12
Corporate and Other	110	31
Total	<u>\$ 391</u>	<u>\$ 43</u>

NOTE 20 — SUBSEQUENT EVENTS

Subsequent events are events or transactions that occur after the balance sheet date but before financial statements are issued. Recognized subsequent events are events or transactions that provide additional evidence about conditions that existed at the date of the balance sheet, including the estimates inherent in the process of preparing financial statements. Non-recognized subsequent events are events that provide evidence about conditions that did not exist at the date of the balance sheet but arose after that date.

NOTE 21 — QUARTERLY FINANCIAL DATA (UNAUDITED)

Summary quarterly results for the years ended March 31, 2020 and March 31, 2019 are as follows:

	Three Months Ended				Total
	March 31, 2020	Dec 31, 2019	Sep 30, 2019	Jun 30, 2019	
	(in thousands, except per share amounts)				
Total revenue	\$ 25,892	\$ 34,249	\$ 48,322	\$ 42,378	\$ 150,841
Gross profit	\$ 5,775	\$ 8,274	\$ 12,791	\$ 10,283	\$ 37,123
Net income (loss) (1)	\$ (531)	\$ 2,304	\$ 6,721	\$ 3,968	\$ 12,462
Basic net income (loss) per share	\$ (0.02)	\$ 0.08	\$ 0.22	\$ 0.13	\$ 0.41
Shares used in basic per share calculation	30,259	30,244	30,189	29,723	30,105
Diluted net loss per share	\$ (0.02)	\$ 0.07	\$ 0.22	\$ 0.13	\$ 0.40
Shares used in diluted per share calculation	30,259	30,824	30,830	30,551	30,965

	Three Months Ended				Total
	Mar 31, 2019	Dec 31, 2018	Sep 30, 2018	Jun 30, 2018	
	(in thousands, except per share amounts)				
Total revenue	\$ 22,443	\$ 16,291	\$ 13,198	\$ 13,822	\$ 65,754
Gross profit	\$ 4,384	\$ 4,170	\$ 2,542	\$ 3,456	\$ 14,552
Net loss	\$ (882)	\$ (662)	\$ (2,438)	\$ (2,692)	\$ (6,674)
Basic net loss per share	\$ (0.03)	\$ (0.02)	\$ (0.08)	\$ (0.09)	\$ (0.23)
Shares used in basic per share calculation	29,590	29,569	29,488	29,070	29,430
Diluted net loss per share	\$ (0.03)	\$ (0.02)	\$ (0.08)	\$ (0.09)	\$ (0.23)
Shares used in diluted per share calculation	29,590	29,569	29,488	29,070	29,430

(1) Includes a \$0.4 million restructuring charge during the three months ended March 31, 2020.

The four quarters for net earnings per share may not add to the total year because of differences in the weighted average number of shares outstanding during the quarters and the year.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as such term is defined in Rule 13a-15(f) of the Exchange Act. We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in the reports that we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our principal executive and principal financial officers, as appropriate, to allow timely decisions regarding required disclosure.

Our management evaluated, with the participation of our Chief Executive Officer and our Chief Financial Officer, the effectiveness of our disclosure controls and procedures and our internal control over financial reporting as of March 31, 2020, pursuant to Exchange Act Rule 13a-15(b) and 15d-15. Based on that evaluation, our Chief Executive Officer and our Chief Financial Officer have concluded that our disclosure controls and procedures were effective at a level of reasonable assurance as of March 31, 2020.

Management, including our Chief Executive Officer and Chief Financial Officer, believes the consolidated financial statements included in this Annual Report on Form 10-K fairly represent in all material respects our financial condition, results of operations and cash flows at and for the periods presented in accordance with GAAP.

Management's Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act). Internal control over financial reporting is a process designed by, or under the supervision of, the Chief Executive Officer and Chief Financial Officer, or persons performing similar functions, and effected by the board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP and includes those policies and procedures that:

- i. pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of our assets;
- ii. provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with GAAP, and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors; and
- iii. provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on our financial statements.

Because of inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate.

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, our management has assessed the effectiveness of our internal control over financial reporting based on the criteria set forth in the Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on our assessment, management believes that, as of March 31, 2020, our internal control over financial reporting was effective.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting during the quarter ended March 31, 2020, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

On June 1, 2020, we amended each of our existing Executive Employment and Severance Agreements (the “Employment Agreements”) with of Michael A. Altschaeffl, William T. Hull and Scott A Green (each, a “NEO” and, collectively, the “NEOs”). The primary purpose of the amendments was to update and harmonize certain of the terms of employment for each of our NEOs and make technical updates to comply with applicable laws.

The Employment Agreements were amended to provide that Messrs. Altschaeffl, Hull and Green will be paid base salaries of \$425,000, \$350,000 and \$350,000, respectively. Each NEO will continue to be eligible to participate in our annual and/or long-term bonus plans as well as our employee benefit plans made available to senior executives.

The Employment Agreements were amended to provide that each NEO’s Employment Agreement will remain in place at all times while employed with us (rather than providing for a specific term with automatic renewals).

The amendments to the Employment Agreements harmonize the severance benefits that each of the NEOs would be entitled to receive upon a qualifying termination for “Cause” or “Good Reason” (as defined in the Employment Agreements). The severance benefits payable to Mr. Altschaeffl upon a qualifying termination remain unchanged, while Messrs. Hull and Green will now also receive a pro-rata cash bonus for their year of termination as part of their severance benefit (which was previously only available to Mr. Altschaeffl) upon a qualifying employment termination. The amended and restated Employment Agreements also provide that upon a qualifying termination not in connection with a change in control, we will accelerate the vesting of the portion of the NEOs’ unvested equity awards that would vest within two years of termination. Except as described in this paragraph, the severance benefits for each of our NEOs upon a qualifying termination remain unchanged.

In addition, Mr. Hull’s Employment Agreement was amended to provide that Mr. Hull will be subject to customary non-compete and non-solicit obligations for a period of 24 months (previously 18 months) following his termination of employment.

The foregoing description of the amendments to the Employment Agreements are qualified in its entirety by reference to the full text of the amended and restated Employment Agreements, copies of which are filed herewith as Exhibits 10.16, 10.17 and 10.18 and are each incorporated herein by reference.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by this item with respect to directors, executive officers and corporate governance is incorporated by reference to our Proxy Statement for our 2020 Annual Meeting of Shareholders to be filed with the SEC within 120 days after the end of the fiscal year ended March 31, 2020.

Code of Conduct

We have adopted a Code of Conduct that applies to all of our directors, employees and officers, including our principal executive officer, our principal financial officer, our controller and persons performing similar functions. Our Code of Conduct is available on our web site at www.orionlighting.com. Future material amendments or waivers relating to the Code of Conduct will be disclosed on our web site referenced in this paragraph within four business days following the date of such amendment or waiver.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this item is incorporated by reference to our Proxy Statement for our 2020 Annual Meeting of Shareholders to be filed with the SEC within 120 days after the end of the fiscal year ended March 31, 2020.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED SHAREHOLDER MATTERS

See Item 5, *Market for Registrant's Common Equity, Related Shareholder Matters and Issuer Purchaser of Securities*, under the heading "Equity Compensation Plan Information" for information regarding our securities authorized for issuance under equity compensation plans. The additional information required by this item is incorporated by reference to our Proxy Statement for its 2020 Annual Meeting of Shareholders to be filed with the SEC within 120 days after the end of the fiscal year ended March 31, 2020.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

The information required by this item is incorporated by reference to our Proxy Statement for our 2020 Annual Meeting of Shareholders to be filed with the SEC within 120 days after the end of the fiscal year ended March 31, 2020.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by this item is incorporated by reference to our Proxy Statement for our 2020 Annual Meeting of Shareholders to be filed with the SEC within 120 days after the end of the fiscal year ended March 31, 2020.

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) Financial Statements

Our financial statements are set forth in Item 8 of this Form 10-K.

EXHIBIT INDEX

<u>Number</u>	<u>Exhibit Title</u>
3.1	<u>Amended and Restated Articles of Incorporation of Orion Energy Systems, Inc., filed as Exhibit 3.3 to the Registrant's Form S-1 filed August 20, 2007, is hereby incorporated by reference.</u>
3.2	<u>Amended and Restated Bylaws of Orion Energy Systems, Inc., filed as Exhibit 3.1 to the Registrant's Form 8-K filed May 22, 2020, is hereby incorporated by reference.</u>
4.1	<u>Rights Agreement, dated as of January 7, 2009, between Orion Energy Systems, Inc. and Wells Fargo Bank, N.A., which includes as Exhibit A thereto the Form of Right Certificate and as Exhibit B thereto the Summary of Common Share Purchase Rights, filed as Exhibit 4.1 to the Registrant's Form 8-A filed January 8, 2009, is hereby incorporated by reference.</u>
4.2	<u>Amendment No. 1 to the Rights Agreement, dated as of January 3, 2019, between the Company and Equiniti Trust Company (as successor to Wells Fargo Bank, N.A.), as Rights Agent, filed as Exhibit 4.1 to the Registrants Form 8-K filed January 3, 2019, is hereby incorporated by reference.</u>
4.3	<u>Description of Orion Energy Systems, Inc. Capital Stock, filed as Exhibit 4.3 to the Registrant's Form 10-K filed on June 5, 2019 is hereby incorporated by reference.</u>
10.1	<u>Business Financing Agreement dated as of October 26, 2018 among Orion Energy Systems, Inc., Western Alliance Bank, as lender, and the subsidiary borrowers party thereto, filed as Exhibit 10.1 to Registrant's Form 8-K filed on October 30, 2018, is hereby incorporated by reference.</u>
10.2	<u>Amendment No. 1 to Business Financing Agreement, dated as of June 3, 2019 among Orion Energy Systems, Inc., Western Alliance Bank, as lender, and the subsidiary borrowers party thereto filed as Exhibit 10.2 to the Registrant's Form 10-K filed on June 5, 2019 is hereby incorporated by reference.**</u>
10.3	<u>Amendment No. 2 to Business Financing Agreement, dated as of August 2, 2019 among Orion Energy Systems, Inc., Western Alliance Bank, as lender, and the subsidiary borrowers party thereto filed as Exhibit 10.2 to the Registrant's Form 10-Q filed on August 5, 2019 is hereby incorporated by reference.</u>
10.4	<u>Amendment No. 3 to Business Financing Agreement dated as of November 21, 2019 among Orion Energy Systems, Inc., Western Alliance Bank, as lender, and the subsidiary borrowers party thereto filed as Exhibit 10.1 to the Registrant's Form 8-K filed on November 22, 2019 is hereby incorporated by reference.</u>
10.5	<u>Orion Energy Systems, Inc. 2004 Stock and Incentive Awards Plan, filed as Exhibit 10.9 to the Registrant's Form S-1 filed August 20, 2007, is hereby incorporated by reference.*</u>
10.6	<u>Amendment to Orion Energy Systems, Inc. 2004 Stock and Incentive Awards Plan, filed September 9, 2011 as Appendix A to the Registrant's definitive proxy statement is hereby incorporated by reference.*</u>
10.7	<u>Form of Stock Option Agreement under the Orion Energy Systems, Inc. 2004 Equity Incentive Plan, filed as Exhibit 10.10 to the Registrant's Form S-1 filed August 20, 2007, is hereby incorporated by reference.*</u>
10.8	<u>Form of Stock Option Agreement as of May 14, 2013 under the Orion Energy Systems, Inc. 2004 Stock and Incentive Awards Plan, filed as Exhibit 10.7 to the Registrant's Form 10-K filed on June 13, 2014, is hereby incorporated by reference.*</u>
10.9	<u>Orion Energy Systems, Inc. 2016 Omnibus Incentive Plan, as amended and restated, filed as Annex A to the Registrant's Definitive Proxy Statement on Schedule 14A filed on June 21, 2019, is hereby incorporated by reference.*</u>
10.10	<u>Form of Non-Employee Director Tandem Restricted Stock and Cash Award Agreement under the Orion Energy Systems, Inc. 2016 Omnibus Incentive Plan, filed as Exhibit 4.5 to the Registrant's Form S-8 filed August 10, 2016, is hereby incorporated by reference.*</u>
10.11	<u>Form of Non-Employee Director Restricted Stock Award Agreement under the Orion Energy Systems, Inc. 2016 Omnibus Incentive Plan, filed as Exhibit 4.6 to the Registrant's Form S-8 filed August 10, 2016, is hereby incorporated by reference.*</u>
10.12	<u>Form of Executive Tandem Restricted Stock and Cash Award Agreement under the Orion Energy Systems, Inc. 2016 Omnibus Incentive Plan, filed as Exhibit 4.7 to the Registrant's Form S-8 filed August 10, 2016, is hereby incorporated by reference.*</u>
10.13	<u>Form of Executive Restricted Stock Award Agreement under the Orion Energy Systems, Inc. 2016 Omnibus Incentive Plan, filed as Exhibit 4.8 to the Registrant's Form S-8 filed August 10, 2016, is hereby incorporated by reference.*</u>
10.14	<u>Orion Energy Systems, Inc. Non-Employee Director Compensation Plan, updated and effective as of February 7, 2020*+</u>
10.15	<u>Amended and Restated Executive Employment and Severance Agreement, dated as of June 1, 2020, by and between Orion Energy Systems, Inc. and Michael W. Altschaeffl*+</u>

- 10.16 [Amended and Restated Executive Employment and Severance Agreement, dated as of June 1, 2020, by and between Orion Energy Systems, Inc. and William T. Hull*+](#)
- 10.17 [Amended and Restated Executive Employment and Severance Agreement, dated as of June 1, 2020, by and between Orion Energy Systems, Inc. and Scott A. Green*+](#)
- 10.18 [Mutual Retirement and Severance Agreement, dated as of June 30, 2017, by and between Orion Energy Systems, Inc. and Michael J. Potts, filed as Exhibit 10.1 to the Registrant's Form 8-K filed on June 30, 2017, is hereby incorporated by reference. *](#)
- 21.1 [Subsidiaries of Orion Energy Systems, Inc.+](#)
- 23.1 [Consent of Independent Registered Public Accounting Firm.+](#)
- 31.1 [Certification of Chief Executive Officer of Orion Energy Systems, Inc. pursuant to Rule 13a-14\(a\) or Rule 15d-14\(a\) promulgated under the Securities Exchange Act of 1934, as amended. +](#)
- 31.2 [Certification of Chief Financial Officer of Orion Energy Systems, Inc. pursuant to Rule 13a-14\(a\) or Rule 15d-14\(a\) promulgated under the Securities Exchange Act of 1934, as amended. +](#)
- 32.1 [Certification of Chief Executive Officer and Chief Financial Officer of Orion Energy Systems, Inc. pursuant to Rule 13a-14\(b\) promulgated under the Securities Exchange Act of 1934, as amended, and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. +](#)
- 101 101.INS XBRL Instance Document+
- 101.101.SCH Taxonomy extension schema document+
- 101.101.CAL Taxonomy extension calculation linkbase document+
- 101.101.DEF Taxonomy extension definition linkbase document+
- 101.101.LAB Taxonomy extension label linkbase document+
- 101.101.PRE Taxonomy extension presentation linkbase document+

Documents incorporated by reference by Orion Energy Systems, Inc. are filed with the Securities and Exchange Commission under File No. 001-33887.

* Management contract or compensatory plan or arrangement.

** Portions of this exhibit have been omitted pursuant to Rule 601(6)(10) of Regulation S-K. The omitted information is not material and would likely cause competitive harm to the Registrant if publicly disclosed.

+ Filed herewith

ITEM 16. FORM 10-K SUMMARY

None.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Annual Report on Form 10-K to be signed on its behalf by the undersigned, thereunto duly authorized, on June 5, 2020.

ORION ENERGY SYSTEMS, INC.

By: /s/ MICHAEL W. ALTSCHAEFL
Michael W. Altschaeffl
Chief Executive Officer and Board Chair

Pursuant to the requirements of the Securities Exchange Act of 1934, this Annual Report on Form 10-K has been signed by the following persons on behalf of the Registrant in the capacities indicated on June 5, 2020.

