

ORION ENERGY SYSTEMS, INC.  
Form DEF 14A  
June 24, 2014

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

**SCHEDULE 14A**  
**Proxy Statement Pursuant to Section 14(a) of the**  
**Securities Exchange Act of 1934**  
**(Amendment No. )**

Filed by the Registrant

Filed by a party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Pursuant to §240.14a-12

**Orion Energy Systems, Inc.**

**(Name of Registrant as Specified In Its Charter)**

**(Name of Person(s) Filing Proxy Statement, if Other Than The Registrant)**

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- x No fee required.
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## Orion Energy Systems, Inc.

2210 Woodland Drive

Manitowoc, Wisconsin 54220

(800) 660-9340

### NOTICE OF 2014 ANNUAL MEETING OF SHAREHOLDERS

To the Shareholders of Orion Energy Systems, Inc.:

Our 2014 Annual Meeting of Shareholders will be held on Wednesday, August 6, 2014, at 1:00 p.m., Central Time, on the 40th Floor of the U.S. Bank Center, located at 777 East Wisconsin Avenue, Milwaukee, Wisconsin 53202.

This year, we have made access to our meeting easier for all of our shareholders. So, rather than having to attend our meeting in person, you will be able to view and listen to our meeting live via the internet. We will broadcast the meeting as a live webcast through our website, [www.oesx.com](http://www.oesx.com), and a replay will be available on our website during the month of August. Despite access to our webcast, if you still desire to attend the meeting in person, you will need to comply with our new admission procedures. All shareholders as of the meeting record date, June 12, 2014, may attend the meeting, but must have an admission badge and photo identification in order to enter. You may request an admission badge by following the procedure described in the accompanying proxy statement.

At the annual meeting, as we describe in the accompanying proxy statement, we will ask you to vote on the following matters:

1. the election of four nominees named in the attached proxy statement as Class I directors to serve terms expiring at the 2017 annual meeting of shareholders and until their successors have been duly elected and qualified;
2. an advisory vote to approve the compensation of our named executive officers as disclosed in the accompanying proxy statement;
3. the ratification of BDO USA, LLP to serve as our independent registered public accounting firm for our fiscal year 2015; and
4. such other business as may properly come before the annual meeting, or any adjournment or postponement thereof.

You are entitled to vote at the annual meeting only if you were a shareholder of record at the close of business on June 12, 2014. A proxy statement and proxy card are enclosed. Whether or not you expect to attend the annual meeting, it is important that you promptly complete, sign, date and mail the proxy card in the enclosed envelope so that you may vote your shares. **If you hold your shares in a brokerage account, you should be aware that, if you do not instruct your broker how to vote, your broker will not be permitted to vote your shares for the election of directors or on the advisory vote to approve the compensation of our named executive officers. Therefore, you must affirmatively take action to vote your shares at our annual meeting. If you do not, your shares will not be voted on these items.**

By order of the Board of Directors:

John H. Scribante

Chief Executive Officer

Manitowoc, Wisconsin

June 24, 2014

**Important Notice Regarding the Availability of Proxy Materials for the Shareholder Meeting To Be Held on August 6, 2014. The Orion Energy Systems, Inc. proxy statement for the 2014 Annual Meeting of Shareholders and the 2014 Annual Report to Shareholders are available at <https://www.proxydocs.com/OESX>.**

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Our Annual Report on Form 10-K is enclosed with this notice and proxy statement.

## PROXY STATEMENT

### FOR THE 2014 ANNUAL MEETING OF SHAREHOLDERS

**To be Held August 6, 2014**

This proxy statement and accompanying form of proxy are being furnished to our shareholders beginning on or about June 24, 2014, in connection with the solicitation of proxies by our board of directors for use at our 2014 Annual Meeting of Shareholders to be held on Wednesday, August 6, 2014, at 1:00 p.m., Central Time, on the 40th Floor of the U.S. Bank Center, located at 777 East Wisconsin Avenue, Milwaukee, Wisconsin 53202, and at any adjournment or postponement thereof (which we refer to collectively as our annual meeting), for the purposes set forth in the attached Notice of 2014 Annual Meeting of Shareholders and as described herein.

This year, we have made access to our meeting easier due to the growing number of our institutional shareholders across the country and the world. So, rather than having to attend our meeting in person, you will be able to view and listen to our meeting live via the internet. We will broadcast the meeting as a live webcast through our website, [www.oesx.com](http://www.oesx.com), and a replay will be available on our website during the month of August. Also, if you desire to ask an appropriate question at the meeting of our board of directors, management or auditors, you may do so by submitting your question in writing by July 31, 2014 to Nancy Brito ([nbrito@oesx.com](mailto:nbrito@oesx.com)). Despite access to our webcast, if you still desire to attend the meeting in person, you will need to comply with our new admission procedures. All shareholders as of the meeting record date, June 12, 2014, may attend the meeting, but must have an admission badge and photo identification in order to enter. You may request an admission badge by sending a request via mail or e-mail using the following contact information:

Orion Energy Systems, Inc.

2210 Woodland Drive

Manitowoc, Wisconsin 54220

Attn: Nancy Brito

[nbrito@oesx.com](mailto:nbrito@oesx.com)

(920) 892-5410

**In order to allow sufficient time for us to mail you an admission badge, your request must be received prior to 5:00 p.m., Central Time, on July 31, 2014. Admission badges will only be distributed via mail and will not be available for pick-up at the annual meeting.**

If you are a shareholder of record (your shares are held in your name) as of the meeting record date, you must write your name on the request exactly as it appears on your stock ownership records from Wells Fargo Shareowner Services. If you are a beneficial shareholder (your shares are held through a broker, bank or nominee) as of the meeting record date, you must provide current evidence of your ownership of shares as of the meeting record date with your admission request, which you can obtain from your broker, bank or nominee. No person will be allowed entry into the meeting if such person is deemed by us, in our discretion, to be a potential disruption to the meeting or a potential danger to the health or safety of other meeting participants.

Execution of a proxy will not affect your right to attend the annual meeting and to vote in person, nor will your presence revoke a previously submitted proxy. You may revoke a previously submitted proxy at any time before it is exercised by giving written notice of your intention to revoke the proxy to our board secretary, by notifying the appropriate personnel at the annual meeting in writing or by voting in person at the

annual meeting.

Unless revoked, the shares represented by proxies received by our board of directors will be voted at the annual meeting in accordance with the instructions thereon. If no instructions are specified on a proxy, the votes represented thereby will be voted: (1) for the board's four director nominees set forth below; (2) for the advisory vote to approve the compensation of our named executive officers as disclosed in the Compensation Discussion and Analysis section and the executive compensation tables set forth below in this proxy statement; (3) for ratification of BDO USA, LLP to serve as our independent registered public accounting firm for our fiscal year 2015; and (4) on such other matters that may properly come before the annual meeting in accordance with the best judgment of the persons named as proxies. Our board of directors has designated John H. Scribante and Scott R. Jensen, and each or any of them, as proxies to vote the shares of common stock solicited on its behalf.

**IMPORTANT: If you hold your shares in a brokerage account, you should be aware that, if you do not instruct your broker how to vote, your broker will not be permitted to vote your shares for the election of directors or on the advisory vote to approve the compensation of our named executive officers. Therefore, you must affirmatively take action to vote your shares at our annual meeting. If you do not, your shares will not be voted on these items.**

The four nominees receiving the highest vote totals of the eligible shares of our common stock, no par value per share ( Common Stock ), will be elected as our Class I directors. With regard to the election of directors, votes may be cast in favor or withheld; votes that are withheld will be excluded entirely from the vote and will have no effect. The advisory vote to approve the compensation of our named executive officers and the appointment of BDO USA, LLP to serve as our independent registered public accounting firm for our fiscal year 2015 will be approved if the votes cast in favor of approval exceed the votes cast against approval. Abstentions will be counted for purposes of determining the presence of a quorum but will be disregarded in the calculation of votes cast.