<u>Signature</u>	<u>Title</u>
<u>/s/ Michael W. Altschaeffl</u> Michael W. Altschaeffl	Chief Executive Officer and Board Chair (Principal Executive Officer)
<u>/s/ William T. Hull</u> William T. Hull	Chief Financial Officer, Chief Accounting Officer and Treasurer (Principal Financial Officer)
<u>/s/ Anthony L. Otten</u> Anthony L. Otten	Lead Independent Director
<u>/s/ Alan B. Howe</u> Alan B. Howe	Director
<u>/s/ Michael J. Potts</u> Michael J. Potts	Director
<u>/s/ Ellen B. Richstone</u> Ellen B. Richstone	Director
<u>/s/ Mark C. Williamson</u> Mark C. Williamson	Director
<u>/s/ Kenneth M. Young</u> Kenneth M. Young	Director

Orion Energy Systems, Inc.
 Non-Employee Director Compensation Plan
 Updated and Effective February 7, 2020

1. Annual cash retainer:	\$40,000 (cash or stock) ¹ (\$10,000 paid quarterly)
2. Board meeting fee:	None
3. Committee meeting fee	None
4. Annual restricted stock grant:	\$45,000 grant date fair market value (option to accept tandem restricted stock (60%) and res
5. Annual Lead Director retainer:	\$40,000 (cash or stock) ¹ (\$10,000 paid quarterly)
6. Annual Audit Committee Chair retainer:	\$30,000 (cash or stock) ¹ (\$7,500 paid quarterly)
7. Annual Compensation Committee Chair retainer:	\$20,000 (cash or stock) ¹ (\$5,000 paid quarterly)
8. Annual Nominating and Corporate Governance Committee Chair retainer:	\$20,000 (cash or stock) ¹ (\$5,000 paid quarterly)
9. Reimburse out-of-pocket expenses:	Yes
10. Non-Employee Director Early Retirement Plan	<p>a. Upon the recommendation of the Compensation Committee and the approval of the Board, any non-employee director who voluntarily retires from the Board prior to the end of his or her stated term and who voluntarily decides not to stand for re-election at the end of his or her stated term will be entitled to an extension of the terms of all vested stock options to the date of such director's retirement. The extension shall be for a period of up to all of his or her then outstanding unvested restricted stock, restricted cash, and restricted stock options, subject to such additional terms and conditions, if any, as may be determined necessary or appropriate by the Compensation Committee and the Board of Directors.</p> <p>b. Upon the recommendation of the Compensation Committee and approval by the Board, any non-employee director who voluntarily retires from the Board prior to the end of his or her stated term and who voluntarily decides not to stand for re-election at the end of his or her stated term will be entitled to an extension of the terms of all vested stock options to the date of such director's retirement. The extension shall be for a period of up to all of his or her then outstanding unvested restricted stock, restricted cash, and restricted stock options, subject to such additional terms and conditions, if any, as may be determined necessary or appropriate by the Compensation Committee and the Board of Directors.</p> <p>c. Upon approval of the Compensation Committee, any non-employee director who voluntarily retires from the Board prior to the end of his or her stated term and who voluntarily decides not to stand for re-election at the end of his or her stated term will be entitled to an extension of the terms of all vested stock options to the date of such director's retirement. The extension shall be for a period of up to all of his or her then outstanding unvested restricted stock, restricted cash, and restricted stock options, subject to such additional terms and conditions, if any, as may be determined necessary or appropriate by the Compensation Committee and the Board of Directors.</p>

¹ Form of compensation to be chosen by each individual prior to each fiscal year. Number of shares to be issued on third business day after release of annual (or quarterly, in case of quarterly retainer payments) earnings announcement based on closing price on such date.

² Annual restricted stock grant on third business day after annual earnings announcement with the number of restricted shares equal to dollar amount divided by the closing sale price on such date – vest 1/3 each year on the anniversary of the date of grant. Each director shall have the option to elect the award 60% in restricted stock and 40% in restricted cash with each vesting 1/3 each year on the anniversary of the date of grant or in all restricted stock on the same vesting schedule. The election to accept the award in 60% restricted stock and 40% restricted cash must be conveyed to the Company by the director prior to the grant date.

Name of Executive: Michael W. Altschaefl
 Position: Chief Executive Officer
 Fiscal Year 2021 Base Salary: \$425,000
 Effective Date: June 1, 2020
 Pre-Change of Control Severance Multiplier is: 2.0x

**AMENDED AND RESTATED EXECUTIVE EMPLOYMENT
 AND SEVERANCE AGREEMENT**

This Amended and Restated Executive Employment and Severance Agreement (“Agreement”) is between the executive named above (“Executive”) and Orion Energy Systems, Inc. (“Orion” or the “Company”), effective as of the effective date set forth above (“Effective Date”), and amends and restates in its entirety the existing Executive Employment and Severance Agreement between the Executive and the Company dated and effective as of June 8, 2017 (“Prior Agreement”).

WHEREAS, Executive is currently serving as Board Chair and was appointed by the Board on May 25, 2017 as the Company’s then new Chief Executive Officer and thereafter the Company and the Executive entered into the Prior Agreement.

WHEREAS, the Company and Executive desire to amend and restate the terms and conditions on which Executive will continue to be employed by the Company as the Company’s Chief Executive Officer on and after the Effective Date, and pursuant to which Executive will receive severance in the event that Executive separates from service with the Company under certain conditions or the Company experiences a Change of Control.

NOW, THEREFORE, for good and valuable consideration, the parties agree as follows:

1. **Effective Date; Term.** This Agreement shall become effective on the Effective Date and shall continue until terminated as set forth in Section 4 hereof. Termination of this Agreement will not affect the rights or obligations of the parties hereunder arising out of, or relating to, circumstances occurring prior to the termination of this Agreement, which rights and obligations will survive the termination of this Agreement.

2. **Definitions.** For purposes of this Agreement, the following terms shall have the meanings ascribed to them:

(a) **“Accrued Benefits”** shall mean the following amounts, payable as described herein: (i) all Base Salary for the time period ending with the Termination Date; (ii) reimbursement for any and all monies advanced in connection with the Executive’s employment for reasonable and necessary expenses incurred by the Executive on behalf of the Company for the time period ending with the Termination Date; (iii) any and all other cash earned through the Termination Date and deferred at the election of the Executive or pursuant to any deferred compensation plan then in effect; and (iv) all other payments and benefits to which the Executive (or in the event of the Executive’s death, the Executive’s

surviving spouse or other beneficiary), including those provided pursuant to Exhibit A, is entitled on the Termination Date under the terms of any benefit plan of the Company, excluding severance payments under any Company severance policy, practice or agreement in effect on the Termination Date. Payment of Accrued Benefits shall be made promptly in accordance with the Company's prevailing practice with respect to clauses (i) and (ii) or, with respect to clauses (iii) and (iv), pursuant to the terms of the benefit plan or practice establishing such benefits.

(b) **"Base Salary"** shall mean the Executive's annual base salary with the Company as in effect from time to time.

(c) **"Board"** shall mean the board of directors of Orion or a committee of such Board authorized to act on its behalf in certain circumstances, including the Compensation Committee of the Board.

(d) **"Cause"** shall mean a good faith finding by the Board that Executive has (i) failed, neglected, or refused to perform his employment duties related to his position or as from time to time assigned to him (other than due to death or Disability); (ii) committed any willful, intentional, or grossly negligent act having the effect of materially injuring the interest, business, or reputation of the Company; (iii) violated or failed to comply in any material respect with the Company's published rules, regulations, or policies, as in effect or amended from time to time; (iv) committed an act constituting a felony or misdemeanor involving moral turpitude, fraud, theft, or dishonesty; (v) misappropriated or embezzled any property of the Company (whether or not such act constitutes a felony or misdemeanor); or (vi) breached any material provision of this Agreement or any other applicable confidentiality, non-compete, non-solicit, general release, covenant not-to-sue, equity award agreement, or other agreement with the Company.

(e) **"Change of Control"** shall mean and be limited to any of the following:

(i) 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 Effective 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

(ii) 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 Effective 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 Effective 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

(iii) 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 Effective 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

(iv) 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.

For purposes of this Section 2(e):

- (i) the term “Person” shall mean 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;
- (ii) the terms “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;
- (iii) the term “Act” means the Securities Exchange Act of 1934, as amended; and
- (iv) a Person shall be deemed to be the “Beneficial Owner” of any securities which:
 - (1) 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;
 - (2) 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 13d-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 (2) 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 I3D under the Act (or any comparable or successor report); or
 - (3) 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 (2) above) or disposing of any voting securities of the Company.

(f) **“Change of Control Payment”** shall mean product of (i) Executive’s Base Salary at the time of such Change of Control plus the average of the annual bonuses earned by Executive with respect to each of the three completed fiscal years of Company preceding the year in which the Change of Control occurs (or such lesser number of fiscal years for which Executive was employed by Company as its Chief Executive Officer, with any partial year bonus being annualized with respect to such fiscal year), multiplied by (ii) three.

(g) **“COBRA”** shall mean the provisions of Code Section 4980B.

(h) **“Code”** shall mean the Internal Revenue Code of 1986, as amended, as interpreted by rules and regulations issued pursuant thereto, all as amended and in effect from time to time. Any reference to a specific provision of the Code shall be deemed to include reference to any successor provision thereto.

(i) **“Competitive Business Activity”** shall mean the design and manufacture of lighting, solar and/or energy efficient systems and controls for industrial, commercial and agricultural facilities.

(j) **“Disability”** shall mean, subject to applicable law, a total and permanent disability consisting of a mental or physical disability which precludes the disabled Executive from performing the material and substantial duties of his employment. Payment of benefits for total disability under a disability insurance policy shall be conclusive as to the existence of total disability, although such payments are not required in order to establish total disability for purposes of this Agreement. The Executive has a “total and permanent disability” if he is precluded by mental or physical disability for 180 days during any twelve (12- month period. For purposes of this Agreement, an Executive shall be deemed totally and permanently disabled at the end of such 180th day. In case of a disagreement as to whether an Executive is totally and permanently disabled and, at the request of any party, the matter shall be submitted to arbitration as provided for herein, and judgment upon the award may be entered in any court having jurisdiction thereof. Any costs of such proceedings (including the reasonable legal fees of the prevailing party) shall be borne by the non-prevailing party to such arbitration.

(k) **“General Release”** shall mean a release of all claims that Executive, and anyone who may succeed to any claims of Executive, has or may have against Orion, its board of directors, any of its subsidiaries or affiliates, or any of their employees, directors, officers, employees, agents, plan sponsors, administrators, successors (including the Successor), fiduciaries, or attorneys, including but not limited to claims arising out of Executive’s employment with, and termination of employment from, the Company, but excluding claims for (i) Severance Payments, Change of Control Payments, Accrued Benefits and benefits due pursuant to this Agreement and (ii) any salary, bonus, equity, accrued vacation, expense reimbursement and other ordinary payments or benefits earned or otherwise due with respect to the period prior to the date of any Separation from Service. The General Release shall be in a form that is reasonably acceptable to the Company or the Board.

(l) “**Good Reason**” shall mean the occurrence of any of the following without the consent of Executive: (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 change in the geographic location at which the Executive must perform services; or (iv) a material breach by Orion of any provisions of this Agreement or any equity award agreement with the Company to which the Executive is a party.

(m) “**Separation from Service**” or “**Separated From Service**” shall mean Executive’s termination of employment from Orion and each entity that is required to be included in Orion’s controlled group of corporations within the meaning of Code Section 414(b), or that is under common control with Orion within the meaning of Code Section 414(c); *provided* that the phrase “at least 50 percent” shall be used in place of the phrase “ at least 80 percent” each place it appears therein or in the regulations thereunder (collectively, “409A affiliates”). Notwithstanding the foregoing:

(i) If Executive takes a leave of absence for purposes of military leave, sick leave or other bona fide leave of absence, Executive will not be deemed to have incurred a Separation from Service for the first six (6) months of the leave of absence, or if longer, for so long as Executive’s right to reemployment is provided either by statute or by contract.

(ii) Subject to paragraph (i), Executive shall incur a Separation from Service when the level of bona fide services provided by Executive to Orion and its 409A affiliates permanently decreases to a level of twenty percent (20%) or less of the level of services rendered by Executive, on average, during the immediately preceding 12 months of employment.

(iii) If, following Executive’s termination of employment, Executive continues to provide services to the Company or a 409A Affiliate in a capacity other than as an employee, Executive will not be deemed to have Separated from Service as long as Executive is providing bona fide services at a rate that is greater than twenty percent (20%) of the level of services rendered by Executive, on average, during the immediately preceding 12 months of service.

(n) “**Severance Payment**” shall mean the Executive’s Base Salary at the time of the Termination Date plus the average of the annual bonuses earned by the Executive with respect to each of the three completed fiscal years of the Company preceding the year in which the Termination Date occurs (or such lesser number of fiscal years for which the Executive was employed by the Company as its Chief Executive Officer, with any partial year’s bonus being annualized with respect to such fiscal year) multiplied by the severance multiplier set forth above.

(o) “**Successor**” shall mean the person to which this Agreement is assigned upon a Sale of Business within the meaning of Section 11.

(p) “**Termination Date**” shall mean the date of the Executive’s termination of employment from the Company, as further described in Section 4.

3. **Employment of Executive.**

(a) **Position.**

(i) Executive shall serve in the position set forth above in a full-time capacity. In such position, Executive shall have such duties and authority as is customarily associated with such position and shall have such other titles and duties, consistent with Executive's position, as may be assigned from time to time by the Board.

(ii) Executive will devote Executive's full business time and best efforts to the performance of Executive's duties hereunder and will not engage in any other business, profession or occupation for compensation or otherwise which would conflict or interfere with the rendition of such services either directly or indirectly, without the prior written consent of the Board; *provided* that nothing herein shall preclude Executive, subject to the prior approval of the Board, from accepting appointment to or continuing to serve on any board of directors or trustees of any business organization or any charitable organization or from continuing to serve in his current capacities at his current companies and organizations; *further provided* in each case, and in the aggregate, that such activities do not materially conflict or interfere with the performance of Executive's duties hereunder or conflict with Section 8.

(b) **Base Salary.** Orion shall pay Executive a Base Salary at the annual rate set forth above, payable in regular installments in accordance with the Company's usual payroll practices. Executive shall be entitled to such increases in Executive's Base Salary, if any, as may be determined from time to time by the Board.

(c) **Bonus Incentives.** Executive shall be entitled to participate in such annual and/or long-term cash and equity incentive plans and programs of Orion as are generally provided to the senior executives of Orion or as otherwise provided by the Board or the Compensation Committee thereof.

(d) **Equity Compensation.** Executive shall be eligible to receive equity compensation awards (which may consist of restricted stock or other types of equity awards), as determined by the Board in its discretion pursuant to Orion's equity compensation plans and programs in effect from time to time. These awards shall be granted in the discretion of the Board, and shall include such terms and conditions, including performance objectives, as the Board deems appropriate.

(e) **Employee Benefits.** Executive shall be entitled to participate in the Company's employee benefit plans (other than annual and/or long-term incentive programs, which are addressed in subsection (c)) as in effect from time to time on the same basis as those benefits are generally made available to other senior executives of Orion.

(f) **Business Expenses.** The reasonable business expenses incurred by Executive in the performance of Executive's duties hereunder shall be reimbursed by the Company in accordance with Company policies.

(g) **Other Perquisites.** Executive shall be entitled to receive the other benefits and perquisites set forth in Exhibit A.

(h) **No Compensation as Director.** Executive shall not receive any compensation (whether cash or equity based) as Board Chair or as a member of the Board while he serves as the Company's Chief Executive Officer, provided that Executive shall be entitled to the continued vesting of all restricted stock awards (and related restricted cash) that were granted to Executive in his capacity as a director of the Company prior to Executive serving as the Company's Chief Executive Officer.

All payments under this Section 3 shall be subject to payroll taxes and other withholdings in accordance with the Company's (or the applicable employer of record) standard payroll practices and applicable law.

4. **Termination of Employment.** Executive's employment with the Company and this Agreement will terminate on the date of such termination, as follows:

(a) Executive's employment will terminate upon Executive's death.

(b) If Executive is Disabled, and if within thirty (30) days after Orion notifies the Executive in writing that it intends to terminate the Executive's employment, the Executive shall not have returned to the performance of the Executive's duties hereunder on a full-time basis, Orion may terminate the Executive's employment, effective immediately following the end of such thirty (30)-day period.

(c) Orion may terminate Executive's employment with or without Cause (other than as a result of Disability which is governed by subsection (b)) by providing written notice to Executive that indicates in reasonable detail the facts and circumstances alleged to provide a basis for such termination. If the termination is without Cause, Executive's employment will terminate on the date specified in the written notice of termination. If the termination is for Cause, the Executive shall have thirty (30) days from the date the written notice is provided, or such longer period as Orion may determine to be appropriate, to cure any conduct or act, if curable, alleged to provide grounds for termination of Executive's employment for Cause. If the alleged conduct or act constituting Cause is not curable, Executive's employment will terminate on the date specified in the written notice of termination. If the alleged conduct or act constituting Cause is curable but Executive does not cure such conduct or act within the specified time period, Executive's employment will terminate on the date immediately following the end of the cure period. Notwithstanding the foregoing, a determination of Cause shall only be made in good faith by the Board, which may terminate Executive for Cause only after providing Executive (i) written notice as set forth above, (ii) the opportunity to appear before the Board and provide rebuttal to such proposed termination, and (iii) written notice following such appearance confirming such termination and certifying that the decision to terminate Executive for Cause was approved in good faith by at least sixty-six percent (66%) of the members of the Board, excluding Executive. Unless otherwise directed by Orion, from and after the date of the written notice of proposed termination, Executive shall be relieved of his duties and responsibilities and shall be considered to be on a paid leave of absence pending any final action by the Board or the Board of Directors of the Successor confirming such proposed termination.

(d) Executive may terminate his employment for or without Good Reason by providing written notice of termination to Orion that indicates in reasonable detail the facts and circumstances alleged to provide a basis for such termination. If Executive is alleging

a termination for Good Reason, Executive must provide written notice to Orion of the existence of the condition constituting Good Reason within ninety (90) days of the initial existence of such condition, and Orion must have a period of at least thirty (30) days following receipt of such notice to cure such condition. If such condition is not cured by Orion within such thirty (30)-day period, Executive's termination of employment from the Company shall be effective on the date immediately following the end of such cure period.

5. **Payments upon Termination.**

(a) **Entitlement to Severance.** Subject to the other terms and conditions of this Agreement (including, without limitation, Section 6 hereof), Executive shall be entitled to the Accrued Benefits, and to the severance benefits described in subsection (c), in either of the following circumstances while this Agreement is in effect:

- (i) Executive's employment is terminated by Orion without Cause, except in the case of death or Disability;
- or
- (ii) Executive terminates his employment with the Company for Good Reason.

If Executive dies after receiving a notice by Orion that Executive is being terminated without Cause, or after providing notice of termination for Good Reason, the Executive's estate, heirs and beneficiaries shall be entitled to the Accrued Benefits and the severance benefits described in subsection (c) at the same time such amounts would have been paid or benefits provided to Executive had he lived.

(b) **General Release Requirement.** As an additional prerequisite for receipt of the severance benefits described in subsection (c), Executive must execute, deliver to Orion, and not revoke (to the extent Executive is allowed to do so) a General Release.

(c) **Severance Payment; Timing and Form of Payment.** Subject to Section 5(b) and the limitations imposed by Section 6 and Section 7, in lieu of any severance pay under any severance pay plans, programs or policies, if Executive is entitled to severance benefits, then:

- (i) Company shall pay Executive the Severance Payment in a lump sum within ten (10) days following the Executive's Separation from Service, or if later, the date on which the General Release is no longer revocable, or if later, the date on which the amount payable under Section 7 is determined, but in no event may payment be made more than 2½ months after the year in which Executive's Separation from Service occurs;
- (ii) At the same time that the Severance Payment is made, Company shall pay Executive a lump sum amount equal to the Executive's annual target cash bonus opportunity (if any) as established by the Board or the Compensation Committee of the Board for the fiscal year in which the Separation from Service occurs, multiplied by a fraction, the numerator of which is the number of days that have elapsed during the annual performance period to the date of the Executive's Separation from Service and the denominator of which is 365;

(iii) Executive shall be entitled to receive premiums from Orion for COBRA continuation coverage for the length of such coverage at the same rate as is being charged to active employees for similar coverage;

(iv) Executive shall not be entitled to receive, and shall forfeit all right to receive, the Change of Control Payment, as set forth in Section 6 below; and

(v) The vesting of Executive's then unvested equity awards from the Company at the date of the Executive's Separation from Service shall be automatically accelerated and such unvested equity awards shall be deemed to be fully vested as of the date of Executive's Separation from Service, but only to the extent such equity awards would have otherwise vested within the twenty-four (24)-month period from the date of Executive's Separation of Service if the Executive had continued in the employment of the Company through said vesting date(s).

All payments under this Section 5 shall be subject to payroll taxes and other withholdings in accordance with the Company's (or the applicable employer of record's) standard payroll practices and applicable law.

(d) **Other Termination of Employment.** If Executive's employment terminates for any reason other than those described in subsection (a), the Executive (or the Executive's estate in the event of his death), shall be entitled to receive only the Accrued Benefits. Executive must be terminated for Cause pursuant to and in accordance with Section 4(c) of this Agreement in order for the consequences of such a Cause termination to apply to Executive under any equity award agreement with the Company to which Executive is then a party. Subject to the limitations imposed by Section 6, the Company's obligations under this Section 5 shall survive the termination of this Agreement.

(e) **D&O Tail Policy.** If Executive's employment terminates for any reason, as promptly as practical following the date on which Executive also ceases to serve as a member of the Board, the Company shall obtain, at its cost and expense, a six year tail director and officer insurance policy covering Executive on the same terms and conditions as the similar tail director and officer insurance policies previously obtained by the Company for its retiring directors.

6. **Payments upon Change of Control.**

(a) **Entitlement to Change of Control Payment.** Subject to the other terms and conditions of this Agreement, including but not limited to the limitations imposed by Section 7, the Company shall pay Executive the Change of Control Payment and the Accrued Benefits:

(i) Upon the occurrence of a Change of Control (provided, however, that for all purposes under this Section 6, the definition of Change of Control in Section 2(e)(i) shall be modified so that the twenty (20) percent Beneficial Ownership threshold set forth therein shall be fifty (50) percent); or

(ii) If, prior to a Change of Control but following the Company's entry into a legally binding written agreement, arrangement or understanding that would result in a Change of Control, Executive's employment is terminated by the

Company without Cause (except in the case of death or Disability) or Executive terminates his employment with the Company for Good Reason.

(b) **Timing and Form of Payment.** If Executive becomes entitled to the Change of Control Payment pursuant to Section 6(a)(i), the Company shall pay Executive the Change of Control Payment and Accrued Benefits in a lump sum upon the occurrence of the Change of Control regardless of whether or not Executive remains as the Company's Chief Executive Officer as a result of the Change of Control. If Executive becomes entitled to the Change of Control Payment pursuant to Section 6(a)(ii), the Company shall pay Executive the Change of Control Payment and Accrued Benefits in a lump sum within ten (10) days following the Executive's Separation from Service.

(c) **Expiration of Future Payment and Severance.** If Executive is entitled to receive the Change of Control Payment, then Executive shall not be entitled to receive, and shall forfeit all right to receive, the Severance Payment, as set forth in Section 5(c)(i) above. Following the payment of the Change of Control Payment by Company, Company's obligations under Section 5 and this Section 6 shall expire, with no right or expectation by Executive to receive, and no obligation or requirement by Company to pay or provide, any additional Severance Payment or any other similar payment or benefit, provided that Executive will retain the right (if any) to the continued vesting of previously granted restricted stock awards (and any related restricted cash) pursuant to the terms of the applicable restricted stock award agreement and the right to receive the Accrued Benefits. Notwithstanding such forfeiture and expiration, the other rights and obligations under this Agreement shall survive and continue through the termination of this Agreement or for such shorter or longer periods of time as set forth herein. Subject to the foregoing, Company's obligations under this Section 6 shall survive the termination of this Agreement.

7. **Limitations on Change of Control Payments and Benefits.** Notwithstanding any other provision of this Agreement, if any portion of the Change of Control Payment or any other payment under this Agreement, or under any other agreement with or plan of the Company (in the aggregate "Total Payments"), would constitute an "excess parachute payment," then the Total Payments to be made to Executive shall be reduced such that the value of the aggregate Total Payments that Executive is entitled to receive shall be One Dollar (\$1) less than the maximum amount which Executive may receive without becoming subject to the tax imposed by Code Section 4999 or which the Company may pay without loss of deduction under Code Section 280G(a); *provided* that the foregoing reduction in the amount of Total Payments shall not apply if the After-Tax Value to Executive of the Total Payments prior to reduction in accordance herewith is greater than the After-Tax Value to Executive of the Total Payments are reduced in accordance herewith. For purposes of this Agreement, the terms "excess parachute payment" and "parachute payments" shall have the meanings assigned to them in Code Section 280G, and such "parachute payments" shall be valued as provided therein. Present value for purposes of this Agreement shall be calculated in accordance with Code Section 1274(b)(2). Within twenty (20) business days following delivery of the notice of termination or notice by Orion to Executive of its belief that there is a payment or benefit due Executive that will result in an excess parachute payment as defined in Code Section 280G, Executive and Orion, at Orion's expense, shall obtain the opinion (which need not be unqualified) of nationally recognized tax counsel selected by Orion's independent auditors and acceptable to Executive in Executive's sole discretion, which opinion sets forth: (A) the amount of the Base Period Income, (B) the amount and present value of Total Payments, (C) the amount and present value of any excess parachute

payments without regard to the limitations of this Section 7, (D) the After-Tax Value of the Total Payments if the reduction in Total Payments contemplated under this Section 7 did not apply, and (E) the After-Tax Value of the Total Payments taking into account the reduction in Total Payments contemplated under this Section 7. As used in this Section 7, the term “Base Period Income” means an amount equal to Executive’s “annualized includible compensation for the base period” as defined in Code Section 280G(d)(1). For purposes of such opinion, the value of any noncash benefits or any deferred payment or benefit shall be determined by Orion’s independent auditors in accordance with the principles of Code Sections 280G(d)(3) and (4), which determination shall be evidenced in a certificate of such auditors addressed to Orion and Executive. For purposes of determining the “After-Tax Value” of the Total Payments, (I) Executive shall be deemed to pay federal income taxes and employment taxes at the highest marginal rate of federal income and employment taxation in the calendar year in which the Change of Control Payment is to be made and state and local income taxes at the highest marginal rates of taxation in the state and locality of Executive’s domicile for income tax purposes on the date the Change of Control Payment is to be made, net of the maximum reduction in federal income taxes that may be obtained from deduction of such state and local taxes, and (II) a reasonable compensation analysis and valuation will be performed, to the extent it would increase the Executive’s After-Tax Value of the Total Payments, of the value of the Executive’s restrictive covenants under Section 8 hereof (and any other restrictive covenants applicable to the Executive). Such opinion shall be dated as of the Termination Date and addressed to Orion and Executive and shall be binding upon the Company and Executive, and upon which the Company and the Executive may fully rely. If such opinion determines that there would be an excess parachute payment and that the After-Tax Value of the Total Payments taking into account the reduction contemplated under this Section is greater than the After-Tax Value of the Total Payments if the reduction in Total Payments contemplated under this Section did not apply, then the Change of Control Payment hereunder or any other payment determined by such counsel to be includible in Total Payments shall be reduced or eliminated as specified by Executive in writing delivered to Orion within five (5) business days of Executive’s receipt of such opinion or, if Executive fails to so notify Orion, then as Orion shall reasonably determine, so that under the bases of calculations set forth in such opinion there will be no excess parachute payment. If such legal counsel so requests in connection with the opinion required by this Section, Executive and Orion shall obtain, at Orion’s expense, and the legal counsel may rely on in providing the opinion, the advice of a firm of recognized executive compensation consultants as to the reasonableness of any item of compensation to be received by Executive. Notwithstanding the foregoing, the provisions of this Section 7, including the calculations, notices and opinions provided for herein, shall be based upon the conclusive presumption that the following are reasonable: (1) the compensation and benefits provided for in Section 3 and (2) any other compensation, including but not limited to the Accrued Benefits, earned prior to the date of Executive’s Separation from Service by the Executive pursuant to the Company’s compensation programs if such payments would have been made in the future in any event, even though the timing of such payment is triggered by the Change of Control or the Executive’s Separation from Service. If the provisions of Code Sections 280G and 4999 are repealed without succession, then this Section 7 shall be of no further force or effect.

8. **Covenants by Executive.**

(a) **Confidentiality and Non-Disclosure.** During Executive’s employment with the Company and for a period of two years following Executive’s Separation from Service, he agrees that he will not, except in furtherance of the business of the Company, disclose, furnish, or make available to any person or use for the benefit of himself or any other person any confidential or proprietary information or data of the Company including,

but not limited to, trade secrets, customer and supplier lists, pricing policies, operational methods, marketing plans or strategies, product development techniques or plans, business acquisition or disposition plans, new personnel employment plans, methods of manufacture, technical process, and formulae, designs and design projects, inventions and research projects and financial budgets and forecasts except (i) information which at the time is available to others in the business or generally known to the public other than as a result of disclosure by Executive not permitted hereunder, and (ii) when required to do so by a court of competent jurisdiction, by any governmental agency or by any administrative, legislative or regulatory body; *provided* that in this instance Executive shall make reasonable efforts to inform the Company of any such request prior to any disclosure so as to permit the Company a meaningful opportunity to seek a protective order or similar adjudication. Upon termination of his employment with the Company, Executive will immediately return to the Company all written or electronically stored confidential or proprietary information in whatever format it is contained.

(b) **Non-Competition/Non-Solicitation.**

(i) During Executive's employment with the Company and for a period of two years following Executive's Separation from Service, Executive agrees not to directly or indirectly engage, or assist any business or entity, in Competitive Business Activity in any capacity, including without limitation as an employee, officer, or director of, or consultant or advisor to, any person or entity engaged directly or indirectly in a business which engages in Competitive Business Activity, in North America or anywhere that Orion or its Successor does business at the time of Executive's termination of employment, without the written consent of the Board.

(ii) During Executive's employment with the Company and for a period of two years following Executive's Separation from Service, Executive agrees not to, in any form or manner, directly or indirectly, on his own behalf or in combination with others (1) solicit, induce or influence any customer, supplier, lender, lessor or any other person with a business relationship with the Company to discontinue or reduce the extent of such business relationship, or (2) recruit, solicit or otherwise induce or influence any employee of the Company that reported directly to the Executive during Executive's employment with the Company to discontinue their employment with the Company.

(c) **Disclosure and Assignment to the Company of Inventions and Innovations.**

(i) Executive agrees to disclose and assign to the Company as the Company's exclusive property, all inventions and technical or business innovations, including but not limited to all patentable and copyrightable subject matter (collectively, the "Innovations") developed, authored or conceived by Executive solely or jointly with others during the period of Executive's employment, including during Executive's employment prior to the date of this Agreement, (1) that are along the lines of the business, work or investigations of the Company to which Executive's employment relates or as to which Executive may receive information due to Executive's employment with the Company, or (2) that result from or are suggested by any work which Executive may do for the

Company or (3) that are otherwise made through the use of Company time, facilities or materials. To the extent any of the Innovations is copyrightable, each such Innovation shall be considered a “work for hire.”

(ii) Executive agrees to execute all necessary papers and otherwise provide proper assistance (at the Company’s expense), during and subsequent to Executive’s employment, to enable the Company to obtain for itself or its nominees, all right, title, and interest in and to patents, copyrights, trademarks or other legal protection for such Innovations in any and all countries.

(iii) Executive agrees to make and maintain for the Company adequate and current written records of all such Innovations;

(iv) Upon any termination of Executive’s employment, Executive agrees to deliver to the Company promptly all items which belong to the Company or which by their nature are for the use of Company employees only, including, without limitation, all written and other materials which are of a secret or confidential nature relating to the business of the Company.

(v) In the event Company is unable for any reason whatsoever to secure Executive’s signature to any lawful and necessary documents required, including those necessary for the assignment of, application for, or prosecution of any United States or foreign application for letters patent or copyright for any Innovation, Executive hereby irrevocably designates and appoints Company and its duly authorized officers and agents as Executive’s agent and attorney-in-fact, to act for and in Executive’s behalf and stead to execute and file any such applications and to do all other lawfully permitted acts to further the assignment, prosecution, and issuance of letters patent or registration of copyright thereon with the same legal force and effect as if executed by Executive. Executive hereby waives and quitclaims to Company any and all claims, of any nature whatsoever, which Executive may now have or may hereafter have for infringement of any patent or copyright resulting from any such application.

(d) **Remedies Not Exclusive.** In the event that Executive breaches any terms of this Section 8, Executive acknowledges and agrees that said breach may result in the immediate and irreparable harm to the business and goodwill of the Company and that damages, if any, and remedies of law for such breach may be inadequate and indeterminable. The Company, upon Executive’s breach of this Section 8, shall therefore be entitled (in addition to and without limiting any other remedies that the Company may seek under this Agreement or otherwise at law or in equity) to (1) seek from any court of competent jurisdiction equitable relief by way of temporary or permanent injunction and without being required to post a bond, to restrain any violation of this Section 8, and for such further relief as the court may deem just or proper in law or equity, and (2) in the event that the Company shall prevail, its reasonable attorneys fees and costs and other expenses in enforcing its rights under this Section 8.

(e) **Severability of Provisions.** If any restriction, limitation, or provision of this Section 8 is deemed to be unreasonable, onerous, or unduly restrictive by a court of competent jurisdiction, it shall not be stricken in its entirety and held totally void and unenforceable, but shall remain effective to the maximum extent possible within the

bounds of the law. If any phrase, clause or provision of this Section 8 is declared invalid or unenforceable by a court of competent jurisdiction, such phrase, clause, or provision shall be deemed severed from this Section 8, but will not affect any other provision of this Section 8, which shall otherwise remain in full force and effect. The provisions of this Section 8 are each declared to be separate and distinct covenants by Executive.

(f) **Limits on Confidentiality Requirements.**

(i) Nothing in this Agreement is intended to discourage or restrict the Executive from communicating with, or making a report with, any governmental authority regarding a good faith belief of any violations of law or regulations based on information that the Executive acquired through lawful means in the course of the Executive's employment, including such disclosures protected or required by any whistleblower law or regulation of the Securities and Exchange Commission, the Department of Labor, or any other appropriate governmental authority.

(ii) Nothing in this Agreement is intended to discourage or restrict the Executive from reporting any theft of Trade Secrets pursuant to the Defend Trade Secrets Act of 2016 (the "DTSA") or other applicable state or federal law. The DTSA prohibits retaliation against an employee because of whistleblower activity in connection with the disclosure of Trade Secrets, so long as any such disclosure is made either (i) in confidence to an attorney or a federal, state, or local government official and solely to report or investigate a suspected violation of the law, or (ii) under seal in a complaint or other document filed in a lawsuit or other proceeding.

(iii) If the Executive believes that any employee or any third party has misappropriated or improperly used or disclosed Trade Secrets or Confidential Information, the Executive should report such activity through the Company's Whistle Blower Policy (as provided in the Employee Handbook and/or any other then applicable policies and procedures of the Company) or Compliance Hotline. This Agreement is in addition to and not in lieu of any obligations to protect the Company's Trade Secrets and Confidential Information pursuant to the Employee Handbook and/or any other then applicable policies and procedures of the Company and Code of Business Conduct and Ethics for Directors and Employees. Nothing in this Agreement shall limit, curtail or diminish the Company's statutory rights under the DTSA, any applicable state law regarding trade secrets or common law.

9. **Notice.** Any notice, request, demand or other communication required or permitted herein will be deemed to be properly given when personally served in writing or when deposited in the United States mail, postage prepaid, addressed to Executive at the address on file with the Company and to the Company with attention to the Chair of the Board of Directors of Orion (or the Lead Independent Director if Executive is then serving as the Chair). Either party may change its address by written notice in accordance with this paragraph.