Only holders of record of shares of our Common Stock as of the close of business on June 12, 2014 (the Record Date ) are entitled to vote at the annual meeting. As of the Record Date, we had 21,737,725 shares of Common Stock outstanding and entitled to vote. The record holder of each share of Common Stock outstanding on the Record Date is entitled to one vote per share on each matter submitted for shareholder consideration at the annual meeting. In order for us to validly transact business at the annual meeting, we must have a quorum present. A majority of the votes of the shares of Common Stock entitled to be cast, or shares representing at least 10,868,863 votes, will represent a quorum for the purposes of the annual meeting.

**WE INTEND TO BEGIN MAILING THIS PROXY STATEMENT ON OR ABOUT JUNE 24, 2014.**



**PROPOSAL ONE:**

**ELECTION OF DIRECTORS**

We maintain a staggered board of directors divided into three classes. Currently, there are three directors in each of Classes II and III and four directors in Class I. Each director generally serves for a term ending on the date of the third annual shareholders' meeting following the annual shareholders' meeting at which such director's class was most recently elected and until his or her successor is duly elected and qualified.

At the annual meeting, the terms of all four of our current Class I directors will expire. At the annual meeting, our shareholders will elect four Class I directors to serve until our 2017 annual meeting of shareholders and until their successors are duly elected and qualified.

The board's nominees for election as directors at the 2014 annual meeting are John H. Scribante, Michael J. Potts, Kenneth L. Goodson, Jr. and Elizabeth Gamsky Rich, each of whom is currently serving as a director of our company. Information about each of these directors is set forth below.

The individuals named as proxy voters in the accompanying proxy, or their substitutes, will vote for the board's nominees with respect to all proxies we receive unless instructions to the contrary are provided. If any nominee becomes unavailable for any reason, the votes will be cast for a substitute nominee designated by our board. Our directors have no reason to believe that any of the nominees named below will be unable to serve if elected.

The following sets forth certain information, as of June 24, 2014, about each of the board's nominees for election at the annual meeting and each director of our company whose term will continue after our annual meeting.

**Nominees For Election at the Annual Meeting**

***Class I Directors Terms Expiring 2017***

*John H. Scribante, 49*, was appointed as our chief executive officer and a director in September 2012. Prior to his appointment as chief executive officer, Mr. Scribante served as the president of Orion Engineered Systems Division since August 2009, after serving as our senior vice president of business development since 2007. Mr. Scribante served as our vice president of sales from 2004 until 2007. Prior to joining our company, Mr. Scribante co-founded and served as chief executive officer of Xe Energy, LLC, a distribution company that specialized in marketing energy reduction technologies, from 2003 to 2004. From 1996 to 2003, he co-founded and served as president of Innovize, LLC, a company that provided outsourcing services to mid-market manufacturing companies. Mr. Scribante's experience working with our company since 2004 as well as his prior experience in high level management positions qualify him for service as a director of our company.

*Michael J. Potts, 50*, became our president and chief operating officer in July 2010. Prior to becoming our president and chief operating officer, Mr. Potts served as our executive vice president since 2003 and has served as a director since 2001. On May 1, 2014, Mr. Potts and the company mutually agreed that he would take a paid medical leave of absence. Mr. Potts joined our company as our vice president - technical services in 2001. Prior to joining our company, Mr. Potts founded Energy Executives Inc., a consulting firm that assisted large energy-consuming clients on energy issues. From 1988 through 2001, Mr. Potts was employed by Kohler Co., one of the world's largest manufacturers of plumbing products. From 1990 through 1999 he held the position of supervising engineer - energy in Kohler's energy and utilities department. In 2000, Mr. Potts assumed the position of supervisor - energy management group of Kohler's entire corporate energy portfolio, as well as the position of general manager of its natural gas subsidiary. Mr. Potts is licensed as a professional engineer in Wisconsin. We believe that Mr. Potts' experiences as our executive vice president and in leadership roles in the energy industry and his public affairs experience and engineering background qualify him for service as a director of our company.

*Kenneth L. Goodson, Jr., 61*, was appointed to our board of directors in May 2013. Since 1997, Mr. Goodson was employed by Herman Miller Inc., serving as the executive vice president of worldwide operations from 2001 until his retirement on August 1, 2013. Following his retirement, Mr. Goodson has served

as a consultant to Herman Miller Inc. with responsibility for training and developing new operations executives. Mr. Goodson was elected to the Fender Musical Instruments Corporation board of directors in 2006 and has served on the audit committee and personnel committee and is currently the chair of the personnel committee. Mr. Goodson graduated in 1975 from The Pennsylvania State University with a Bachelor of Science in Administrative Management. We believe that Mr. Goodson's background in management positions qualify him for service as a director of our company.

*Elizabeth Gamsky Rich*, 55, was appointed to our board of directors in June 2010. Since 1985, Ms. Rich has been in private practice as an attorney with her practice concentrated in business law, environmental law, energy law, land use law, real estate law, and litigation. Ms. Rich has served as a member of the board of directors for Outpost Natural Foods, Gateway 2 Center Inc., the Wisconsin State Bar Board of Governors and the Plymouth Arts Foundation, and she currently serves on the board of directors for the Farm-to-Consumer Legal Defense Foundation. We believe that Ms. Rich's background in advising companies in the energy and environmental sectors and her experience as a director for various entities qualify her for service as a director of our company.

**RECOMMENDATION OF THE BOARD: The board of directors recommends a vote for each of the above director nominees.**

#### **Directors Continuing in Office**

##### ***Class II Directors Terms Expiring 2015***

*Mark C. Williamson*, 60, has served as a director since April 2009 and was our lead independent director from October 2009 through May 2013. Mr. Williamson has been a partner of Putnam Roby Williamson Communications of Madison, Wis., a strategic communications firm specializing in energy utility matters, since 2008. He has more than 20 years of executive-level utility experience. Prior to joining Putnam Roby Williamson Communications, Mr. Williamson was vice president of major projects for American Transmission Company from 2002 to 2008, served as executive vice president and chief strategic officer with Madison Gas and Electric Company from 1986 to 2002 and, prior to 1986, was a trial attorney with the Madison firm Geisler and Kay S.C. We believe that Mr. Williamson's background in the energy utility industry and in management positions qualify him for service as a director of our company.

*Michael W. Altschaeffl*, 55, has served as a director since October 2009. Mr. Altschaeffl currently serves as the president of Still Water Partners, Inc., a private investment firm. In addition, Mr. Altschaeffl has served as the Chairman of E-S Plastic Products, LLC, a custom manufacturer of plastic injection parts, since November 2013. Previously, Mr. Altschaeffl served as the vice president strategy and business development of Shiloh Industries, Inc., a public company and leading independent manufacturer of advanced metal product solutions for high volume applications in the North American automotive, heavy truck, trailer and consumer markets from January 2013 until October 2013. Mr. Altschaeffl was an owner and chief executive officer of Albany-Chicago Company LLC, a custom die cast and machined components company when Shiloh Industries purchased the company in December of 2012. Mr. Altschaeffl is a certified public accountant. Prior to acquiring Albany-Chicago Company LLC in 2008, Mr. Altschaeffl worked for twenty-seven years with two international independent registered public accounting firms, including sixteen years as a partner. We believe that Mr. Altschaeffl's experience in leadership positions at manufacturing companies and his background as an accountant qualify him for service as a director of our company.

*Tryg C. Jacobson*, 58, was appointed to our board of directors in May 2011. Since 2010, Mr. Jacobson has been the founder and president of Jake's Café LLC, a collaborative community for creative professionals. Prior to founding Jake's Café LLC, Mr. Jacobson was the owner and chairman of Jacobson Rost, a Wisconsin-based marketing communications firm specializing in corporate branding, from 1981 to 2010. Before joining Jacobson Rost, Mr. Jacobson ran Ice Nine Corporation, a Minneapolis textile printing firm he founded in 1978. In addition to his business responsibilities, Mr. Jacobson served until 2010 on the Kohler Foundation's board of directors. He has also been a brand specialist/speaker for The Executive Committee since 1995, focusing on teaching his brand methodology to businesses in the United States and Canada. Mr. Jacobson also serves as a director of board of Sailing Education Association of Sheboygan (SEAS) and Surgical Site Solutions. Mr. Jacobson has also served as a director of US Sailing Center Sheboygan since 2009. We believe that Mr. Jacobson's experiences in leadership positions at companies in the corporate communications and branding industry qualify him for service as a director of our company.