10. **Set Off; Mitigation.** The Company's obligation to pay Executive the amounts and to provide the benefits hereunder shall be subject to set-off, counterclaim or recoupment of amounts owed by Executive to the Company provided, that notwithstanding any other provision of this Agreement to the contrary, in no event shall any payment under this Agreement constitute "nonqualified deferred compensation" for purposes of Code Section

409A be subject to offset by any other amount unless otherwise permitted by Code Section 409A. However, Executive shall not be required to mitigate the amount of any payment provided for pursuant to this Agreement by seeking other employment or otherwise.

11. **Benefit of Agreement.** This Agreement shall inure to the benefit of and be binding upon the parties hereto and their respective executors, administrators, successors and assigns. If Orion experiences a Change of Control, or otherwise sells, assigns or transfers all or substantially all of its business and assets to any person or if Orion merges into or consolidates or otherwise combines (where Orion does not survive such combination) with any person (any such event, a “Sale of Business”), then Orion shall assign all of its right, title and interest in this Agreement as of the date of such event to such person, and Orion shall cause such person, by written agreement in form and substance reasonably satisfactory to Executive, to expressly assume and agree to perform from and after the date of such assignment all of the terms, conditions and provisions imposed by this Agreement upon the Company. Failure of Orion to obtain such agreement prior to the effective date of such Sale of Business shall be a breach of this Agreement constituting “Good Reason” hereunder, except that for purposes of implementing the foregoing the date upon which such Sale of Business becomes effective shall be the Termination Date. In case of such assignment by Orion and of assumption and agreement by such person, as used in this Agreement, “Orion” shall thereafter mean the person which executes and delivers the agreement provided for in this Section 11 or which otherwise becomes bound by all the terms and provisions of this Agreement by operation of law, and this Agreement shall inure to the benefit of, and be enforceable by, such person. Executive shall, in his discretion, be entitled to proceed against any or all of such persons, any person which theretofore was such a successor to Orion, and Orion (as so defined) in any action to enforce any rights of Executive hereunder. Except as provided in this Section 11, this Agreement shall not be assignable by Orion. This Agreement shall not be terminated by the voluntary or involuntary dissolution of Orion.

12. **Arbitration.** Any controversy or claim arising out of or relating to this Agreement or the breach of this Agreement that cannot be mutually resolved by the Executive and the Company, including any dispute as to the calculation of the Executive’s Benefits, Base Salary, Bonus Amount, Severance Payment, or any Change of Control Payment hereunder, shall be submitted to arbitration in Milwaukee, Wisconsin, in accordance with the procedures of the American Arbitration Association. The determination of the arbitrator shall be conclusive and binding on the Company and the Executive, and judgment may be entered on the arbitrator’s award in any court having jurisdiction.

13. **Applicable Law and Jurisdiction.** This Agreement is to be governed by and construed under the laws of the United States and of the State of Wisconsin without resort to Wisconsin’s choice of law rules. Each party hereby agrees that the forum and venue for any legal or equitable action or proceeding arising out of, or in connection with, this Agreement will lie in the appropriate federal or state courts in the State of Wisconsin and specifically waives any and all objections to such jurisdiction and venue.

14. **Captions and Paragraph Headings.** Captions and paragraph headings used herein are for convenience only and are not a part of this Agreement and will not be used in construing it.

15. **Invalid Provisions.** Subject to Section 8(e), should any provision of this Agreement for any reason be declared invalid, void, or unenforceable by a court of competent jurisdiction, the validity and binding effect of any remaining portion will not be affected, and the

remaining portions of this Agreement will remain in full force and effect as if this Agreement had been executed with said provision eliminated.

16. **No Waiver.** The failure of a party to insist upon strict adherence to any term of this Agreement on any occasion shall not be considered a waiver of such party's rights or deprive such party of the right thereafter to insist upon strict adherence to that term or any other term of this Agreement.

17. **Entire Agreement.** This Agreement contains the entire agreement of the parties with respect to the subject matter of this Agreement except where other agreements are specifically noted, adopted, or incorporated by reference. This Agreement otherwise supersedes the Prior Agreement and any and all other agreements, either oral or in writing, between the parties hereto with respect to the employment of Executive by Company, and all such agreements shall be void and of no effect. Each party to this Agreement acknowledges that no representations, inducements, promises, or agreements, oral or otherwise, have been made by any party, or anyone acting on behalf of any party, which are not embodied herein, and that no other agreement, statement, or promise not contained in this Agreement will be valid or binding.

18. **Modification.** This Agreement may not be modified or amended by oral agreement, but only by an agreement in writing signed by Orion and Executive.

19. **Counterparts.** This Agreement may be signed in counterparts, each of which shall be an original, with the same effect as if the signatures thereto and hereto were upon the same instrument.

IN WITNESS WHEREOF, this Agreement is effective as of the Effective Date.

EXECUTIVE

s/ Michael W. Altschaefl

Name: Michael W. Altschaefl

ORION ENERGY SYSTEMS, INC.

By: /s/ Anthony L. Otten

Anthony L. Otten

Lead Independent Director

EXHIBIT A

Executive: Michael W. Altschaefl

Benefits and Perquisites*

* Note: The listed benefits and perquisites are in addition to those generally made available to all other senior executives of Orion under the Company's employee benefit plans (other than annual and long-term cash and equity incentive plans, which are addressed in Section 3(c) of the Agreement) as in effect from time to time. Executive is entitled to participate in such benefit plans on the same basis as those benefits are generally made available to other senior executives of Orion. Currently, such company-wide benefits include: (i) 401(k) Plan; (ii) group short term disability insurance; and (iii) group health and prescription drug insurance.

<u>Benefit</u>	<u>Amount</u>
1. Life Insurance	\$1,000,000 (face value)
2. Health/Prescription Drug Reimbursement	Reimbursed by Company Per Current Practice
3. Group Long Term Disability Insurance	Reimbursed by Company Per Current Practice
4. Automobile Allowance	\$1,000 per month
5. Vacation	5 weeks per year

Name of Executive:	William T. Hull
Position:	Executive Vice President, Chief Financial Officer and Treasurer
Fiscal Year 2021 Base Salary:	\$350,000
Effective Date:	June 1, 2020
Pre-Change of Control Severance Multiplier is:	1x
Post-Change of Control Severance Multiplier is:	2x

**AMENDED AND RESTATED EXECUTIVE EMPLOYMENT
AND SEVERANCE AGREEMENT**

This Amended and Restated Executive Employment Agreement (“Agreement”) is between the executive named above (“Executive”), and Orion Energy Systems, Inc. (“Orion” or the “Company”) effective as of the effective date set forth above (“Effective Date”) and amends and restates in its entirety the existing Executive Employment and Severance Agreement between the Executive and the Company dated and effective as of October 5, 2015 as amended on June 13, 2017 (“Prior Agreement”).

WHEREAS, Executive is currently serving as the Executive Vice President, Chief Financial Officer and Treasurer of the Company and is currently subject to the Prior Agreement.

WHEREAS, Orion and Executive desire to amend and restate the terms and conditions on which Executive will continue to be employed by Orion as its Executive Vice President, Chief Financial Officer and Treasurer on and after the Effective Date, and under which Executive will receive severance in the event that Executive separates from service with Orion under certain conditions, including after the Company experiences a Change of Control.

NOW, THEREFORE, for good and valuable consideration, the parties agree as follows:

1. Effective Date; Term. This Agreement shall become effective on the Effective Date and continue until terminated as set forth in Section 4 hereof. Termination of this Agreement will not affect the rights or obligations of the parties hereunder arising out of, or relating to circumstances occurring prior to the termination of this Agreement, which rights and obligations will survive the termination of this Agreement.

2. Definitions. For purposes of this Agreement, the following terms shall have the meanings ascribed to them:

(a) “**Accrued Benefits**” shall mean, as of the Termination Date, the sum of: (i) Executive’s Base Salary earned but not paid for the time period ending with the Termination Date; (ii) any other earned but unpaid amounts as of the Termination Date, and (iii) any other payments or benefits to be provided to Executive by Orion pursuant to

any employee benefit plans or arrangements adopted by Orion, to the extent such amounts are due from Orion.

(b)“**Base Salary**” shall mean the Executive’s annual base salary with Orion as in effect from time to time beginning, with the initial fiscal year 2016 base salary set forth above.

(c)“**Board**” shall mean the board of directors of Orion or a committee of such Board authorized to act on its behalf in certain circumstances, including the Compensation Committee of the Board.

(d)“**Cause**” shall mean a good faith finding by Orion that Executive has (i) failed, neglected, or refused to perform his employment duties from time to time assigned to him (other than due to death or Disability); (ii) committed any willful, intentional, or grossly negligent act having the effect of injuring the interest, business, or reputation of Orion; (iii) violated or failed to comply in any material respect with Orion’s published rules, regulations, or policies, as in effect or amended from time to time; (iv) committed an act constituting a felony or misdemeanor involving moral turpitude, fraud, theft, or dishonesty; (v) misappropriated or embezzled any property of Orion (whether or not such act constitutes a felony or misdemeanor); or (vi) breached any material provision of this Agreement or any other applicable confidentiality, non-compete, non-solicit, general release, covenant not-to-sue, equity award agreement, or other agreement with Orion.

(e)“**Change of Control**” shall mean and be limited to the occurrence of any of the following:

(i) the acquisition by any “person” (as such term is used in Section 13(d) and 14(d) of the Securities Exchange Act of 1934, as amended), other than (A) Orion or any of its subsidiaries, (B) a trustee or other fiduciary holding securities under any employee benefit plan of Orion or any of its subsidiaries, or (C) an underwriter temporarily holding securities pursuant to an offering of such securities, of the beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Securities Exchange Act of 1934, as amended) directly or indirectly, of securities of Orion by reason of having acquired such securities during the twelve month period ending on the date of the most recent acquisition representing 20% or more of the then outstanding shares of the common stock of Orion, or the combined voting power of Orion’s then outstanding securities entitled to vote generally in the election of directors (the “Company Voting Stock”); or

(ii) the majority of members of Orion’s Board is replaced during any twelve (12) month period by directors whose appointment or election is not endorsed by a majority of the members of Orion’s Board before the date of the appointment or election; or

(iii) the consummation of a merger, consolidation, reorganization or share exchange of Orion with any other corporation or the issuance of Company Voting Stock in connection with a merger, consolidation, reorganization or share exchange of Orion which requires approval of the shareholders of Orion, other than

(A) a merger, consolidation, reorganization or share exchange which would result in the Company Voting Stock outstanding immediately prior to such merger, consolidation, reorganization 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 Company Voting Stock or such surviving entity or any parent thereof outstanding immediately after such merger, consolidation, reorganization or share exchange, or (B) a merger, consolidation or share exchange effected to implement a recapitalization of Orion (or similar transaction) in which no “person” (defined above) is or becomes the beneficial owner (within the meaning of Rule 13d-3 promulgated under the Securities Exchange Act of 1934, as amended), directly or indirectly, of securities of Orion (not including in the securities beneficially owned by such “person” (defined above) any securities acquired directly from Orion or its affiliates (within the meaning of Rule 12b-2 promulgated under the Securities Exchange Act of 1934, as amended) pursuant to the 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 Orion or the Company Voting Stock; or

(iv) the consummation of a plan of complete liquidation or dissolution of Orion or a sale or disposition by Orion of all or substantially all of Orion’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 Orion, other than a sale or disposition by Orion of all or substantially all of Orion’s assets to an entity at least seventy-five percent (75%) of the combined voting power of the outstanding voting securities of which are owned by “persons” (defined above) in substantially the same proportions as their ownership of Orion 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 Orion immediately prior to such transaction or series of transactions continue to own, directly or indirectly, in the same proportions as their ownership in Orion, an entity that owns all or substantially all of the assets or Company Voting Stock of Orion immediately following such transaction or series of transactions.

(f) “**COBRA**” shall mean the provisions of Code Section 4980B.

(g) “**Code**” shall mean the Internal Revenue Code of 1986, as amended, as interpreted by rules and regulations issued pursuant thereto, including any successor provisions thereto.

(h) “**Competing Product**” means any product or service which is sold or provided in competition with a product or service: (A) that Orion has sold or provided at any time during the twelve (12) months immediately preceding the Termination Date or (B) that was designed, developed, tested, distributed, marketed, provided or produced by

Orion at any time during the twelve (12) months immediately preceding the Termination Date.

(i)“**Disability**” shall mean a total and permanent mental or physical disability precluding Executive from performing the material and substantial duties of his employment for 180 days during any twelve (12)-month period. For purposes of this Agreement, the Executive shall be deemed totally and permanently disabled at the end of such 180th day and which makes Executive eligible to receive benefits under Orion’s long-term disability plan.

(j)“**Good Reason**” shall mean the occurrence of any of the following without the consent of Executive: (i) a material diminution in the Executive’s Base Salary; (ii) a material change in the geographic location at which the Executive must perform services; (iii) a material diminution in the Executive’s duties, authority or responsibilities; or (iv) a material breach by Orion of any provisions of this Agreement or any equity award agreement with Orion to which the Executive is a party.

(k)“**Key Employee**” means any person who at the Termination Date is employed or engaged by Orion and with whom Executive has had material contact in the course of employment during the twelve (12) months immediately preceding the Termination Date, and (i) is a manager, officer or director of Orion; (ii) is in possession of Confidential Information and/or Trade Secrets of Orion; and/or (iii) is directly managed by or reports to Executive as of, or at any time prior to, the Termination Date.

(l)“**Restricted Customer**” means a customer of Orion during the twelve (12)-month period immediately preceding the Termination Date.

(m)“**Restricted Territory**” means Territories (as the term “Territory” is defined below) in which Orion has sold or provided products or services during the twelve (12)-month period immediately preceding the Termination Date. Notwithstanding the foregoing, the term Restricted Territory is limited to Territories in which Orion has sold or provided in excess of one hundred thousand dollars (US \$100,000) in the aggregate worth of products or services in the twelve (12)-month period immediately preceding the Termination Date.

(n)“**Separation from Service**” shall have the meaning set forth in Code Section 409A and the related Treasury Regulations; *provided*, that for this purpose, a “separation from service” is deemed to occur on the date that Orion and Executive reasonably anticipate that the level of bona fide services Executive would perform after that date (whether as an employee or independent contractor) would permanently decrease to no more than 50% of the average level of bona fide services provided in the immediately preceding thirty-six (36) months.

(o)“**Services**” means sales, financial, supervisory, management, engineering, scientific or any other services of the type performed for Orion by Executive (or one or more Orion executives managed, supervised or directed by Executive) during the final twenty-four (24) months preceding the Termination Date, but shall not include clerical, menial or manual labor.

(p)“**Severance Payment**” shall mean the Executive’s Base Salary at the time of the Termination Date plus the average of the annual bonuses earned by the Executive with respect to each of the three completed fiscal years of Orion preceding the fiscal year in which the Termination Date occurs (or such lesser number of fiscal years for which the Executive was employed by Orion, with any partial year’s bonus being annualized with respect to such fiscal year) multiplied by the severance multiplier set forth above; *provided* that if Executive’s Termination Date occurs on or following a Change of Control, the multiplier described above shall be increased to the post-Change of Control severance multiplier set forth above and any reduction in Executive’s Base Salary since the date of the Change of Control shall be ignored.

(q)“**Strategic Customer**” means a customer of Orion that has purchased a product or service from the Orion during the twelve (12)-month period immediately preceding the Termination Date, but is limited to individuals or entities concerning which Executive learned, created, or reviewed Confidential Information or Trade Secrets on behalf of Orion during the twelve (12)-month period preceding the Termination Date.

(r)“**Termination Date**” shall mean the effective date of the termination of Executive’s Employment, as further described in Section 4.

(s)“**Territory**” means a state within the United States, the District of Columbia, a territory of the United States, and/or a foreign nation.

(t) “**Third Party Confidential Information**” means information received by Orion from others that Orion has an obligation to treat as confidential.

(u)“**Trade Secret**” means a Trade Secret as that term is defined under Wis. Stat. § 134.90, or its successor provision.

3. Employment of Executive.

(a) Position.

(i) Executive shall serve in a full-time capacity in the position set forth above or in any other position and/or with such other duties as determined from time to time or at any time by Orion.

(ii) Executive will devote Executive’s full business time and best efforts to the performance of Executive’s duties hereunder and will not engage in any other business, profession or occupation for compensation or otherwise which would conflict or interfere with the rendition of such services either directly or indirectly, without the prior written consent of Orion; *provided* that nothing herein shall preclude Executive, subject to the prior approval of Orion, from accepting appointment to or continuing to serve on any board of directors or trustees of any non-profit organization or any charitable organization; or no more than one (1) for-profit entity as long as Executive does not serve on an audit committee; *further provided* in each case, and in the aggregate, that such activities do not materially conflict or interfere with the performance of Executive’s duties hereunder or conflict with Section 7.

(b)**Base Salary.** Orion shall pay Executive a Base Salary at the initial annual rate set forth above, payable in regular installments in accordance with Orion's usual payroll practices. Executive shall be entitled to such increases in Executive's Base Salary, if any, as may be determined from time to time by Orion.

(c)**Cash Bonus Incentives.** Executive shall be entitled to participate in such annual and/or long-term cash incentive compensation plans and programs of Orion as are generally provided to the senior executives of Orion, as determined by the Board in its discretion. Any cash bonuses payable to Executive will be paid at the time Orion normally pays such bonuses to its senior executives and will be subject to the terms and conditions of the applicable cash incentive compensation plans and programs, as determined by the Board in its discretion.

(d)**Equity Compensation.** Executive shall be eligible to receive equity compensation awards (which may consist of restricted stock or other types of equity awards), as determined by the Board in its discretion pursuant to Orion's equity compensation plans and programs in effect from time to time. These awards shall be granted in the discretion of the Board, and shall include such terms and conditions, including performance objectives, as the Board deems appropriate.

(e)**Employee Benefits.** Executive shall be entitled to participate in Orion's other employee benefit plans as in effect from time to time on the same basis as those benefits are generally made available to other senior executives of Orion.

(f)**Business Expenses.** Executive shall have a right to be reimbursed for Executive's reasonable and appropriate business expenses which Executive actually incurs in connection with the performance of Executive's duties and responsibilities under this Agreement in accordance with Orion's expense reimbursement policies and procedures for its senior executives, subject to Orion's reasonable requirements with respect to reporting and documentation of such expenses

(g)**Other Perquisites.** Executive shall be entitled to receive the other benefits and perquisites set forth in Exhibit A.

All payments and benefits under this Section 3 shall be subject to payroll tax and other withholdings in accordance with Orion's standard payroll practices and applicable law.

4.**Termination of Employment.** A Termination Date shall occur as follows:

(a)Executive's employment will terminate upon Executive's death.

(b)If Executive suffers a Disability, and if within thirty (30) days after Orion notifies the Executive in writing that it intends to terminate Executive's employment because of such Disability, then Executive shall not have returned to the performance of Executive's duties hereunder on a full-time basis, then Orion may terminate Executive's employment, effective immediately following the end of such thirty (30)-day period.

(c)Orion may terminate Executive's employment with or without Cause (other than as a result of Disability by providing written notice to Executive of such termination,

provided however, if Orion terminates Executive's employment for Cause, then such written notice shall indicate in reasonable detail the facts and circumstances alleged to provide a basis for such termination for Cause. If the termination is without Cause, Executive's employment will terminate on the date specified in the written notice of termination. If the termination is for Cause, the Executive shall have thirty (30) days from the date the written notice is provided, or such longer period as Orion may determine to be appropriate, to cure any conduct or act, if curable (as determined by Orion), alleged to provide grounds for termination of Executive's employment for Cause. If the alleged conduct or act constituting Cause is not curable (as determined by Orion), Executive's employment will terminate on the date specified in the written notice of termination. If the alleged conduct or act constituting Cause is curable (as determined by Orion), but Executive does not cure such conduct or act within the specified time period, Executive's employment will terminate on the date immediately following the end of the cure period. Notwithstanding the foregoing, a determination of Cause shall only be made in good faith by Orion, and after a Change of Control, Orion's successor, which may terminate Executive for Cause only after providing Executive (i) written notice as set forth above, (ii) the opportunity to appear before the Board and provide rebuttal to such proposed termination, and (iii) written notice following such appearance confirming such termination. Unless otherwise directed by Orion, from and after the date of the written notice of proposed termination, Executive shall be relieved of his duties and responsibilities and shall be considered to be on a paid leave of absence pending any final action by Orion or the successor confirming such proposed termination.

(d)Executive may terminate his employment with or without Good Reason by providing written notice of termination to Orion that indicates in reasonable detail the facts and circumstances alleged to provide a basis for such termination. If Executive is alleging a termination for Good Reason, Executive must provide written notice to Orion of the existence of the condition constituting Good Reason within ninety (90) days of the initial existence of such condition, and Orion must have a period of at least thirty (30) days following receipt of such notice to cure such condition. If such condition is not cured by Orion within such thirty (30)-day period, Executive's termination of employment from Orion shall be effective on the date immediately following the end of such cure period.

5. Payments upon Termination.

(a)**Entitlement to Severance.** Subject to the other terms and conditions of this Agreement, Executive shall be entitled to the Accrued Benefits, and to the Severance Payment described in subsection (c), in either of the following circumstances while this Agreement is in effect:

- (i)Executive's employment is terminated by Orion without Cause, except in the case of death or Disability; or
- (ii)Executive terminates his employment with Orion for Good Reason.

If Executive dies after receiving a notice by Orion that Executive is being terminated without Cause, or after providing notice of termination for Good Reason, the Executive's estate, heirs and beneficiaries shall be entitled to the Accrued Benefits and the Severance

Payment described in subsection (c) at the same time such amounts would have been paid or benefits provided to Executive had he lived.

(b)**General Release Requirement.** Executive will not be eligible to receive any payments or benefits under Section 5(c) until (i) Executive executes a general release of all claims arising out of his employment with, and termination of employment from, Orion in the form proscribed by and acceptable to Orion (“General Release”); and (ii) the revocation period specified in such General Release expires without such Executive exercising his right of revocation as set forth in the General Release.

(c)**Severance Payment; Timing and Form of Severance Payment.** Subject to Section 5(b) and the limitations imposed by Section 6, in lieu of any severance pay or benefits under any Orion severance pay plans, programs or policies, if Executive is entitled to severance benefits, then:

(i) Orion shall pay Executive the Severance Payment (plus an amount equal to the Executive’s annual target cash bonus opportunity as established by the Board for the fiscal year in which Separation from Service occurs, multiplied by a fraction, the numerator of which is the number of days that have elapsed in the fiscal year to the date of Separation from Service and the denominator is 365) on a ratable basis each month over the eighteen (18)-month period following the Termination Date, or if later, the date on which the General Release is no longer revocable, or if later, the date on which the amount payable under Section 6 is determined;

(ii) Executive shall be entitled to receive premiums from Orion for COBRA continuation coverage for the length of such coverage at the same rate as is being charged to active employees for similar coverage; and

(iii) The vesting of Executive’s then unvested equity awards from the Company at the date of the Executive’s Separation from Service shall be automatically accelerated and such unvested equity awards shall be deemed to be fully vested as of the date of Executive’s Separation from Service, but only to the extent such equity awards would have otherwise vested within the twenty-four (24)-month period from the date of Executive’s Separation of Service if the Executive had continued in the employment of the Company through said vesting date(s).

All Severance Payments and other payments and benefits under this Section 5 shall be subject to payroll taxes and other withholdings in accordance with Orion’s standard payroll practices and applicable law.

(d)**Other Termination of Employment.** If Executive’s employment terminates for any reason other than those described in subsection (a), Executive (or Executive’s estate in the event of his death), shall be entitled to receive only the Accrued Benefits. Executive must be terminated for Cause pursuant to and in accordance with Section 4(c) of this Agreement in order for the consequences of such a Cause termination to apply to Executive under any equity award agreement with Orion to which Executive is then a party. Orion’s obligations under this Section 5 shall survive the termination of this Agreement.

6. Limitations on Severance Payments and Benefits. Notwithstanding any other provision of this Agreement, if any portion of the Severance Payment or any other payment under this Agreement, or under any other agreement with or plan of Orion (in the aggregate “Total Payments”), would constitute an “excess parachute payment,” then the Total Payments to be made to Executive shall be reduced such that the value of the aggregate Total Payments that Executive is entitled to receive shall be One Dollar (\$1) less than the maximum amount which Executive may receive without becoming subject to the tax imposed by Code Section 4999 or which Orion may pay without loss of deduction under Code Section 280G(a); *provided* that the foregoing reduction in the amount of Total Payments shall not apply if the After-Tax Value to Executive of the Total Payments prior to reduction in accordance herewith is greater than the After-Tax Value to Executive of the Total Payments are reduced in accordance herewith. For purposes of this Agreement, the terms “excess parachute payment” and “parachute payments” shall have the meanings assigned to them in Code Section 280G, and such “parachute payments” shall be valued as provided therein.

Within twenty (20) business days following delivery of the notice of termination or notice by Orion to Executive of its belief that there is a payment or benefit due Executive that will result in an excess parachute payment as defined in Code Section 280G, Executive and Orion, at Orion’s expense, shall obtain the opinion (which need not be unqualified) of nationally recognized tax counsel selected by Orion’s independent auditors and acceptable to Executive in Executive’s sole discretion, which opinion sets forth: (A) the amount of the Executive’s “annualized includible compensation for the base period” as defined in Code Section 280G(d)(1), (B) the amount and present value of Total Payments, (C) the amount and present value of any excess parachute payments without regard to the limitations of this Section 6, (D) the After-Tax Value of the Total Payments if the reduction in Total Payments contemplated under this Section 6 did not apply, and (E) the After-Tax Value of the Total Payments taking into account the reduction in Total Payments contemplated under this Section 6. For purposes of determining the “After-Tax Value” of Total Payments, (I) Executive shall be deemed to pay federal income taxes and employment taxes at the highest marginal rate of federal income and employment taxation in the calendar year in which the Severance Payment is to be made and state and local income taxes at the highest marginal rates of taxation in the state and locality of Executive’s domicile for income tax purposes on the date the Severance Payment is to be made, net of the maximum reduction in federal income taxes that may be obtained from deduction of such state and local taxes, and (II) a reasonable compensation analysis and valuation will be performed, to the extent it would increase the Executive’s After-Tax Value of Total Payments, of the value of the Executive’s restrictive covenants under Section 8 hereof (and any other restrictive covenants applicable to the Executive). Such opinion shall be dated as of the Termination Date and addressed to Orion and Executive and shall be binding upon Orion and Executive and upon which Orion and Executive may fully rely. If such opinion determines that there would be an excess parachute payment and that the After-Tax Value of the Total Payments taking into account the reduction contemplated under this Section is greater than the After-Tax Value of the Total Payments if the reduction in Total Payments contemplated under this Section did not apply, then the Severance Payment hereunder or any other payment determined by such counsel to be includible in Total Payments shall be reduced or eliminated as specified by Executive in writing delivered to Orion within five (5) business days of Executive’s receipt of such opinion or, if Executive fails to so notify Orion, then as Orion shall reasonably determine, so that under the bases of calculations set forth in such opinion there will be no excess parachute payment. If such legal counsel so requests in connection with the opinion required by this Section, Executive and Orion shall obtain, at Orion’s expense, and the legal counsel may rely on in providing the

opinion, the advice of a firm of recognized executive compensation consultants as to the reasonableness of any item of compensation to be received by Executive. Notwithstanding the foregoing, the provisions of this Section 6, including the calculations, notices and opinions provided for herein, shall be based upon the conclusive presumption that the following are reasonable: (1) the compensation and benefits provided for in Section 3 and (2) any other compensation, including but not limited to the Accrued Benefits earned prior to the date of Executive's Separation from Service by the Executive pursuant to the Company's compensation programs if such payments would have been made in the future in any event, even though the timing of such payment is triggered by the Change of Control or the Executive's Separation from Service.

7. Covenants by Executive.

(a) **Nondisclosure of Third Party Confidential Information.** During Executive's employment with Orion and after the Termination Date, Executive shall not use or disclose Third Party Confidential Information for as long as the relevant third party has required Orion to maintain its confidentiality, or for so long as required by applicable law, whichever period is longer. This prohibition does not prohibit Executive's use of general skills and know-how acquired during and prior to employment by Orion, as long as such use does not involve the use or disclosure of Third Party Confidential Information. This prohibition also does not prohibit the description by Executive of Executive's employment history and duties, for work search or other purposes, as long as such use does not involve the use or disclosure of Third Party Confidential Information.

(b) **Nondisclosure of Trade Secrets.** During Executive's employment with Orion and after the Termination Date, Executive shall not use or disclose Orion's Trade Secrets so long as they remain Trade Secrets. Nothing in this Agreement shall limit either Executive's statutory and other duties not to use or disclose Orion's Trade Secrets, or Orion's remedies in the event Executive uses or discloses Orion's Trade Secrets.

(c) **Obligations Not to Disclose or Use Confidential Information.** Except as set forth herein or as expressly authorized in writing on behalf of Orion, Executive agrees that while Executive is employed by Orion and during the two (2)-year period commencing at the Termination Date, Executive will not use or disclose (except in discharging Executive's job duties with Orion) any Confidential Information, whether such Confidential Information is in Executive's memory or it is set forth electronically, in writing or other form. This prohibition does not prohibit Executive's disclosure of information after it ceases to meet the definition of "Confidential Information," or Executive's use of general skills and know-how acquired during and prior to employment by Orion, so long as such use does not involve the use or disclosure of Confidential Information; nor does this prohibition restrict Executive from providing prospective employers with an employment history or description of Executive's duties with Orion, so long as Executive does not use or disclose Confidential Information. Notwithstanding the foregoing, if Executive learns information in the course of employment with Orion which is subject to a law governing confidentiality or non-disclosure, Executive shall keep such

information confidential for so long as required by law, or for two (2) years after the Termination Date, whichever period is longer.

(d) **Return of Property; No Copying or Transfer of Documents.** All equipment, books, records, papers, notes, catalogs, compilations of information, data bases, correspondence, recordings, stored data (including data or files that exist on any personal computer or other electronic storage device), software, and any physical items, including copies and duplicates, that Executive generates or develops or which come into Executive's possession or control, which relate directly or indirectly to, or are a part of Orion's (or its customers') business matters, whether of a public nature or not, shall be and remain the property of Orion, and Executive shall deliver all such materials and items, and any and all copies of them, to Orion on the Termination Date. During employment or after the Termination Date, Executive will not copy, duplicate, or otherwise reproduce, or permit copying, duplicating, or reproduction of Orion documents or writings, whether stored on paper, magnetic tape, CD, electronically, or otherwise, including but not limited to notes, notebooks, letters, blueprints, manuals, drawings, sketches, specifications, formulas, financial documents, business plans, and the like, or any other documentation owned or originated by Orion and relating to Orion's business which, from time to time, may have come into Executive's possession, custody, or control as a result of or in the course of Executive's employment with Orion, without the express written consent of Orion, or, as a part of Executive's duties performed hereunder for the benefit of Orion. Executive expressly covenants and warrants, upon the Termination Date for any reason (or no reason), that Executive shall promptly deliver to Orion any and all originals and copies in Executive's possession, custody, or control of any and all said property, documents or writings, and that Executive shall not make, retain, or transfer to any third party any copies thereof. In the event any Confidential Information or Trade Secrets are stored or otherwise kept in or on a computer hard drive or other storage device owned by or otherwise in the possession or control of Executive (collectively, "Executive Storage Device"), upon the Termination Date, Executive will present to Orion for inspection and removal of all information regarding Orion (including but not limited to Confidential Information or Trade Secrets) stored on any Executive Storage Device.

(e) **Duty of Loyalty.** During Executive's employment with Orion, Executive shall owe Orion an undivided duty of loyalty, and shall take no action adverse to that duty of loyalty. Executive's duty of loyalty to Orion includes but is not limited to a duty to promptly disclose to Orion any information that might cause Orion to take or refrain from taking any action, or which otherwise might cause Orion to alter its behavior. Without limiting the generality of the foregoing, Executive shall promptly notify Orion at any time that Executive decides to terminate employment with Orion or enter into competition with Orion, as Orion may decide at such time to limit, suspend, or terminate Executive's employment or access to Orion's Confidential Information, Trade Secrets, or customer relationships.

(f) **Limited Restriction on Sales to a Restricted Customer.** For twenty-four (24) months following the Termination Date, for whatever reason, Executive shall not sell or solicit the sale of a Competing Product to a Restricted Customer and Executive shall not

perform Services as part of or in support of providing, selling or soliciting the sale of a Competing Product to a Restricted Customer.

(g) **Limited Restriction on Sales to a Strategic Customer.** For twenty-four (24) months following the Termination Date, for whatever reason, Executive shall not sell or solicit the sale of a Competing Product to a Strategic Customer and Executive shall not perform Services as part of or in support of providing, selling or soliciting the sale of a Competing Product to a Strategic Customer.

(h) **Limited Restriction on Sales in the Restricted Territory** For twenty-four (24) months following the Termination Date, for whatever reason, Executive shall not perform Services as part of or in support of the business of selling, soliciting the sale of or providing Competing Products in the Restricted Territory.

(i) **Limited Restriction on Design, Development, Production and Testing Activities in the Restricted Territory.** For twenty-four (24) months following the Termination Date, for whatever reason, Executive shall not perform Services as part of or in support of the business of designing, testing, developing or producing Competing Products for sale in the Restricted Territory.

(j) **Non-solicitation of Key Employees.** For twenty-four (24) months following the Termination Date, for whatever reason, Executive shall not, without the prior written consent of Orion, solicit a Key Employee to engage in competition with Orion, unless such Key Employee has already ceased employment with Orion. This shall not bar any Key Employee from applying for or accepting employment with any person or entity.

(k) **Disclosure and Assignment to Orion of Inventions and Innovations.**

(i) Executive agrees to disclose and assign to Orion as Orion's exclusive property, all inventions and technical or business innovations, including but not limited to all patentable and copyrightable subject matter (collectively, the "Innovations") developed, authored or conceived by Executive solely or jointly with others during the period of Executive's employment, including during Executive's employment prior to the date of this Agreement, (1) that are along the lines of the business, work or investigations of Orion to which Executive's employment relates or as to which Executive may receive information due to Executive's employment with Orion, or (2) that result from or are suggested by any work which Executive may do for Orion or (3) that are otherwise made through the use of Orion time, facilities or materials. To the extent any of the Innovations is copyrightable, each such Innovation shall be considered a "work for hire."

(ii) Executive agrees to execute all necessary papers and otherwise provide proper assistance (at Orion's expense), during and subsequent to Executive's employment, to enable Orion to obtain for itself or its nominees, all

right, title, and interest in and to patents, copyrights, trademarks or other legal protection for such Innovations in any and all countries.