*Class III Directors Terms Expiring 2016*

*James R. Kackley, 72*, has been a director since 2005 and the non-executive chairman of our board since August 25, 2010, and served as our president and chief operating officer from July 2009 until May 2010. Mr. Kackley practiced as a public accountant for Arthur Andersen, LLP from 1963 to 1999. From 1974 to 1999, he was an audit partner for the firm. In addition, in 1998 and 1999, he served as chief financial officer for Andersen Worldwide. From June 1999 to May 2002, Mr. Kackley served as an adjunct professor at the Kellstadt School of Management at DePaul University. Mr. Kackley serves as a director and a member of the executive committee and the audit committee of Herman Miller, Inc. From 2004 until 2010, Mr. Kackley served as a director and member of the management resources and compensation committee and audit committee of PepsiAmericas, Inc. prior to its sale, and from February 2007 to October 2007 he also served as a director and a member of the nominating and governance committee and the audit committee of Ryerson, Inc. prior to its sale. In December 2010, Mr. Kackley was elected to the board of directors of Perficient, Inc., a publicly-traded information technology consulting firm, where he serves as non-executive chairman of the board, as a member of the audit committee and the nominating and governance committee and as chairman of the compensation committee. We believe that Mr. Kackley's background as an accountant and chief financial officer, his public company board of directors service, his role as our president and chief operating officer and his experience in leadership positions in business qualify him for service as a director of our company.

*James D. Leslie, 53*, was appointed to our board of directors in May 2013. Mr. Leslie currently serves as the vice chair of the Blake School and the chair of JD Leslie Family Foundation. Between October 3, 2011 and June 30, 2013, Mr. Leslie was employed by Datalink Corporation, a national data center solutions company, serving as its executive vice president of advisory services from October 1, 2012 to June 30, 2013 and as executive vice president of strategy and business development from October 3, 2011 to September 30, 2012. Prior to joining Datalink Corporation, Mr. Leslie served as chairman and chief executive officer of Midwave, an information technology services company founded by Mr. Leslie. Mr. Leslie graduated from the University of California, Berkeley. We believe that Mr. Leslie's prior experience as a chief executive officer and in senior management positions qualify him for service as a director of our company.

*Thomas N. Schueller, 71*, was appointed to our board of directors in April 2010 and elected by shareholders at our 2010 annual meeting. From 2007 until his retirement in 2009, Mr. Schueller was chief credit officer and managing director of Lake Shore Wisconsin Corporation, a commercial banking enterprise headquartered in Sheboygan, Wisconsin. Prior to his position at Lake Shore Wisconsin Corporation, Mr. Schueller served as president and senior loan review officer of Community Bank and Trust of Sheboygan, a commercial bank headquartered in Sheboygan, Wisconsin, from 1990 to 2007. From 1970 to 1989, Mr. Schueller served in a variety of positions, including senior vice president and regional senior lender, for Citizens Bank and Trust in Sheboygan. We believe that Mr. Schueller's career in the commercial finance industry and his experience in helping to finance many growth companies qualify him for service as a director of our company.

We strongly encourage our directors to attend our annual meeting. All of our then-serving directors attended our 2013 annual meeting.

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## CORPORATE GOVERNANCE

### Board of Directors General

Our board of directors met five times during fiscal 2014. All of our directors attended at least seventy-five percent of the aggregate of (a) the total number of meetings of the board held during the fiscal year while they were a director and (b) the total number of meetings held by all committees of the board on which they served during the fiscal year while they were serving on the committees.

Our board has determined that each of Ms. Rich and Messrs. Altschaeffl, Goodson, Jacobson, Kackley, Leslie, Schueller and Williamson is independent under listing standards of the NYSE MKT. Our board generally uses the director independence standards set forth by the NYSE MKT as its subjective independence criteria for directors, and then makes an affirmative determination as to each director's independence by taking into account other, objective criteria as applicable.

### Board Committees

Our board of directors has established an audit and finance committee, a compensation committee and a nominating and corporate governance committee, and has adopted charters for each committee describing their respective responsibilities. The charters are available on our website at [www.oesx.com](http://www.oesx.com).

Our audit and finance committee is currently comprised of Messrs. Altschaeffl, Kackley, Goodson, Schueller and Williamson, with Mr. Altschaeffl acting as the chair. Each member of the audit and finance committee is an audit committee financial expert, as defined under rules of the Securities and Exchange Commission (the "SEC") implementing Section 407 of the Sarbanes-Oxley Act of 2002 (the "Sarbanes-Oxley Act"). The principal responsibilities and functions of our audit and finance committee are to (i) oversee the reliability of our financial reporting, the effectiveness of our internal control over financial reporting, and the independence of our internal and external auditors and audit functions and (ii) oversee the capital structure of our company and assist our board of directors in assuring that appropriate capital is available for operations and strategic initiatives. In carrying out its accounting and financial reporting oversight responsibilities and functions, our audit and finance committee, among other things, oversees and interacts with our independent auditors regarding the auditors' engagement and/or dismissal, duties, compensation, qualifications and performance; reviews and discusses with our independent auditors the scope of audits and our accounting principles, policies and practices; reviews and discusses our audited annual financial statements with our independent auditors and management; and reviews and approves or ratifies (if appropriate) related party transactions. Our audit and finance committee also is directly responsible for the appointment, compensation, retention and oversight of our independent auditors. Our audit and finance committee met eight times in fiscal 2014. Each member of our audit and finance committee meets the requirements for independence under the current rules of the NYSE MKT and the SEC.

Our compensation committee is currently comprised of Ms. Rich and Messrs. Jacobson, Kackley, Leslie and Williamson, with Mr. Williamson acting as the chair. The principal functions of our compensation committee include (i) administering our incentive compensation plans; (ii) establishing performance criteria for, and evaluating the performance of, our executive officers; (iii) annually setting salary and other compensation for our executive officers; (iv) overseeing the company's response to the outcome of the advisory vote on executive compensation; and (v) annually reviewing the compensation paid to our non-employee directors. Our compensation committee met five times in fiscal 2014. Each member of our compensation committee meets the requirements for independence under the current NYSE MKT and SEC rules. During fiscal 2013, our compensation committee engaged Towers Watson, a compensation consultant, to provide it with Towers Watson's market assessment, with a focus on competitiveness, of the total compensation of the company's executive officers to assist the committee in determining fiscal 2013 compensation. Towers Watson provided no other services to us during fiscal 2013 and the aggregate fees for the engagement did not exceed \$120,000 during fiscal 2013. The compensation committee did not use the services of a compensation consultant in fiscal 2014.

Our nominating and corporate governance committee is comprised of Ms. Rich and Messrs. Altschaeffl, Kackley and Schueller, with Mr. Schueller acting as the chair. The principal functions of our nominating and corporate governance committee are, among other things, to (i) establish and communicate to shareholders a

method of recommending potential director nominees for the committee's consideration; (ii) develop criteria for selection of director nominees; (iii) identify and recommend persons to be selected by our board of directors as nominees for election as directors; (iv) plan for continuity on our board of directors; (v) recommend action to our board of directors upon any vacancies on the board; and (vi) consider and recommend to our board other actions relating to our board of directors, its members and its committees. Our nominating and corporate governance committee met four times in fiscal 2014. Each member of our nominating and corporate governance committee meets the requirements for independence under the current NYSE MKT and SEC rules.

### **Board Leadership Structure and Role in Risk Oversight**

Our board of directors does not have a policy on whether or not the roles of chief executive officer and chairman should be separate. Our board reserves the right to assign the responsibilities of the chief executive officer and chairman in different individuals or in the same individual if, in the board's judgment, a combined chief executive officer and chairman position is determined to be in the best interest of our company. In the circumstance where the responsibilities of the chief executive officer and chairman are vested in the same individual or in other circumstances when deemed appropriate, the board will designate a lead independent director from among the independent directors to preside at the meetings of the non-employee director executive sessions.

The positions of chief executive officer and chairman have been separate since August 25, 2010, when our board elected Mr. Kackley as the non-executive chairman of the board. Our board retains the authority to modify this structure to best address our company's unique circumstances as and when appropriate.

Our full board is responsible for the oversight of our operational risk management process. Our board has assigned responsibility for addressing certain risks, and the steps management has taken to monitor, control and report such risk, to our audit and finance committee, including risks relating to execution of our growth strategy, acquiring companies or businesses, the effects of the recessionary global economy on customer purchases, communications with the investment community regarding the impact of various activities on profitability, component inventory supply, our ability to expand our partner network, communication with investors, certain actions of our competitors, the protection of our intellectual property, sufficiency of our capital, wireless inventory investment and risk of obsolescence, security of information systems and data, implementation of new information systems, credit risk, product liability, costs of reliance on external advisors and addition of new renewable energy technologies, with appropriate reporting of these risks made periodically to the full board. Our board relies on our compensation committee to address significant risk exposures facing our company with respect to compensation. As described herein under the heading "Risk Assessment of our Compensation Policies and Practices," each year, our compensation committee conducts a review of our compensation policies and practices to assess whether any risks arising from such policies and practices are reasonably likely to materially adversely affect our company. Our board's role in the oversight of our risk management has not affected our board's determination that separate chief executive officer and chairman positions constitute the most appropriate leadership structure for our company at this time. Our audit and finance committee and our full board review and comment on the draft risk factors for disclosure in our annual and quarterly reports and use the receipt of such draft risk factors to initiate discussions with appropriate members of our senior management if such risk factors raise questions or concerns about the status of operational risks then facing our company.

### **Nominating and Corporate Governance Committee Procedures**

Our nominating and corporate governance committee will consider shareholder recommendations for potential director nominees, which should be sent to the Nominating and Corporate Governance Committee, c/o board secretary, Orion Energy Systems, Inc., 2210 Woodland Drive, Manitowoc, Wisconsin 54220. The time by which such recommendations must be received in order to be timely is set forth below under "Shareholder Proposals." The information to be included with recommendations is set forth in our Amended and Restated Bylaws, and factors that our nominating and corporate governance committee will consider in selecting director nominees are set forth in our Corporate Governance Guidelines. Our Corporate Governance Guidelines are available on our website at [www.oesx.com](http://www.oesx.com). Our nominating and corporate governance committee evaluates all potential nominees in the same manner, and may consider, among other things, a candidate's strength of character, mature judgment, career specialization, relevant technical skills or financial acumen, industry knowledge and experience and geographic, gender, age, and ethnic

diversity. Our nominating and corporate governance committee believes that directors should display the highest personal and professional ethics, integrity and values and sound business judgment. The committee also believes that, while diversity and variety of experiences and viewpoints represented on our board should always be considered, a director nominee should not be chosen nor excluded solely or largely because of geographic, gender, age or ethnic diversity. Our nominating and corporate governance committee evaluates each incumbent director to determine whether he or she should be nominated to stand for re-election, based on the types of criteria outlined above as well as the director's contributions to the board during their current term. As part of its periodic self-assessment, our nominating and corporate governance committee assesses the effectiveness of its director selection policy described in this paragraph, including its provisions relating to the consideration of diversity.

### 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.oesx.com](http://www.oesx.com). Any 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.

### EXECUTIVE OFFICERS

The following table sets forth information as of June 24, 2014 regarding our current executive officers:

Name	Age	Position
John H. Scribante	48	Chief Executive Officer
Scott R. Jensen	47	Chief Financial Officer, Chief Accounting Officer and Treasurer
Michael J. Potts	50	President and Chief Operating Officer
Marc Meade	29	Executive Vice President

The following biographies describe the business experience of our executive officers. (For biographies of Messrs. Scribante and Potts, see Proposal One: Election of Directors above.)

*Scott R. Jensen* has been our chief financial officer since June 3, 2011, our chief accounting officer since October 31, 2011 and our treasurer since July 2008. He also served as our chief accounting officer from April 2011 until June 3, 2011, as our chief financial officer from July 2008 until April 2011, as our controller and vice president of corporate finance from 2007 until 2008 and as our director of finance from 2004 to 2007. From 2002 to 2004, Mr. Jensen was the manager of financial planning and analysis at the Mirro Co. (a division of Newell Rubbermaid). Mr. Jensen is a certified public accountant.

*Marc Meade* was promoted to the position of executive vice president on January 1, 2014. Mr. Meade had previously served as our senior vice president of finance and operations since November 2012, as vice president of finance and operations of Orion Asset Management and director of finance from February 2012 until November 2012, as finance and taxation manager from 2010 until February 2012 and as director of business development from 2009 to 2010. Prior to joining us in May 2009, Mr. Meade was staff assistant at Schenck SC in the government and not-for-profit solutions division from January 2009 until May 2009. Mr. Meade graduated from Lakeland College in May 2009 with a Bachelor of Arts in accounting with an emphasis in taxation and minor in economics.

## EXECUTIVE COMPENSATION

### Compensation Discussion and Analysis

This compensation discussion and analysis describes the material elements of compensation awarded to, earned by, or paid to each of our named executive officers, whom we refer to as our NEOs, during fiscal 2014 and describes our policies and decisions made with respect to the information contained in the following tables, related footnotes and narrative for fiscal 2014. The NEOs are identified below in the table titled Summary Compensation Table for Fiscal 2014. In this compensation discussion and analysis, we also describe various actions regarding NEO compensation taken before or after fiscal 2014 when we believe it enhances the understanding of our executive compensation program.

#### Overview of Our Executive Compensation Philosophy and Design

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

to motivate our executive officers to achieve strong financial performance, particularly increased revenue, profitability, free cash flow, cost containment and shareholder value;

to attract and retain executive officers who we believe have the experience, temperament, talents and convictions to contribute significantly to our future success; and

to align the economic interests of our executive officers with the interests of our shareholders.

In light of these objectives, we have sought to reward our NEOs for achieving financial performance goals, creating value for our shareholders, and for loyalty and dedication to our company. We continue to implement a corporate culture that focuses on profit before tax, along with revenue growth, and our fiscal 2014 and 2015 compensation programs were designed to incentivize and reward short-term and long-term decisions that benefit earnings and increase shareholder value.

In early fiscal 2014, our management team recommended, and our compensation committee approved, the following attributes for our fiscal 2014 executive compensation program:

Maintained the base salaries of our NEOs that were in effect at the end of fiscal 2013;

Implemented a fiscal 2014 annual cash bonus program that focused on profitability, as well as increased revenue, in order to incentivize decisions that benefited earnings and increased shareholder value. The 2014 annual cash bonus plan provided that no bonuses would be paid unless the company achieved at least (i) \$2.0 million of profit before taxes and (ii) revenue of at least \$88.0 million; and

Granted long-term equity incentive awards in the form of three-year pro rata vesting restricted stock grants in order to reward our NEOs for increasing shareholder value and to motivate and retain our NEOs while aligning their economic interests with our shareholders through long-term equity ownership.

In late fiscal 2014, our management team recommended, and our compensation committee approved, the following attributes for our fiscal 2015 executive compensation program:

Awarded our NEOs with increases to their base salaries (other than Marc Meade, whose salary was not further increased in fiscal 2015 because it was previously increased in connection with his promotion to executive vice president on January 1, 2014) following a freeze on executive salaries in fiscal 2014;

Implemented a fiscal 2015 annual cash bonus program that focuses on profitability, as well as increased revenue, in order to incentivize decisions that benefit earnings and increase shareholder value. The fiscal 2015 annual cash bonus plan provides that no bonuses will be paid to our NEOs unless the company achieves at least (i) \$2.3 million of profit before taxes and (ii) revenue of at least \$90.4 million; and



Granted long-term incentive awards in the form of (i) three-year pro rata vesting restricted stock grants (representing 60% of the total long-term incentive award) in order to reward our NEOs for increasing shareholder value and to motivate and retain our NEOs while aligning their economic interests with our shareholders through long-term equity ownership and (ii) cash awards (representing 40% of the total long-term incentive award) payable in one-third increments upon the annual vesting of the tandem restricted stock awards in order to provide liquidity for the tax liabilities incurred by our NEOs upon the vesting of their restricted stock awards.