(iii) Executive agrees to make and maintain for Orion adequate and current written records of all such Innovations;

(iv) Upon the Termination Date, Executive agrees to deliver to Orion promptly all items which belong to Orion or which by their nature are for the use of Orion employees only, including, without limitation, all written and other materials which are of a secret or confidential nature relating to the business of Orion.

(v) In the event Orion is unable for any reason whatsoever to secure Executive's signature to any lawful and necessary documents required, including those necessary for the assignment of, application for, or prosecution of any United States or foreign application for letters patent or copyright for any Innovation, Executive hereby irrevocably designates and appoints Orion and its duly authorized officers and agents as Executive's agent and attorney-in-fact, to act for and in Executive's behalf and stead to execute and file any such applications and to do all other lawfully permitted acts to further the assignment, prosecution, and issuance of letters patent or registration of copyright thereon with the same legal force and effect as if executed by Executive. Executive hereby waives and quitclaims to Orion any and all claims, of any nature whatsoever, which Executive may now have or may hereafter have for infringement of any patent or copyright resulting from any such application.

(l) **Remedies Not Exclusive.** In the event that Executive breaches any terms of this Section 7, Executive acknowledges and agrees that said breach may result in the immediate and irreparable harm to the business and goodwill of Orion and that damages, if any, and remedies of law for such breach may be inadequate and indeterminable. Orion, upon Executive's breach of this Section 7, shall therefore be entitled (in addition to and without limiting any other remedies that Orion may seek under this Agreement or otherwise at law or in equity) to (1) seek from any court of competent jurisdiction equitable relief by way of temporary or permanent injunction and without being required to post a bond, to restrain any violation of this Section 7, and for such further relief as the court may deem just or proper in law or equity, and (2) in the event that Orion shall prevail, its reasonable attorney's fees and costs and other expenses in enforcing its rights under this Section 7.

(m) **Severability of Provisions.** If any restriction, limitation, or provision of this Section 7 is deemed to be unreasonable, onerous, or unduly restrictive by a court of competent jurisdiction, it shall not be stricken in its entirety and held totally void and unenforceable, but shall remain effective to the maximum extent possible within the bounds of the law. If any phrase, clause or provision of this Section 7 is declared invalid or unenforceable by a court of competent jurisdiction, such phrase, clause, or provision shall be deemed severed from this Section 7, but will not affect any other provision of this Section 7, which shall otherwise remain in full force and effect. The provisions of this Section 7 are each declared to be separate and distinct covenants by Executive.

(n) **Limits on Confidentiality Requirements.**

(i) Nothing in this Agreement is intended to discourage or restrict the Executive from communicating with, or making a report with, any governmental authority regarding a good faith belief of any violations of law or regulations based on information that the Executive acquired through lawful means in the course of the Executive's employment, including such disclosures protected or required by any whistleblower law or regulation of the Securities and Exchange Commission, the Department of Labor, or any other appropriate governmental authority.

(ii) Nothing in this Agreement is intended to discourage or restrict the Executive from reporting any theft of Trade Secrets pursuant to the Defend Trade Secrets Act of 2016 (the "DTSA") or other applicable state or federal law. The DTSA prohibits retaliation against an employee because of whistleblower activity in connection with the disclosure of Trade Secrets, so long as any such disclosure is made either (i) in confidence to an attorney or a federal, state, or local government official and solely to report or investigate a suspected violation of the law, or (ii) under seal in a complaint or other document filed in a lawsuit or other proceeding.

(iii) If the Executive believes that any employee or any third party has misappropriated or improperly used or disclosed Trade Secrets or Confidential Information, the Executive should report such activity through the Company's Whistle Blower Policy (as provided in the Employee Handbook and/or any other then applicable policies and procedures of the Company) or Compliance Hotline. This Agreement is in addition to and not in lieu of any obligations to protect the Company's Trade Secrets and Confidential Information pursuant to the Employee Handbook and/or any other then applicable policies and procedures of the Company and Code of Business Conduct and Ethics for Directors and Employees. Nothing in this Agreement shall limit, curtail or diminish the Company's statutory rights under the DTSA, any applicable state law regarding trade secrets or common law.

8. Notice. Any notice, request, demand or other communication required or permitted herein will be deemed to be properly given when personally served in writing or when deposited in the United States mail, postage prepaid, addressed to Executive at the address on file at the Company and to Orion with attention to the Chief Executive Officer of Orion. Either party may change its address by written notice in accordance with this paragraph.

9. Set Off; Mitigation. Orion's obligation to pay Executive any amounts and to provide any of the benefits hereunder shall be subject to set-off, counterclaim or recoupment of amounts owed by Executive to Orion provided, that notwithstanding any other provision of this Agreement to the contrary, in no event shall any payment under this Agreement that constitutes "nonqualified deferred compensation" for purposes of Code Section 409A be subject to the offset by any other amount unless otherwise permitted by Code Section 409A. However, Executive shall not be required to mitigate the amount of any payment pursuant to this Agreement by seeking other employment or otherwise.

10. Benefit of Agreement. This Agreement shall inure to the benefit of and be binding upon the parties hereto and their respective executors, administrators, successors and assigns. Orion will require any successor (whether direct or indirect, by purchase, merger,

consolidation or otherwise) to all or substantially all of the business and/or assets of Orion to assume expressly and agree to perform this Agreement in the same manner and to the same extent that Orion would be required to perform it if no such succession had taken place. As used in this Agreement, "Orion" shall mean Orion as hereinbefore defined and any successor to its business and/or assets as aforesaid which assumes and agrees to perform this Agreement by operation of law, or otherwise.

11. **Arbitration.** Any controversy or claim arising out of or relating to this Agreement or the breach of this Agreement that cannot be mutually resolved by the Executive and Orion, including any dispute as to the calculation of the Executive's Accrued Benefits, Base Salary, bonus amount or any Severance Payment hereunder, shall be submitted to arbitration in Milwaukee, Wisconsin, in accordance with the procedures of the American Arbitration Association. The determination of the arbitrator shall be conclusive and binding on Orion and the Executive, and judgment may be entered on the arbitrator's award in any court having jurisdiction. Notwithstanding the foregoing, both Executive and Orion may seek to obtain injunctive relief in a Wisconsin court of competent jurisdiction pending arbitration.

12. **Applicable Law and Jurisdiction.** This Agreement is to be governed by and construed under the laws of the United States and of the State of Wisconsin without resort to Wisconsin's choice of law rules. Each party hereby agrees that the forum and venue for any legal or equitable action or proceeding arising out of, or in connection with, this Agreement will lie in the appropriate federal or state courts in the State of Wisconsin and specifically waives any and all objections to such jurisdiction and venue.

13. **Section 409A Compliance**

(a) . This Agreement is intended to comply with, or otherwise be exempt from, Section 409A of the Code ("Section 409A"). Orion shall undertake to administer, interpret, and construe this Agreement in a manner that does not result in the imposition to the Executive of additional taxes or interest under Section 409A of the Code. If a payment obligation under this Agreement arises on account of the Executive's Separation from Service while the Executive is a "specified employee" (as defined under Section 409A of the Code and determined in good faith by the Board), any payment of "deferred compensation" (as defined under Treasury Regulation Section 1.409A-1(b)(1), after giving effect to the exemptions in Treasury Regulation Sections 1.409A-1(b)(3) through (b)(12)) that is scheduled to be paid within six (6) months after such Separation from Service shall accrue without interest and shall be paid within fifteen (15) days after the end of the six-month period beginning on the date of such separation from service or, if earlier, within fifteen (15) days after the appointment of the personal representative or executor of the Executive's estate following his death.

14. **Captions and Paragraph Headings.** Captions and paragraph headings used herein are for convenience only and are not a part of this Agreement and will not be used in construing it.

15. **Invalid Provisions.** Subject to Section 7(e), should any provision of this Agreement for any reason be declared invalid, void, or unenforceable by a court of competent jurisdiction, the validity and binding effect of any remaining portion will not be affected, and the

remaining portions of this Agreement will remain in full force and effect as if this Agreement had been executed with said provision eliminated.

16. **No Waiver.** The failure of a party to insist upon strict adherence to any term of this Agreement on any occasion shall not be considered a waiver of such party's rights or deprive such party of the right thereafter to insist upon strict adherence to that term or any other term of this Agreement.

17. **Entire Agreement.** This Agreement contains the entire agreement of the parties with respect to the subject matter of this Agreement and supersedes any and all other agreements, either oral or in writing, between the parties hereto with respect to the employment of Executive by Orion. Each party to this Agreement acknowledges that no representations, inducements, promises, or agreements, oral or otherwise, have been made by any party, or anyone acting on behalf of any party, which are not embodied herein, and that no other agreement, statement, or promise not contained in this Agreement will be valid or binding.

18. **Modification.** This Agreement may not be modified or amended by oral agreement, but only by an agreement in writing signed by Orion and Executive.

19. **Counterparts.** This Agreement may be signed in counterparts, each of which shall be an original, with the same effect as if the signatures thereto and hereto were upon the same instrument.

WHEREAS, this Agreement is effective as of the Effective Date set forth above.

EXECUTIVE

/s/ William T. Hull

Name: William T. Hull

ORION ENERGY SYSTEMS, INC.

By: /s/ Michael W. Altschaefl

Michael W. Altschaefl

Chief Executive Officer

EXHIBIT A

Benefits and Perquisites*

* Note: The listed benefits and perquisites are in addition to those generally made available to all other senior executives of Orion under Orion's employee benefit plans (other than annual and long-term incentive plans, which are addressed in Section 3 of the Agreement) as in effect from time to time. Executive is entitled to participate in such benefit plans on the same basis as those benefits are generally made available to other senior executives of Orion. Currently, such company-wide benefits include: (i) 401(k) Plan; (ii) group short term disability insurance; and (iii) group health and prescription drug insurance.

<u>Benefit</u>	<u>Amount</u>
1. Life Insurance	\$1,000,000 (face value)
2. Health/Prescription Drug Reimbursement	Reimbursed by Company Per Current Practice
3. Group Long Term Disability Insurance	Reimbursed by Company Per Current Practice
4. Automobile Allowance	\$1,000 per month

Name of Executive:	Scott Green
Position:	Executive Vice President and Chief Operating Officer
Fiscal Year 2021 Base Salary:	\$350,000
Effective Date:	June 1, 2020
Pre-Change of Control Severance Multiplier is:	1x
Post-Change of Control Severance Multiplier is:	2x

**AMENDED AND RESTATED EXECUTIVE EMPLOYMENT
AND SEVERANCE AGREEMENT**

This Amended and Restated Executive Employment Agreement (“Agreement”) is between the executive named above (“Executive”), and Orion Energy Systems, Inc. (“Orion” or the “Company”) effective as of the effective date set forth above (“Effective Date”) and amends and restates in its entirety the existing Executive Employment and Severance Agreement between the Executive and the Company dated and effective as of August 6, 2016 (“Prior Agreement”).

WHEREAS, the Executive is currently employed by Orion as its Executive Vice President and Chief Operating Officer and is currently subject to the Prior Agreement.

WHEREAS, Orion and Executive desire to amend and restate the terms and conditions on which Executive will continue to be employed with Orion as its Executive Vice President and Chief Operating Officer on and after the Effective Date, and under which Executive will receive severance in the event that Executive separates from service with Orion under certain circumstances, including after the Company experiences a Change of Control.

NOW, THEREFORE, for good and valuable consideration, the parties agree as follows:

1. Effective Date; Term. This Agreement shall become effective on the Effective Date and continue until terminated as set forth in Section 4 hereof. Termination of this Agreement will not affect the rights or obligations of the parties hereunder arising out of, or relating to circumstances occurring prior to the termination of this Agreement, which rights and obligations will survive the termination of this Agreement.

2. Definitions. For purposes of this Agreement, the following terms shall have the meanings ascribed to them:

(a) “**Accrued Benefits**” shall mean, as of the Termination Date, the sum of: (i) Executive’s Base Salary earned but not paid for the time period ending with the Termination Date; (ii) any other earned but unpaid amounts as of the Termination Date, and (iii) any other payments or benefits to be provided to Executive by Orion pursuant to

any employee benefit plans or arrangements adopted by Orion, to the extent such amounts are due from Orion.

(b)“**Base Salary**” shall mean the Executive’s annual base salary with Orion as in effect from time to time beginning with the initial Base Salary noted above.

(c)“**Board**” shall mean the board of directors of Orion or a committee of such Board authorized to act on its behalf in certain circumstances, including the Compensation Committee of the Board.

(d)“**Cause**” shall mean a good faith finding by Orion that Executive has (i) failed, neglected, or refused to perform his employment duties from time to time assigned to him (other than due to death or Disability); (ii) committed any willful, intentional, or grossly negligent act having the effect of materially injuring the interest, business, or reputation of Orion; (iii) violated or failed to comply in any material respect with Orion’s published rules, regulations, or policies, as in effect or amended from time to time; (iv) committed an act constituting a felony or misdemeanor involving moral turpitude, fraud, theft, or dishonesty; (v) misappropriated or embezzled any property of Orion (whether or not such act constitutes a felony or misdemeanor); or (vi) breached any material provision of this Agreement or any other applicable confidentiality, non-compete, non-solicit, general release, covenant not-to-sue, equity award agreement or other agreement with Orion.

(e)“**Change of Control**” shall mean and be limited to the occurrence of any of the following:

(i) the acquisition by any “person” (as such term is used in Section 13(d) and 14(d) of the Securities Exchange Act of 1934, as amended), other than (A) Orion or any of its subsidiaries, (B) a trustee or other fiduciary holding securities under any employee benefit plan of Orion or any of its subsidiaries, or (C) an underwriter temporarily holding securities pursuant to an offering of such securities, of the beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Securities Exchange Act of 1934, as amended) directly or indirectly, of securities of Orion by reason of having acquired such securities during the twelve month period ending on the date of the most recent acquisition representing 20% or more of the then outstanding shares of the common stock of Orion, or the combined voting power of Orion’s then outstanding securities entitled to vote generally in the election of directors (the “Company Voting Stock”); or

(ii) the majority of members of Orion’s Board is replaced during any twelve (12)-month period by directors whose appointment or election is not endorsed by a majority of the members of Orion’s Board before the date of the appointment or election; or

(iii) the consummation of a merger, consolidation, reorganization or share exchange of Orion with any other corporation or the issuance of Company Voting Stock in connection with a merger, consolidation, reorganization or share

exchange of Orion which requires approval of the shareholders of Orion, other than (A) a merger, consolidation, reorganization or share exchange which would result in the Company Voting Stock outstanding immediately prior to such merger, consolidation, reorganization 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 Company Voting Stock or such surviving entity or any parent thereof outstanding immediately after such merger, consolidation, reorganization or share exchange, or (B) a merger, consolidation or share exchange effected to implement a recapitalization of Orion (or similar transaction) in which no “person” (defined above) is or becomes the beneficial owner (within the meaning of Rule 13d-3 promulgated under the Securities Exchange Act of 1934, as amended), directly or indirectly, of securities of Orion (not including in the securities beneficially owned by such “person” (defined above) any securities acquired directly from Orion or its affiliates (within the meaning of Rule 12b-2 promulgated under the Securities Exchange Act of 1934, as amended) pursuant to the 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 Orion or the Company Voting Stock; or

(iv) the consummation of a plan of complete liquidation or dissolution of Orion or a sale or disposition by Orion of all or substantially all of Orion’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 Orion, other than a sale or disposition by Orion of all or substantially all of Orion’s assets to an entity at least seventy-five percent (75%) of the combined voting power of the outstanding voting securities of which are owned by “persons” (defined above) in substantially the same proportions as their ownership of Orion 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 Orion immediately prior to such transaction or series of transactions continue to own, directly or indirectly, in the same proportions as their ownership in Orion, an entity that owns all or substantially all of the assets or Company Voting Stock of Orion immediately following such transaction or series of transactions.

(f) “**COBRA**” shall mean the provisions of Code Section 4980B.

(g) “**Code**” shall mean the Internal Revenue Code of 1986, as amended, as interpreted by rules and regulations issued pursuant thereto, including any successor provisions thereto.

(h) “**Competing Product**” means any product or service which is sold or provided in competition with a product or service: (A) that Executive sold or provided on behalf of Orion at some time during the twelve (12) months immediately preceding the Termination Date; (B) that one or more Orion executives or business units managed,

supervised or directed by Executive, sold or provided on behalf of Orion at some time during the twelve (12) months immediately preceding the Termination Date; (C) that was designed, developed, tested, distributed, marketed, provided or produced by Executive (individually or in collaboration with other Orion executives) or one or more Orion executives or business units managed, supervised or directed by Executive at some time during the twelve (12) months immediately preceding the Termination Date; or (D) that was designed, tested, developed, distributed, marketed, produced, sold or provided by Orion with management or executive support from Executive at some time during the twelve (12) months immediately preceding the Termination Date.

(i)“**Disability**” shall mean a total and permanent mental or physical disability precluding Executive from performing the material and substantial duties of his employment for 180 days during any twelve (12)-month period. For purposes of this Agreement, the Executive shall be deemed totally and permanently disabled at the end of such 180th day and which makes Executive eligible to receive benefits under Orion’s long-term disability plan.

(j)“**Good Reason**” shall mean the occurrence of any of the following without the consent of Executive: (i) a material diminution in the Executive’s Base Salary; (ii) a material change in the geographic location at which the Executive must perform services; (iii) a material diminution in the Executive’s duties, authority or responsibilities; or (iv) a material breach by Orion of any provisions of this Agreement or any equity award agreement with Orion to which the Executive is a party.