Our compensation committee has reserved the right and discretion to make exceptions to our executive compensation programs, including as any such exception may apply to the determination of any and/or all of the relative base salaries, cash bonuses, long-term incentive compensation and/or total direct compensation of our executives, for outstanding contributions to the overall success of our company and the creation of shareholder value, as well as in cases where it may be necessary or advisable to attract and/or retain executives who our compensation committee believes are or will be key contributors to creating and sustaining shareholder value, as determined by our compensation committee based on the recommendations of our chief executive officer (in all cases other than our chief executive officer's own compensation). Our compensation committee also has the discretion to adjust the achievement of the financial metrics under our annual cash bonus programs for unusual and nonrecurring factors and events, such as acquisitions and other unusual events, costs and expenses.

### *Setting Executive Compensation*

Our board of directors, our compensation committee and our chief executive officer each play a role in setting the compensation of our NEOs. Our board of directors appoints the members of our compensation committee and delegates to the compensation committee the direct responsibility for overseeing the design and administration of our executive compensation program. Our compensation committee consists of Ms. Rich and Messrs. Jacobson Kackley, Leslie and Williamson (Chair). Each member of our compensation committee is an outside director for purposes of Section 162(m) of the Internal Revenue Code of 1986, as amended, which we refer to as the Code, and a non-employee director for purposes of Rule 16b-3 under the Securities Exchange Act of 1934 (the Exchange Act).

Our compensation committee has primary responsibility for, among other things, determining our compensation philosophy, evaluating the performance of our executive officers, setting the compensation and other benefits of our executive officers, overseeing the company's response to the outcome of the advisory votes of shareholders on executive compensation, assessing the relative enterprise risk of our compensation program and administering our incentive compensation plans. Our chief executive officer makes recommendations to our compensation committee regarding the compensation of other executive officers and attends meetings of our compensation committee at which our compensation committee considers the compensation of other executives. Our compensation committee considers these recommendations, but has the final discretionary responsibility for determining the compensation of all of our executive officers.

The compensation committee considered the results from the shareholder advisory vote on executive compensation at our 2013 annual meeting of shareholders as support for the company's compensation policies and practices. At our 2013 annual meeting of shareholders, more than 94% of the votes cast on the shareholder advisory vote on executive compensation were in favor of our executive compensation. Our board of directors and our compensation committee value the opinions of our shareholders and are committed to ongoing engagement with our shareholders on executive compensation practices. Our board of directors has determined that our shareholders should vote on a say-on-pay proposal each year in accordance with the preference expressed by shareholders on the say-when-on-pay proposal at our 2011 annual meeting of shareholders.

Under our fiscal 2014 cash bonus program, no bonuses were to be paid unless the company achieved at least (i) \$2.0 million of profit before taxes and (ii) revenue of at least \$88.0 million. In fiscal 2014, the company exceeded the revenue target with \$88.6 million of revenue; however, the company reported \$8.3 million of loss before tax. Accordingly, our NEOs did not earn bonuses for fiscal 2014 despite the company's accomplishments over the past year that should strengthen the foundation and future prospects of the company, including:

Generating significant cash;

Acquiring and successfully integrating the acquisition of Harris Manufacturing and Harris LED;

Implementing a cost-cutting program that has, and should continue to have, a positive effect on our costs and profitability;

Instituting an organizational development plan with an emphasis on talent development and succession planning to ensure that our team members are prepared to support our growth objectives;

Streamlining our product development process and introducing new LED products to the market; and

Reorganizing our sales force to better meet the needs of customers.

Following a freeze on the compensation of our NEOs in fiscal 2014 and the fact that no bonuses were earned under our fiscal 2014 cash bonus plan, our management recommended, and our compensation committee approved, salary increases to our NEOs for fiscal 2015 (other than Mr. Meade, whose salary was increased in connection with his promotion to executive vice president). In addition, our management proposed, and our compensation committee approved, an incentive compensation program consisting of (i) an annual incentive cash bonus opportunity and (ii) long-term incentive compensation consisting of awards of three-year pro rata vesting restricted stock grants and cash awards payable in one-third increments upon the annual vesting of tandem restricted stock awards in order to provide liquidity for the tax liabilities incurred by our NEOs upon the vesting of the restricted stock awards. In setting compensation for fiscal year 2015, our compensation committee considered the prior compensation programs for the NEOs of PowerSecure International, Inc. and EnerNOC, Inc., two similar profitable growth companies operating in the alternative energy sector.

Previously, during fiscal 2013, our compensation committee engaged Towers Watson, a compensation consultant, to provide it with Towers Watson's market assessment, with a focus on competitiveness, of the total compensation of the company's executive officers to assist the committee in determining fiscal 2013 compensation. Towers Watson provided no other services to us during fiscal 2013. In light of the analysis provided by Towers Watson in setting executive compensation for fiscal 2013, our compensation committee did not engage the services of a compensation consultant to determine executive compensation for fiscal 2014 or 2015. In general, the compensation committee has determined to engage an independent compensation consultant every several years, unless factors or circumstances change significantly.

To assure independence, the compensation committee pre-approves all other work unrelated to executive compensation proposed to be provided by a compensation consultant, if any. The compensation committee also considers all factors relevant to the consultant's independence from management, including but not limited to the following factors:

The provision of other services that the consultant provides to us;

The amount of fees received from us as a percentage of the consultant's total revenue;

The consultant's policies and procedures designed to prevent conflicts of interest;

Business or personal relationships of the consultant with our compensation committee members;

The amount of our stock owned by the consultant; and

Business or personal relationships of the consultant with our executive officers.

The compensation committee also assessed the independence of the company's outside legal counsel, with whom the committee consults from time to time, using the factors set forth above and determined that the outside legal counsel was independent and that there were no conflicts of interest with respect to its work for the committee.

*Elements of Executive Compensation*

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

Base salary;

Short-term incentive compensation;

Long-term incentive compensation; and

Retirement and other benefits.

*Base Salary*

We pay our NEOs a base salary to compensate them for services rendered and to provide them with a steady source of income for living expenses throughout the year.

In early fiscal 2014, management recommended, and our compensation committee approved, maintaining the salaries of our NEOs in effect at the end of fiscal 2013. At such time, both management and the compensation committee believed that the compensation freeze was appropriate as the company continued to execute against its new strategic initiatives following the transition of the chief executive officer position to Mr. Scribante. When the compensation committee set the base salaries of our NEOs for fiscal 2013, the committee relied on the data provided by Towers Watson and set base salaries, with respect to Messrs. Potts and Jensen, between the 25<sup>th</sup> and 50<sup>th</sup> percentile of the Towers Watson survey for similarly situated executives. When setting Mr. Scribante's base salary in connection with his appointment to the position of chief executive officer, the compensation committee considered the prior salary levels of our former chief executive officer.

On January 1, 2014, Marc Meade was promoted to the position of executive vice president. The compensation committee approved, based on discussions with our chief executive officer, providing Mr. Meade with an annual base salary of \$210,000. In setting Mr. Meade's base salary, the compensation committee and our chief executive officer considered the prior salary of Mr. Meade and the increased responsibilities that Mr. Meade was assuming in connection with his promotion to executive vice president.

In late fiscal 2014, management recommended, and our compensation committee approved, increases to the salaries of our NEOs (other than Mr. Meade) in effect at the end of fiscal 2014 following the freeze on executive salaries in fiscal 2014. In approving the increases to the salaries of our NEOs, the compensation committee considered the prior freeze on salaries, the fact that no bonuses were earned under our fiscal 2014 cash bonus program despite the company's accomplishments over the past year that should strengthen the foundation and future prospects of the company, which are described above, as well as the significant increase to the company's stock price during fiscal 2014. Mr. Meade's salary was not increased due to the increase in salary he received in connection with his promotion to executive vice president in January 2014.

The fiscal 2015 base salaries for our NEOs, as well as the percentage increase from the fiscal 2014 base salaries, are as follows:

<b>Name and Current Position</b>	<b>Fiscal 2015 Base Salary</b>	<b>Percentage Increase Over Fiscal 2014 Base Salary</b>
John H. Scribante Chief Executive Officer	\$ 545,000	18%
Michael J. Potts President and Chief Operating Officer	\$ 315,000	11%
Scott R. Jensen Chief Financial Officer,	\$ 285,000	12%
Chief Accounting Officer and Treasurer		
Marc Meade Executive Vice President	\$ 210,000	N/A

*Incentive Compensation Fiscal 2014*

For fiscal 2014, our management proposed, and our compensation committee approved, an incentive compensation program consisting of (i) an annual incentive cash bonus opportunity and (ii) long-term equity incentive compensation consisting of awards of three-year pro rata vesting restricted stock grants. The annual incentive cash bonus opportunity and the long-term equity incentive compensation for fiscal 2014 are discussed in detail below.

*Annual Incentive Cash Bonus Opportunity*

Under our fiscal 2014 cash bonus program, no bonuses would be paid unless the company achieved at least (i) \$2.0 million of profit before taxes and (ii) revenue of at least \$88.0 million. Our compensation committee continues to believe that our fiscal 2014 cash bonus program, as well as our fiscal 2015 cash bonus program described below, with an emphasis on profitability and revenue growth, incentivizes our executives to create value for our shareholders and, by using thresholds of both revenue and profitability, encourages our NEOs to enhance the enterprise value of our company for the benefit of all shareholders.

Under the program, for every \$1.00 of profit before taxes and bonus expenses earned over the \$2.0 million threshold up to a maximum of \$5.0 million, a bonus pool of \$0.29 would have been earned.

For fiscal 2014, our compensation committee established a target maximum bonus for each of our NEOs as follows:

Name	Target Maximum Bonus
John Scribante Chief Executive Officer	\$ 460,000
Mike Potts President and Chief Operating Officer	\$ 142,500
Scott Jensen Chief Financial Officer, Chief Accounting Officer and Treasurer	\$ 89,250
Marc Meade Executive Vice President	\$ 73,500

In fiscal 2014, the company exceeded the revenue target with \$88.6 million of revenue; however, the company reported \$8.3 million of loss before tax. Accordingly, our NEOs did not earn bonuses for fiscal 2014 despite the company's accomplishments over the past year that should strengthen the foundation and future prospects of the company, which are described above, as well as the significant increase to the company's stock price during fiscal 2014.

*Long-Term Equity Incentive Compensation*

In fiscal year 2014, we also provided the opportunity for our NEOs to earn long-term equity incentive awards under our 2004 Stock and Incentive Awards Plan. Our employees, officers, directors and consultants are eligible to participate in this plan. Our compensation committee believed that long-term equity incentive awards enhance the alignment of the economic interests of our NEOs and the economic interests of our shareholders and provided our NEOs with incentives to remain in our employment.

For fiscal 2014, our management proposed, and our compensation committee approved awards of three-year pro rata vesting restricted stock grants. Our compensation committee granted awards of restricted stock because it believed granting restricted stock rewards our NEOs for increasing shareholder value and to motivate and retain our NEOs while aligning their economic interests with our shareholders through long-term equity ownership.

In fiscal year 2014, our compensation committee awarded our NEOs with restricted stock awards valued at \$230,000 for Mr. Scribante, \$71,250 for Mr. Potts and \$44,625 for Mr. Jensen (with the dollar values converted into a specific number of shares based on the closing price of our Common Stock on the NYSE MKT). The restricted stock awards resulted in a grant of the following number of shares to our NEOs on May 28, 2013:

Name and Current Position	Restricted Stock (#)
John H. Scribante Chief Executive Officer	95,833
Michael J. Potts President and Chief Operating Officer	29,688
Scott R. Jensen Chief Financial Officer, Chief Accounting Officer and Treasurer	18,594



In connection with his promotion to executive vice president, on January 1, 2014, Mr. Meade received an award of 25,000 shares of restricted stock that vest 20% annually over a term of five years.

*Incentive Compensation Fiscal 2015*

For fiscal 2015, our management proposed, and our compensation committee approved, an incentive compensation program consisting of (i) an annual incentive cash bonus opportunity and (ii) long-term incentive compensation consisting of awards of three-year pro rata vesting restricted stock grants (representing 60% of the total long-term incentive award) and cash awards payable in one-third increments upon the annual vesting of the tandem restricted stock awards (representing 40% of the total long-term incentive award) in order to provide liquidity for the tax liabilities incurred by our NEOs upon the vesting of the restricted stock awards. The annual incentive cash bonus opportunity and the long-term incentive compensation for fiscal 2015 are discussed in detail below.

*Annual Incentive Cash Bonus Opportunity*

Under the fiscal 2015 cash bonus program for NEOs, no bonuses will be paid unless the company achieves (i) \$2.3 million of profit before taxes and (ii) revenue of at least \$90.4 million. Under the fiscal 2015 bonus program, for every \$1.00 of profit before taxes and bonus expenses earned over the \$2.3 million threshold up to a maximum of \$5.0 million, a bonus pool of \$0.38 will be earned, up to a maximum total bonus pool of \$1,026,000 for all participating executives.

The financial targets described above are not a prediction of how we will perform during fiscal year 2015. The purpose of the targets is to provide appropriate financial metrics to determine amounts of compensation under our incentive compensation program. The targets are not intended to serve, and should not be relied upon, as guidance or any other indication of our expected future performance.

Our compensation committee has the discretion to adjust the achievement of the financial metrics under the fiscal 2015 annual cash bonus program for unusual and nonrecurring factors and events, such as acquisitions and other unusual events, costs and expenses.

The compensation committee established a target maximum bonus for each of our NEOs as follows:

<b>Name</b>	<b>Target Maximum Bonus</b>	<b>Percentage of Base Salary</b>
John Scribante Chief Executive Officer	\$ 545,000	100%
Mike Potts President and Chief Operating Officer	\$ 157,500	50%
Scott Jensen Chief Financial Officer, Chief Accounting Officer and Treasurer	\$ 99,750	35%
March Meade Executive Vice President	\$ 73,500	35%

*Long-Term Incentive Compensation*

Our compensation committee granted our NEOs awards of three-year pro rata vesting restricted stock because it believes granting restricted stock rewards our NEOs for increasing shareholder value and also helps to motivate and retain our NEOs while aligning their economic interests with our shareholders through long-term equity ownership. In addition, our management proposed, and our compensation committee approved cash awards payable in one-third increments upon the annual vesting of the tandem restricted stock awards in order to provide liquidity for the tax liabilities incurred by our NEOs upon the vesting of the restricted stock awards. In general, the value of restricted stock awards must be reported by the recipient as ordinary income in the year that the award vests, even if the NEO does not sell the shares. Accordingly, our compensation committee approved

cash awards payable in one-third increments upon the annual vesting of tandem restricted stock awards in order to provide funds to be used by the NEOs to pay income taxes associated with the restricted stock awards to avoid having our NEOs sell or pledge shares to pay the associated tax liability. The compensation committee approved contingent cash awards of \$211,336 for Mr. Scribante, \$122,148 for Mr. Potts, \$110,515 for Mr. Jensen and \$13,432 for Mr. Meade.