(k)“**Key Employee**” means any person who at the Termination Date is employed or engaged by Orion and with whom Executive has had material contact in the course of employment during the twelve (12) months immediately preceding the Termination Date, and (i) is a manager, officer or director of Orion; (ii) is in possession of Confidential Information and/or Trade Secrets of Orion; and/or (iii) is directly managed by or reports to Executive as of, or at any time prior to, the Termination Date.

(l)“**Restricted Customer**” means a customer of Orion to which Executive, or one or more individuals or Orion business units supervised, managed, or directed by Executive, sold or provided products or services on behalf of Orion during the twelve (12)-month period immediately preceding the Termination Date.

(m)“**Restricted Territory**” means: (A) Territories (as the term “Territory” is defined below) in which Executive or one or more Orion employees or business units managed or directed by Executive provided products or services on behalf of Orion during the twelve (12)-month period immediately preceding the Termination Date; (B) Territories in which one or more Orion employees or business units managed or directed by Executive sold or solicited the sale of products or services on behalf of Orion during the twelve (12)-month period immediately preceding the Termination Date; (C) Territories in which Executive or one or more Orion employees or business units managed or directed by Executive or receiving management or executive support from Executive provided, sold or solicited the sale of products or services on behalf of Orion during the twelve (12)-month period immediately preceding the Termination Date; or (D) Territories in which Orion sold

or provided products or services designed, developed, tested, or produced by Executive (either individually or in collaboration with other Orion employees) or by Orion employees or business units working under Executive's direction, management or control during the twelve (12)-month period immediately preceding the Termination Date. Notwithstanding the foregoing, the term Restricted Territory is limited to Territories in which Orion sold or provided in excess of one hundred thousand dollars (US \$100,000) in the aggregate worth of products or services in the twelve (12)-month period immediately preceding the Termination Date.

(i) "**Separation from Service**" shall have the meaning set forth in Code Section 409A and the related Treasury Regulations; *provided*, that for this purpose, a "separation from service" is deemed to occur on the date that Orion and Executive reasonably anticipate that the level of bona fide services Executive would perform after that date (whether as an employee or independent contractor) would permanently decrease to no more than 50% of the average level of bona fide services provided in the immediately preceding thirty-six (36) months.

(n) "**Services**" means sales, financial, supervisory, management, engineering, scientific, or other services of the type performed for Orion by Executive or one or more Orion executives managed, supervised or directed by Executive during the final twenty-four (24) months preceding the Termination Date, but shall not include clerical, menial or manual labor.

(o) "**Severance Payment**" shall mean the Executive's Base Salary at the time of the Termination Date plus the average of the annual bonuses earned by the Executive with respect to each of the three completed fiscal years of Orion preceding the fiscal year in which the Termination Date occurs (or such lesser number of fiscal years for which the Executive was employed by Orion, with any partial year's bonus being annualized with respect to such fiscal year) multiplied by the severance multiplier set forth above; *provided* that if Executive's Termination Date occurs on or following a Change of Control, the multiplier described above shall be increased to the post-Change of Control severance multiplier set forth above and any reduction in Executive's Base Salary since the date of the Change of Control shall be ignored.

(p) "**Strategic Customer**" means a customer of Orion that purchased a product or service from the Orion during the twelve (12)-month period immediately preceding the Termination Date, but is limited to individuals and entities concerning which Executive learned, created or reviewed Confidential Information or Trade Secrets on behalf of Orion during the twelve (12)-month period immediately preceding the Termination Date.

(q) "**Termination Date**" shall mean the date of the Executive's termination of employment from Orion, as further described in Section 4.

(r) "**Territory**" means a state within the United States, the District of Columbia, a territory of the United States, and/or a foreign nation.

(s)“**Third Party Confidential Information**” means information received by Orion from others that Orion has an obligation to treat as confidential.

(t)“**Trade Secret**” means a Trade Secret as that term is defined under Wis. Stat. § 134.90, or its successor provision.

3. Employment of Executive.

(a) Position.

(i) Executive shall serve in a full-time capacity in the position set forth above or in any other position and/or with such other duties as determined from time to time, or at any time, by Orion.

(ii) Executive will devote Executive’s full business time and best efforts to the performance of Executive’s duties hereunder and will not engage in any other business, profession or occupation for compensation or otherwise which would conflict or interfere with the rendition of such services either directly or indirectly, without the prior written consent of Orion; *provided* that nothing herein shall preclude Executive, subject to the prior approval of Orion, from accepting appointment to or continuing to serve on any board of directors or trustees of any business organization or any charitable organization; *further provided* in each case, and in the aggregate, that such activities do not materially conflict or interfere with the performance of Executive’s duties hereunder or conflict with Section 7.

(b)**Base Salary.** Orion shall pay Executive a Base Salary at the annual rate set forth above, payable in regular installments in accordance with Orion’s usual payroll practices. Executive shall be entitled to such increases in Executive’s Base Salary, if any, as may be determined from time to time by Orion.

(c)**Cash Bonus Incentives.** Executive shall be entitled to participate in such annual and/or long-term cash incentive compensation plans and programs of Orion as are generally provided to the senior executives of Orion, as determined by the Board in its discretion. Any cash bonuses payable to Executive will be paid at the time Orion normally pays such bonuses to its senior executives and will be subject to the terms and conditions of the applicable annual cash incentive compensation plans and programs, as determined by the Board in its discretion.

(d)**Equity Compensation.** Executive shall be eligible to receive equity compensation awards (which may consist of restricted stock, stock options or other types of equity awards), as determined by the Board in its discretion pursuant to Orion’s equity compensation plans and programs in effect from time to time. These awards shall be granted in the discretion of the Board, and shall include such terms and conditions, including performance objectives, as the Board deems appropriate.

(e)**Employee Benefits.** Executive shall be entitled to participate in Orion’s other employee benefit plans as in effect from time to time on the same basis as those benefits are generally made available to other senior executives of Orion.

(f)**Business Expenses.** Executive shall have a right to be reimbursed for Executive's reasonable and appropriate business expenses which Executive actually incurs in connection with the performance of Executive's duties and responsibilities under this Agreement in accordance with Orion's expense reimbursement policies and procedures for its senior executives, subject to Orion's reasonable requirements with respect to reporting and documentation of such expenses.

(g)**Other Perquisites.** Executive shall be entitled to receive the other benefits and perquisites set forth in Exhibit A.

Any payments or benefits under this Section 3 shall be subject to payroll taxes and other withholdings in accordance with Orion's standard payroll practices and applicable law.

4.**Termination of Employment.** A Termination Date shall occur as follows:

(a)Executive's employment will terminate upon Executive's death.

(b)If Executive suffers a Disability, and if within thirty (30) days after Orion notifies the Executive in writing that it intends to terminate Executive's employment because of such Disability, Executive shall not have returned to the performance of Executive's duties hereunder on a full-time basis, then Orion may terminate Executive's employment, effective immediately following the end of such thirty (30)-day period.

(c)Orion may terminate Executive's employment with or without Cause (other than as a result of Disability which is governed by subsection (b)) by providing written notice to Executive of such termination, *provided however*, if Orion terminates Executive's employment for Cause, then such written notice shall indicate in reasonable detail the facts and circumstances alleged to provide a basis for such termination for Cause. If the termination is without Cause, Executive's employment will terminate on the date specified in the written notice of termination. If the termination is for Cause, the Executive shall have thirty (30) days from the date the written notice is provided, or such longer period as Orion may determine to be appropriate, to cure any conduct or act, if curable (as determined by Orion), alleged to provide grounds for termination of Executive's employment for Cause. If the alleged conduct or act constituting Cause is not curable (as determined by Orion), Executive's employment will terminate on the date specified in the written notice of termination. If the alleged conduct or act constituting Cause is curable (as determined by Orion) but Executive does not cure such conduct or act within the specified time period, Executive's employment will terminate on the date immediately following the end of the cure period. Notwithstanding the foregoing, a determination of Cause shall only be made in good faith by Orion, and after a Change of Control, Orion's successor, which may terminate Executive for Cause only after providing Executive (i) written notice as set forth above, (ii) the opportunity to appear before the Board and provide rebuttal to such proposed termination, and (iii) written notice following such appearance confirming such termination. Unless otherwise directed by Orion, from and after the date of the written notice of proposed termination, Executive shall be relieved of his duties and responsibilities and shall be considered to be on a paid leave of absence pending any final action by Orion or the successor confirming such proposed termination.

(d) Executive may terminate his employment with or without Good Reason by providing written notice of termination to Orion that indicates in reasonable detail the facts and circumstances alleged to provide a basis for such termination. If Executive is alleging a termination for Good Reason, Executive must provide written notice to Orion of the existence of the condition constituting Good Reason within ninety (90) days of the initial existence of such condition, and Orion must have a period of at least thirty (30) days following receipt of such notice to cure such condition. If such condition is not cured by Orion within such thirty (30)-day period, Executive's termination of employment from Orion shall be effective on the date immediately following the end of such cure period.

5. Payments upon Termination.

(a) **Entitlement to Severance.** Subject to the other terms and conditions of this Agreement, Executive shall be entitled to the Accrued Benefits, and to the Severance Payment described in subsection (c), in either of the following circumstances while this Agreement is in effect:

- (i) Executive's employment is terminated by Orion without Cause, except in the case of death or Disability; or
- (ii) Executive terminates his employment with Orion for Good Reason.

If Executive dies after receiving a notice by Orion that Executive is being terminated without Cause, or after providing notice of termination for Good Reason, the Executive's estate, heirs and beneficiaries shall be entitled to the Accrued Benefits and the Severance Payment described in subsection (c) at the same time such amounts would have been paid or benefits provided to Executive had he lived.

(b) **General Release Requirement.** Executive will not be eligible to receive any payments or benefits under Section 5(c) until (i) Executive executes a general release of all claims arising out of his employment with, and termination of employment from, Orion in the form proscribed by and acceptable to Orion ("General Release"); and (ii) the revocation period specified in such General Release expires without such Executive exercising his right of revocation as set forth in the General Release.

(c) **Severance Payment; Timing and Form of Severance Payment.** Subject to Section 5(b) and the limitations imposed by Section 6, in lieu of any severance pay or benefits under any severance pay plans, programs or policies, if Executive is entitled to severance benefits, then:

- (i) Orion shall pay Executive the Severance Payment (plus an amount equal to the Executive's annual target cash bonus opportunity as established by the Board for the fiscal year in which Separation from Service occurs, multiplied by a fraction, the numerator of which is the number of days that have elapsed in the fiscal year to the date of Separation from Service and the denominator is 365) on a ratable basis each month over the eighteen (18)-month period following the Termination Date, or if later, the date on which the General Release is no longer

revocable, or if later, the date on which the amount payable under Section 6 is determined;

(ii) Executive shall be entitled to receive premiums from Orion for COBRA continuation coverage for the length of such coverage at the same rate as is being charged to active employees for similar coverage; and

(iii) The vesting of Executive's then unvested equity awards from the Company at the date of the Executive's Separation from Service shall be automatically accelerated and such unvested equity awards shall be deemed to be fully vested as of the date of Executive's Separation from Service, but only to the extent such equity awards would have otherwise vested within the twenty-four (24)-month period from the date of Executive's Separation of Service if the Executive had continued in the employment of the Company through said vesting date(s).

All Severance Payments and other payments and benefits under this Section 5 shall be subject to payroll taxes and other withholdings in accordance with Orion's standard payroll practices and applicable law.

(d) **Other Termination of Employment.** If Executive's employment terminates for any reason other than those described in subsection (a), the Executive (or the Executive's estate in the event of his death), shall be entitled to receive only the Accrued Benefits. Executive must be terminated for Cause pursuant to and in accordance with Section 4(c) of this Agreement in order for the consequences of such a Cause termination to apply to Executive under any equity award agreement with Orion to which Executive is then a party. Orion's obligations under this Section 5 shall survive the termination of this Agreement.

6. Limitations on Severance Payments and Benefits. Notwithstanding any other provision of this Agreement, if any portion of the Severance Payment or any other payment under this Agreement, or under any other agreement with or plan of Orion (in the aggregate "Total Payments"), would constitute an "excess parachute payment," then the Total Payments to be made to Executive shall be reduced such that the value of the aggregate Total Payments that Executive is entitled to receive shall be One Dollar (\$1) less than the maximum amount which Executive may receive without becoming subject to the tax imposed by Code Section 4999 or which Orion may pay without loss of deduction under Code Section 280G(a); *provided* that the foregoing reduction in the amount of Total Payments shall not apply if the After-Tax Value to Executive of the Total Payments prior to reduction in accordance herewith is greater than the After-Tax Value to Executive of the Total Payments are reduced in accordance herewith. For purposes of this Agreement, the terms "excess parachute payment" and "parachute payments" shall have the meanings assigned to them in Code Section 280G, and such "parachute payments" shall be valued as provided therein.

Within twenty (20) business days following delivery of the notice of termination or notice by Orion to Executive of its belief that there is a payment or benefit due Executive that will result in an excess parachute payment as defined in Code Section 280G, Executive and Orion, at Orion's expense, shall obtain the opinion (which need not be unqualified) of nationally recognized tax

counsel selected by Orion's independent auditors and acceptable to Executive in Executive's sole discretion, which opinion sets forth: (A) the amount of the Executive's "annualized includible compensation for the base period" as defined in Code Section 280G(d)(1), (B) the amount and present value of Total Payments, (C) the amount and present value of any excess parachute payments without regard to the limitations of this Section 6, (D) the "After-Tax Value" of the Total Payments if the reduction in Total Payments contemplated under this Section 6 did not apply, and (E) the After-Tax Value of the Total Payments taking into account the reduction in Total Payments contemplated under this Section 6. For purposes of determining the After-Tax Value of Total Payments, (I) Executive shall be deemed to pay federal income taxes and employment taxes at the highest marginal rate of federal income and employment taxation in the calendar year in which the Severance Payment is to be made and state and local income taxes at the highest marginal rates of taxation in the state and locality of Executive's domicile for income tax purposes on the date the Severance Payment is to be made, net of the maximum reduction in federal income taxes that may be obtained from deduction of such state and local taxes, and (II) a reasonable compensation analysis and valuation will be performed, to the extent it would increase the Executive's After-Tax Value of Total Payments, of the value of the Executive's restrictive covenants under Section 8 hereof (and any other restrictive covenants applicable to the Executive). Such opinion shall be dated as of the Termination Date and addressed to Orion and Executive and shall be binding upon Orion and Executive and upon which Orion and Executive may fully rely. If such opinion determines that there would be an excess parachute payment and that the After-Tax Value of the Total Payments taking into account the reduction contemplated under this Section is greater than the After-Tax Value of the Total Payments if the reduction in Total Payments contemplated under this Section did not apply, then the Severance Payment hereunder or any other payment determined by such counsel to be includible in Total Payments shall be reduced or eliminated as specified by Executive in writing delivered to Orion within five (5) business days of Executive's receipt of such opinion or, if Executive fails to so notify Orion, then as Orion shall reasonably determine, so that under the bases of calculations set forth in such opinion there will be no excess parachute payment. If such legal counsel so requests in connection with the opinion required by this Section, Executive and Orion shall obtain, at Orion's expense, and the legal counsel may rely on in providing the opinion, the advice of a firm of recognized executive compensation consultants as to the reasonableness of any item of compensation to be received by Executive. Notwithstanding the foregoing, the provisions of this Section 6, including the calculations, notices and opinions provided for herein, shall be based upon the conclusive presumption that the following are reasonable: (1) the compensation and benefits provided for in Section 3 and (2) any other compensation, including but not limited to the Accrued Benefits earned prior to the date of Executive's Separation from Service by the Executive pursuant to the Company's compensation programs if such payments would have been made in the future in any event, even though the timing of such payment is triggered by the Change of Control or the Executive's Separation from Service.

7. Covenants by Executive.

(a) **Nondisclosure of Third Party Confidential Information.** During Executive's employment with Orion and after the Termination Date, Executive shall not use or disclose Third Party Confidential Information for as long as the relevant third party has required Orion to maintain its confidentiality, or for so long as required by applicable law, whichever period is longer. This prohibition does not prohibit Executive's use of

general skills and know-how acquired during and prior to employment by Orion, as long as such use does not involve the use or disclosure of Third Party Confidential Information. This prohibition also does not prohibit the description by Executive of Executive's employment history and duties, for work search or other purposes, as long as such use does not involve the use or disclosure of Third Party Confidential Information.

(b)Non-disclosure of Trade Secrets. During Executive's employment and after the Termination Date, Executive shall not use or disclose Orion's Trade Secrets so long as they remain Trade Secrets. Nothing in this Agreement shall limit either Executive's statutory and other duties not to use or disclose Orion's Trade Secrets, or Orion's remedies in the event Executive uses or discloses Orion's Trade Secrets.

(c)Obligations Not to Disclose or Use Confidential Information. Except as set forth herein or as expressly authorized in writing on behalf of Orion, Executive agrees that while Executive is employed by Orion and during the two (2)-year period commencing on the Termination Date, Executive will not use or disclose (except in discharging Executive's job duties with Orion) any Confidential Information, whether such Confidential Information is in Executive's memory or it is set forth electronically, in writing or other form. This prohibition does not prohibit Executive's disclosure of information after it ceases to meet the definition of "Confidential Information," or Executive's use of general skills and know-how acquired during and prior to employment by Orion, so long as such use does not involve the use or disclosure of Confidential Information; nor does this prohibition restrict Executive from providing prospective employers with an employment history or description of Executive's duties with Orion, so long as Executive does not use or disclose Confidential Information. Notwithstanding the foregoing, if Executive learns information in the course of employment with Orion which is subject to a law governing confidentiality or non-disclosure, Executive shall keep such information confidential for so long as required by law, or for two (2) years after the Termination Date, whichever period is longer.