Our compensation committee awarded our NEOs with restricted stock awards valued at \$317,005 for Mr. Scribante, \$183,223 for Mr. Potts, \$165,773 for Mr. Jensen and \$20,149 for Mr. Meade (with the dollar values converted into a specific number of shares based on the closing price of our Common Stock on the NYSE MKT). The restricted stock awards resulted in a grant of the following number of shares to our NEOs on May 15, 2014:

Name and Current Position	Restricted Stock (#)
John H. Scribante Chief Executive Officer	75,478
Michael J. Potts President and Chief Operating Officer	43,625
Scott R. Jensen Chief Financial Officer, Chief Accounting Officer and Treasurer	39,470
Marc Meade Executive Vice President	4,798

*Retirement and Other Benefits*

*Welfare and Retirement Benefits.* As part of a competitive compensation package, we sponsor a welfare benefit plan that offers health, life and disability insurance coverage to participating employees. We also sponsor an employee stock purchase plan under which our employees may purchase shares of our Common Stock. In addition, to help our employees prepare for retirement, we sponsor the Orion Energy Systems, Inc. 401(k) Plan and match employee contributions at a rate of 3% of the first \$5,000 of an employee's contributions (*i.e.*, capped at \$150). Our NEOs participate in the broad-based welfare plans, our employee stock purchase plan and the 401(k) Plan on the same basis as our other employees, except that they are not eligible for the loan program under the employee stock purchase plan. We also provide enhanced life and disability insurance benefits for our NEOs. Under our enhanced life insurance benefit, we pay the full cost of premiums for life insurance policies for our NEOs. The amounts of the premiums are reflected in the Summary Compensation Table below. Our enhanced disability insurance benefit includes a higher maximum benefit level than under our broad-based plan, cost of living adjustments and a portability feature.

*Perquisites and Other Personal Benefits.* We provide perquisites and other personal benefits that we believe are reasonable and consistent with our overall compensation program to better enable our executives to perform their duties and to enable us to attract and retain employees for key positions. We provide Messrs. Scribante and Potts with a car allowance of \$1,000 per month and each also receives a private social club membership paid for by the company.

*Severance and Change of Control Arrangements*

We provide certain protections to our NEOs in the event of certain terminations of their employment, including enhanced protections for certain terminations that may occur after a change of control of our company. However, our NEOs will only receive the enhanced severance benefits following a change in control if their employment terminates without cause or for good reason. We describe this type of severance arrangement as being subject to a double trigger. All payments, including any double trigger severance payments, to be made to our NEOs in connection with a change of control under their employment agreements and any other of our agreements or plans will be subject to a potential cut-back in the event any such severance payments or other benefits become subject to non-deductibility or excise taxes as excess parachute payments under Code Section 280G or 4999. The cut-back provisions have been structured such that all amounts payable under their



employment agreements and other of our agreements or plans that constitute change of control payments will be cut back to one dollar less than three times the executive's base amount, as defined by Code Section 280G, unless the executive would retain a greater amount by receiving the full amount of the payment and paying the related excise taxes (a so-called "clawback" provision).

Our 2003 Stock Option Plan and our 2004 Stock and Incentive Awards Plan also provide potential protections to our NEOs in the event of certain changes of control. Under these plans, our NEOs' stock options and restricted stock that are unvested at the time of a change of control may become vested on an accelerated basis in the event of certain changes of control.

We selected these triggering events to afford our NEOs some protection in the event of a termination of their employment, particularly after a change of control of our company. We believe these types of protections better enable our NEOs to focus their efforts on behalf of our company without undue concern over the impact on their employment or financial security of a change of control of our company. We also provide severance benefits in order to obtain from our NEOs certain concessions that protect our interests, including their agreement to confidentiality, intellectual property rights waiver, non-solicitation and non-competition provisions. See below under the heading "Payments upon Termination or Change of Control" for a description of the specific circumstances that would trigger payment or the provision of other benefits under these arrangements, as well as a description, explanation and quantification of the payments and benefits under each circumstance.

#### ***Other Policies***

***Policies On Timing of Equity Awards.*** Our compensation committee and board of directors have adopted a general policy on the timing of equity awards, under which our compensation committee generally will make annual equity awards beginning effective as of the date three business days after our next quarterly (or fiscal year-end) earnings release following the decision to make the grant, regardless of the timing of the decision. Our compensation committee has elected to grant equity awards shortly following our earnings releases so that the awards are granted (and with respect to stock options, priced, and with respect to restricted stock, valued) at a point in time when the most important information about our company then known to management and our board is likely to have been disseminated in the market.

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

Our 2004 Stock and Incentive Awards Plan does not permit awards of stock options or stock appreciation rights with an effective grant date prior to the date our compensation committee or our chief executive officer takes action to approve the award.

***Executive Officer Stock Ownership Guidelines.*** One of the key objectives of our executive compensation program is alignment of the interests of our executive officers with the interests of our shareholders. We believe that ensuring that executive officers are shareholders and have a significant financial interest in our company is an effective means to accomplish this objective.

The number of shares required to be held by our executive officers is as follows:

Position	Number Of Shares
Chief Executive Officer	112,154
Chief Operating Officer	38,077
Executive Vice President	38,077
Chief Financial Officer	38,077
Senior Vice President	11,539
Vice President	11,539

Executive officers are permitted to satisfy these ownership guidelines with shares of our Common Stock that they acquire through the exercise of stock options or other similar equity-based awards, through retention upon vesting of restricted stock awards or other similar equity-based awards and through direct share purchases. Our executive officers who were executive officers at the time of the adoption of the amended guidelines have until the fifth anniversary of the adoption to satisfy the ownership requirement. Newly appointed executive officers will have until the fifth anniversary of their appointment as executive officers to satisfy the ownership requirement. All of our executive officers have either satisfied the ownership requirement or have additional time to do so.

*Tax Considerations.* In setting compensation for our NEOs, our compensation committee considers the deductibility of compensation under the Code. Section 162(m) of the Code generally prohibits publicly traded companies from taking a tax deduction for compensation in excess of \$1.0 million that is paid to the chief executive officer and other NEOs, excluding the chief financial officer. However, compensation that is considered performance-based compensation under Section 162(m) is not subject to the \$1.0 million limit on deductibility. We obtained shareholder approval of the material terms of the performance goals under our 2004 Stock and Incentive Awards Plan at our 2011 annual shareholders meeting to enable us to qualify awards granted under the Plan as performance-based compensation to the extent the other applicable requirements of Section 162(m) are satisfied. Our compensation committee intends to consider the deductibility of performance-based compensation under Section 162(m) in setting compensation for our NEOs, but it may approve compensation that will not meet the requirements of Section 162(m) in order to ensure competitive compensation levels and structures for our executive officers. For example, as disclosed in this Compensation Discussion and Analysis, we have granted restricted stock to our NEOs that vests based solely on continued service. Such restricted stock will not qualify as performance-based compensation under Section 162(m) and, therefore, will not be exempt from the \$1.0 million limit on deductibility under Section 162(m). Despite not being eligible for deductibility under Section 162(m) to the extent the value of any individual's restricted stock exceeds \$1.0 million in value, our compensation committee believed that such awards were appropriate to provide motivational and retention incentives to our NEOs that are tied directly to the value of the Common Stock. In addition, notwithstanding our intentions, because of ambiguities and uncertainties as to the application and interpretation of Section 162(m) and the regulations issued thereunder, no assurance can be given that compensation intended to satisfy the requirements for deductibility under Section 162(m) will so qualify.

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

### Compensation Committee Interlocks and Insider Participation

During the last fiscal year, no member of the compensation committee had a relationship with us that required disclosure under Item 404 of Regulation S-K. During the past fiscal year, none of our executive officers served as a member of the board of directors or compensation committee, or other committee serving an equivalent function, of any entity that has one or more executive officers who served as members of our board of directors or our compensation committee. None of the members of our compensation committee is an officer or employee of our company, nor have they ever been an officer or employee of our company.

### Compensation Committee Report

Our compensation committee has reviewed and discussed the Compensation Discussion and Analysis contained in this proxy statement with management. Based on our compensation committee's review and discussions with management, our compensation committee recommended to our board of directors that the Compensation Discussion and Analysis be included in this proxy statement.

Mark A. Williamson, Chair

Tryg C. Jacobson

James R. Kackley

James D. Leslie

Elizabeth Gamsky Rich

### Summary Compensation Table for Fiscal 2014

The following table sets forth for our NEOs the following information for each of the past three fiscal years or for such shorter period as the NEO has been a NEO: (i) the dollar amount of base salary earned; (ii) the dollar value of bonuses and non-equity incentive plan compensation earned; (iii) the grant date fair value, determined under Accounting Standards Codification Topic 718 (ASC Topic 718), for all equity-based awards held by our NEOs; (iv) all other compensation and (v) the dollar value of total compensation.