(d)Return of Property; No Copying or Transfer of Documents. All equipment, books, records, papers, notes, catalogs, compilations of information, data bases, correspondence, recordings, stored data (including data or files that exist on any personal computer or other electronic storage device), software, and any physical items, including copies and duplicates, that Executive generates or develops or which come into Executive's possession or control, which relate directly or indirectly to, or are a part of Orion's (or its customers') business matters, whether of a public nature or not, shall be and remain the property of Orion, and Executive shall deliver all such materials and items, and any and all copies of them, to Orion on the Termination Date. During employment or after the Termination Date, Executive will not copy, duplicate, or otherwise reproduce, or permit copying, duplicating, or reproduction of Orion documents or writings, whether stored on paper, magnetic tape, CD, electronically, or otherwise, including but not limited to notes, notebooks, letters, blueprints, manuals, drawings, sketches, specifications, formulas, financial documents, business plans, and the like, or any other documentation owned or originated by Orion and relating to Orion's business which, from time to time, may have come into Executive's possession, custody, or control as a result of or in the course of Executive's employment with Orion, without the express written consent of Orion, or, as

a part of Executive's duties performed hereunder for the benefit of Orion. Executive expressly covenants and warrants, upon the Termination Date for any reason (or no reason), that Executive shall promptly deliver to Orion any and all originals and copies in Executive's possession, custody, or control of any and all said property, documents or writings, and that Executive shall not make, retain, or transfer to any third party any copies thereof. In the event any Confidential Information or Trade Secrets are stored or otherwise kept in or on a computer hard drive or other storage device owned by or otherwise in the possession or control of Executive (collectively, "Executive Storage Device"), upon the Termination Date, Executive will present to Orion for inspection and removal of all information regarding Orion (including but not limited to Confidential Information or Trade Secrets) stored on any Executive Storage Device.

(e)**Duty of Loyalty.** During employment with Orion, Executive shall owe Orion an undivided duty of loyalty, and shall take no action adverse to that duty of loyalty. Executive's duty of loyalty to Orion includes but is not limited to a duty to promptly disclose to Orion any information that might cause Orion to take or refrain from taking any action, or which otherwise might cause Orion to alter its behavior. Without limiting the generality of the foregoing, Executive shall promptly notify Orion at any time that Executive decides to terminate employment with Orion or enter into competition with Orion, as Orion may decide at such time to limit, suspend, or terminate Executive's employment or access to Orion's Confidential Information, Trade Secrets, or customer relationships.

(f)**Limited Restriction on Sales to a Restricted Customer.** For eighteen (18) months following the Termination Date, for whatever reason, Executive shall not sell or solicit the sale of a Competing Product to a Restricted Customer and Executive shall not perform Services as part of or in support of providing, selling or soliciting the sale of a Competing Product to a Restricted Customer.

(g)**Limited Restriction on Sales to a Strategic Customer.** For eighteen (18) months following the Termination Date, for whatever reason, Executive shall not sell or solicit the sale of a Competing Product to a Strategic Customer and Executive shall not perform Services as part of or in support of providing, selling or soliciting the sale of a Competing Product to a Strategic Customer.

(h)**Limited Restriction on Sales in the Restricted Territory.** For eighteen (18) months following the Termination Date, for whatever reason, Executive shall not perform Services as part of or in support of the business of selling, soliciting the sale of or providing Competing Products in the Restricted Territory.

(i)**Limited Restriction on Design, Development, Production and Testing Activities in the Restricted Territory.** For eighteen (18) months following the Termination Date, for whatever reason, Executive shall not perform Services as part of or in support of the business of designing, testing, developing or producing Competing Products for sale in the Restricted Territory.

(j)**Non-solicitation of Key Employees.** For eighteen (18) months following the Termination Date, for whatever reason, Executive shall not, without the prior written consent of Orion, solicit a Key Employee to engage in competition with Orion, unless such Key Employee has already ceased employment with Orion. This shall not bar any Key Employee of Orion from applying for or accepting employment with any person or entity.

(k)**Disclosure and Assignment to Orion of Inventions and Innovations.**

(i)Executive agrees to disclose and assign to Orion as Orion's exclusive property, all inventions and technical or business innovations, including but not limited to all patentable and copyrightable subject matter (collectively, the "Innovations") developed, authored or conceived by Executive solely or jointly with others during the period of Executive's employment with Orion, including during Executive's employment with Orion prior to the date of this Agreement, (1) that are along the lines of the business, work or investigations of Orion to which Executive's employment relates or as to which Executive may receive information due to Executive's employment with Orion, or (2) that result from or are suggested by any work which Executive may do for Orion or (3) that are otherwise made through the use of Orion time, facilities or materials. To the extent any of the Innovations is copyrightable, each such Innovation shall be considered a "work for hire." Notwithstanding anything to the contrary above, "Innovations" shall not include (and the provisions of this Section 7(k) shall not apply to) any Innovations developed, authorized or conceived by Executive in connection with his academic endeavors, even if such Innovations were developed, authorized or conceived by Executive during his period of employment with Orion.

(ii)Executive agrees to execute all necessary papers and otherwise provide proper assistance (at Orion's expense), during and subsequent to Executive's employment, to enable Orion to obtain for itself or its nominees, all right, title, and interest in and to patents, copyrights, trademarks or other legal protection for such Innovations in any and all countries.

(iii)Executive agrees to make and maintain for Orion adequate and current written records of all such Innovations;

(iv)Upon the Termination Date, Executive agrees to deliver to Orion promptly all items which belong to Orion or which by their nature are for the use of Orion employees only, including, without limitation, all written and other materials which are of a secret or confidential nature relating to the business of Orion.

(v)In the event Orion is unable for any reason whatsoever to secure Executive's signature to any lawful and necessary documents required, including those necessary for the assignment of, application for, or prosecution of any United States or foreign application for letters patent or copyright for any Innovation, Executive hereby irrevocably designates and appoints Orion and its duly authorized officers and agents as Executive's agent and attorney-in-fact, to act for and in

Executive's behalf and stand to execute and file any such applications and to do all other lawfully permitted acts to further the assignment, prosecution, and issuance of letters patent or registration of copyright thereon with the same legal force and effect as if executed by Executive. Executive hereby waives and quitclaims to Orion any and all claims, of any nature whatsoever, which Executive may now have or may hereafter have for infringement of any patent or copyright resulting from any such application.

(l)(n)Remedies Not Exclusive. In the event that Executive breaches any terms of this Section 7, Executive acknowledges and agrees that said breach may result in the immediate and irreparable harm to the business and goodwill of Orion and that damages, if any, and remedies of law for such breach may be inadequate and indeterminable. Orion, upon Executive's breach of this Section 7, shall therefore be entitled (in addition to and without limiting any other remedies that Orion may seek under this Agreement or otherwise at law or in equity) to (1) seek from any court of competent jurisdiction equitable relief by way of temporary or permanent injunction and without being required to post a bond, to restrain any violation of this Section 7, and for such further relief as the court may deem just or proper in law or equity, and (2) in the event that Orion shall prevail, its reasonable attorney's fees and costs and other expenses in enforcing its rights under this Section 7.

(m)Severability of Provisions. If any restriction, limitation, or provision of this Section 7 is deemed to be unreasonable, onerous, or unduly restrictive by a court of competent jurisdiction, it shall not be stricken in its entirety and held totally void and unenforceable, but shall remain effective to the maximum extent possible within the bounds of the law. If any phrase, clause or provision of this Section 7 is declared invalid or unenforceable by a court of competent jurisdiction, such phrase, clause, or provision shall be deemed severed from this Section 7, but will not affect any other provision of this Section 7, which shall otherwise remain in full force and effect. The provisions of this Section 7 are each declared to be separate and distinct covenants by Executive.

(n)Limits on Confidentiality Requirements.

(i)Nothing in this Agreement is intended to discourage or restrict the Executive from communicating with, or making a report with, any governmental authority regarding a good faith belief of any violations of law or regulations based on information that the Executive acquired through lawful means in the course of the Executive's employment, including such disclosures protected or required by any whistleblower law or regulation of the Securities and Exchange Commission, the Department of Labor, or any other appropriate governmental authority.

(ii)Nothing in this Agreement is intended to discourage or restrict the Executive from reporting any theft of Trade Secrets pursuant to the Defend Trade Secrets Act of 2016 (the "DTSA") or other applicable state or federal law. The DTSA prohibits retaliation against an employee because of whistleblower activity in connection with the disclosure of Trade Secrets, so long as any such disclosure is made either (i) in confidence to an attorney or a federal, state, or local government

official and solely to report or investigate a suspected violation of the law, or (ii) under seal in a complaint or other document filed in a lawsuit or other proceeding.

(iii) If the Executive believes that any employee or any third party has misappropriated or improperly used or disclosed Trade Secrets or Confidential Information, the Executive should report such activity through the Company's Whistle Blower Policy (as provided in the Employee Handbook and/or any other then applicable policies and procedures of the Company) or Compliance Hotline. This Agreement is in addition to and not in lieu of any obligations to protect the Company's Trade Secrets and Confidential Information pursuant to the Employee Handbook and/or any other then applicable policies and procedures of the Company and Code of Business Conduct and Ethics for Directors and Employees. Nothing in this Agreement shall limit, curtail or diminish the Company's statutory rights under the DTSA, any applicable state law regarding trade secrets or common law.

8. Notice. Any notice, request, demand or other communication required or permitted herein will be deemed to be properly given when personally served in writing or when deposited in the United States mail, postage prepaid, addressed to Executive at the address on file at the Company and to Orion with attention to the Chief Executive Officer of Orion. Either party may change its address by written notice in accordance with this paragraph.

9. Set Off; Mitigation. Orion's obligation to pay Executive any amounts and to provide any of the benefits hereunder shall be subject to set-off, counterclaim or recoupment of amounts owed by Executive to Orion provided, that notwithstanding any other provision of this Agreement to the contrary, in no event shall any payment under this Agreement that constitutes "nonqualified deferred compensation" for purposes of Code Section 409A be subject to the offset by any other amount unless otherwise permitted by Code Section 409A. However, Executive shall not be required to mitigate the amount of any payment provided for pursuant to this Agreement by seeking other employment or otherwise.

10. Benefit of Agreement. This Agreement shall inure to the benefit of and be binding upon the parties hereto and their respective executors, administrators, successors and assigns. Orion will require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of Orion to assume expressly and agree to perform this Agreement in the same manner and to the same extent that Orion would be required to perform it if no such succession had taken place. As used in this Agreement, "Orion" shall mean Orion as hereinbefore defined and any successor to its business and/or assets as aforesaid which assumes and agrees to perform this Agreement by operation of law, or otherwise.

11. Arbitration. Any controversy or claim arising out of or relating to this Agreement or the breach of this Agreement that cannot be mutually resolved by the Executive and Orion, including any dispute as to the calculation of the Executive's Accrued Benefits, Base Salary, bonus amount or any Severance Payment hereunder, shall be submitted to arbitration in Milwaukee, Wisconsin, in accordance with the procedures of the American Arbitration Association. The determination of the arbitrator shall be conclusive and binding on Orion and the Executive, and judgment may be entered on the arbitrator's award in any court having jurisdiction.

Notwithstanding the foregoing, both Executive and Orion may seek to obtain injunctive relief in a Wisconsin court of competent jurisdiction pending arbitration.

12. **Applicable Law and Jurisdiction.** This Agreement is to be governed by and construed under the laws of the United States and of the State of Wisconsin without resort to Wisconsin's choice of law rules. Each party hereby agrees that the forum and venue for any legal or equitable action or proceeding arising out of, or in connection with, this Agreement will lie in the appropriate federal or state courts in the State of Wisconsin and specifically waives any and all objections to such jurisdiction and venue.

13. **Section 409A Compliance**

(a) . This Agreement is intended to comply with, or otherwise be exempt from, Section 409A of the Code ("Section 409A"). Orion shall undertake to administer, interpret, and construe this Agreement in a manner that does not result in the imposition to the Executive of additional taxes or interest under Section 409A of the Code. If a payment obligation under this Agreement arises on account of the Executive's Separation from Service while the Executive is a "specified employee" (as defined under Section 409A of the Code and determined in good faith by the Board), any payment of "deferred compensation" (as defined under Treasury Regulation Section 1.409A-1(b)(1), after giving effect to the exemptions in Treasury Regulation Sections 1.409A-1(b)(3) through (b)(12)) that is scheduled to be paid within six (6) months after such Separation from Service shall accrue without interest and shall be paid within fifteen (15) days after the end of the six-month period beginning on the date of such separation from service or, if earlier, within fifteen (15) days after the appointment of the personal representative or executor of the Executive's estate following his death.

14. **Captions and Paragraph Headings.** Captions and paragraph headings used herein are for convenience only and are not a part of this Agreement and will not be used in construing it.

15. **Invalid Provisions.** Subject to Section 7(e), should any provision of this Agreement for any reason be declared invalid, void, or unenforceable by a court of competent jurisdiction, the validity and binding effect of any remaining portion will not be affected, and the remaining portions of this Agreement will remain in full force and effect as if this Agreement had been executed with said provision eliminated.

16. **No Waiver.** The failure of a party to insist upon strict adherence to any term of this Agreement on any occasion shall not be considered a waiver of such party's rights or deprive such party of the right thereafter to insist upon strict adherence to that term or any other term of this Agreement.

17. **Entire Agreement.** This Agreement contains the entire agreement of the parties with respect to the subject matter of this Agreement and supersedes the Prior Agreement and any and all other agreements, either oral or in writing, between the parties hereto with respect to the employment of Executive by Orion. Each party to this Agreement acknowledges that no representations, inducements, promises, or agreements, oral or otherwise, have been made by any party, or anyone acting on behalf of any party, which are not embodied herein, and that no other agreement, statement, or promise not contained in this Agreement will be valid or binding.

18. **Modification**. This Agreement may not be modified or amended by oral agreement, but only by an agreement in writing signed by Orion and Executive.

19. **Counterparts**. This Agreement may be signed in counterparts, each of which shall be an original, with the same effect as if the signatures thereto and hereto were upon the same instrument.

WHEREAS, this Agreement is effective as of the Effective Date set forth above.

EXECUTIVE

/s/ Scott Green

Name: Scott Green

ORION ENERGY SYSTEMS, INC.

By: /s/ Michael W. Altschaefl

Michael W. Altschaefl
Chief Executive Officer

EXHIBIT A

Benefits and Perquisites*

* Note: The listed benefits and perquisites are in addition to those generally made available to all other senior executives of Orion under Orion's employee benefit plans (other than annual and long-term incentive plans, which are addressed in Section 3 of the Agreement) as in effect from time to time. Executive is entitled to participate in such benefit plans on the same basis as those benefits are generally made available to other senior executives of Orion. Currently, such company-wide benefits include: (i) 401(k) Plan; (ii) group short term disability insurance; and (iii) group health and prescription drug insurance.

<u>Benefit</u>	<u>Amount</u>
1. Life Insurance	\$1,000,000 (face value)
2. Health/Prescription Drug Reimbursement	Reimbursed by Company Per Current Practice
3. Group Long Term Disability Insurance	Reimbursed by Company Per Current Practice
4. Automobile Allowance	\$1,000 per month

Subsidiaries

Entity	Jurisdiction of Organization
Great Lakes Energy Technologies, LLC	Wisconsin
Clean Energy Solutions, LLC	Wisconsin
Orion Asset Management, LLC	Wisconsin
Orion LED Canada, Inc.	British Columbia, Canada

Consent of Independent Registered Public Accounting Firm

Orion Energy Systems, Inc.
Manitowoc, Wisconsin

We hereby consent to the incorporation by reference in the Registration Statements on Form S-3 (No. 333-236837) and Form S-8 (No.333-148401, 333-169611, 333-176176, 333-213042, and 333-233180) of Orion Energy Systems, Inc. of our report dated June 5, 2020, relating to the consolidated financial statements, which appears in this Form 10-K.

/s/BDO USA, LLP
Milwaukee, Wisconsin

June 5, 2020

Certification of Chief Executive Officer
Pursuant to Rule 13a-14(a) or 15d-14(a) under the Securities Exchange Act of 1934

I, Michael W. Altschaefl, certify that:

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

Date: June 5, 2020

/s/ Michael W. Altschaefl

Michael W. Altschaefl
Chief Executive Officer

Certification of Chief Financial Officer
Pursuant to Rule 13a-14(a) or 15d-14(a) under the Securities Exchange Act of 1934

I, William T. Hull, certify that:

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

Date: June 5, 2020

/s/ William T. Hull

William T. Hull

Chief Financial Officer, Chief Accounting Officer and Treasurer

**Written Statement of the Chief Executive Officer and Chief Financial Officer
Pursuant to 18 U.S.C. Section 1350**

Solely for the purposes of complying with 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, we, the undersigned Chief Executive Officer and Chief Financial Officer of Orion Energy Systems, Inc. (the "Company"), hereby certify, based on our knowledge, that the Annual Report on Form 10-K of the Company for the twelve-month period ended March 31, 2020, (the "Report") fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934 and that information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Michael W. Altschaefl

Michael W. Altschaefl
Chief Executive Officer

/s/ William T. Hull

William T. Hull
Chief Financial Officer,
Chief Accounting Officer and Treasurer

Date: June 5, 2020