Name and Current Principal Position	Fiscal Year	Salary (\$)	Non-Equity Incentive Plan Compensation (\$)	Stock Awards (\$)(1)	Option Awards (\$)(2)	All Other Compensation (\$)	Total (\$)
John H. Scribante Chief Executive Officer	2014	460,000		231,078		13,428(4)	704,506
	2013	396,039	230,000	95,000	218,664	6,092	945,795
	2012	275,000			39,999	22,600	337,599
Scott R. Jensen Chief Financial Officer, Chief Accounting Officer and Treasurer	2014	255,000		44,812		144	299,956
	2013	255,000	51,625	25,000	32,364	144	364,133
	2012	216,843			29,089	7,932	253,865
Michael J. Potts President and Chief Operating Officer	2014	285,000		71,548		16,362(5)	372,910
	2013	281,667	74,500	50,000	64,728	16,362	487,257
	2012	275,000			39,999	16,194	331,193
Marc Meade Executive Vice President(3)	2014	183,750		187,574		5,444(6)	376,768

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- (1) Represents the grant date fair value calculated pursuant to ASC Topic 718 for restricted stock awards. Additional information about the assumptions that we used when valuing equity awards is set forth in our Annual Report on Form 10-K in the Notes to Consolidated Financial Statements for our fiscal year ended March 31, 2014.

- (2) Represents the grant date fair value calculated pursuant to ASC Topic 718 for the indicated fiscal year for option awards. Additional information about the assumptions that we used when valuing equity awards is set forth in our Annual Report on Form 10-K in the Notes to Consolidated Financial Statements for our fiscal year ended March 31, 2014.
- (3) Marc Meade was promoted to the position of executive vice president on January 1, 2014.
- (4) Includes an automobile allowance of \$12,000 and \$1,428 in life insurance premiums.
- (5) Includes an automobile allowance of \$12,000 and \$4,362 in life insurance premiums.
- (6) Includes a clothing allowance of \$5,444.

**Grants of Plan-Based Awards for Fiscal 2014**

As described above in the Compensation Discussion and Analysis, under our 2004 Stock and Incentive Awards Plan and employment agreements with certain of our NEOs, we granted restricted stock and non-equity incentive awards (i.e., cash bonuses) to our NEOs in fiscal 2014. The following table sets forth information regarding all such awards.

Name	Grant Date	Date of Committee Action	Estimated Future Payouts Under Non-Equity Incentive Plan Awards			Estimated Future Payouts Under Equity Incentive Plan Awards			All Other Awards: Number of Shares of Stock (#)	All Other Option Awards: Number of Underlying Securities of Price of Option Awards (\$/Sh)	Grant Date Fair Value of Stock and Option Awards (\$)(1)
			Threshold (\$)	Target (\$)	Max (\$)	Threshold (#)	Target (#)	Max (#)			
John Scribante	5/28/13	3/14/13	(2)	(2)	\$ 460,000(2)				95,833(3)	\$ 231,078	
Scott Jensen	5/28/13	3/14/13	(2)	(2)	\$ 89,250(2)				18,594(3)	\$ 44,812	
Michael Potts	5/28/13	3/14/13	(2)	(2)	\$ 142,500(2)				29,688(3)	\$ 71,548	
Marc Meade	1/1/14	12/20/13	(2)	(2)	\$ 73,500(2)				25,000(4)	\$ 174,250	

- (1) Represents the grant date fair value computed in accordance with ASC Topic 718.
- (2) The fiscal 2014 incentive cash bonus program provided for maximum award amounts for each executive, but did not include threshold or target award amounts. Under the program, no bonuses would be paid unless the company achieved at least (i) \$2.0 million of profit before taxes and (ii) revenue of at least \$88.0 million. For every \$1.00 of profit before taxes and bonus expenses earned over the \$2.0 million threshold up to a maximum of \$5.0 million, a bonus pool of \$0.29 would be earned.
- (3) Vests 1/3 per year on May 28, 2014, 2015 and 2016.
- (4) Vests 1/5 per year on January 1, 2015, 2016, 2017, 2018 and 2019.



**Outstanding Equity Awards at Fiscal 2014 Year End**

The following table sets out information about the outstanding equity awards held by our NEOs at the end of fiscal 2014 on March 31, 2014.

Name	Option Awards				Stock Awards	
	Number of Securities Underlying Unexercised Options Exercisable (#)	Number of Securities Underlying Unexercised Options (#)	Option Exercise Price (\$)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested (#)	Market Value of Shares or Units of Stock That Have Not Vested (\$)(1)
Mr. Scribante	33,333	66,667(2)	\$ 1.62	11/12/2022	132,633(3)	\$ 961,589
	20,000	80,000(4)	\$ 2.03	06/12/2022		
	10,039	6,696(5)	\$ 3.46	05/18/2020		
	200,000	50,000(6)	\$ 3.01	09/01/2019		
	9,407	2,352(7)	\$ 3.78	05/19/2019		
	21,452		\$ 5.35	08/08/2018		
	40,000		\$ 2.50	06/02/2016		
	25,000		\$ 2.25	07/31/2014		
Mr. Jensen	5,000	20,000(8)	\$ 2.00	06/18/2022	28,594(9)	\$ 207,307
	6,198	4,131(11)	\$ 3.46	05/18/2020		
	80,000	20,000(12)	\$ 5.44	02/05/2020		
	9,407	2,352(13)	\$ 3.78	05/19/2019		
	16,502		\$ 5.35	08/08/2018		
	25,000		\$ 2.20	03/01/2017		
	7,000		\$ 2.25	08/30/2014		
Mr. Potts	10,000	40,000(8)	\$ 2.00	06/18/2022	49,688(10)	\$ 360,238
	6,972	4,648(14)	\$ 3.46	05/18/2020		
	9,407	2,352(15)	\$ 3.78	05/19/2019		
	21,452		\$ 5.35	08/08/2018		
	45,000		\$ 2.20	12/20/2016		
Mr. Meade	4,000	16,000(16)	\$ 2.05	02/01/2023	25,000(17)	\$ 181,250
	15,000	10,000(18)	\$ 3.45	11/01/2020		
	6,000	14,000(19)	\$ 3.46	05/18/2020		
	4,000	1,000(20)	\$ 4.70	02/01/2020		

- (1) The amounts in this column have been computed based on the closing price of our common stock of \$7.25 on March 31, 2014. The actual value realized by the executive will depend on the market value of our common stock on the date that the award vests.
- (2) This option vests in equal increments on November 13, 2014 and 2015, respectively, contingent on Mr. Scribante's continued employment through the applicable vesting date.
- (3) 20,000 shares vest in equal increments on June 18, 2014, 2015, 2016 and 2017, respectively, 16,750 shares vests in equal increments per year on September 27, 2014 and 2015, respectively, and 95,883 shares vest in equal increments on May 28, 2014, 2015 and 2016, in each instance contingent on Mr. Scribante's continued employment through the applicable vesting date.
- (4) 20% of the total amount awarded vested and became exercisable on June 12, 2014. The remainder vests in equal increments on June 12, 2015, 2016 and 2017, respectively, contingent on Mr. Scribante's continued employment through the applicable vesting date.

- (5) 20% of the total amount awarded vested and became exercisable on May 18, 2014. The remainder vests on May 18, 2015, contingent on Mr. Scribante's continued employment through the applicable vesting date.



- (6) The option will vest completely when our Common Stock's average closing price over five consecutive trading days equals or exceeds \$8.00 per share, contingent on Mr. Scribante's continued employment through the applicable vesting date.
- (7) The remainder vested on May 19, 2014.
- (8) 20% of the total amount awarded vested and became exercisable on June 18, 2014. The remainder vests in equal increments on June 18, 2015, 2016 and 2017, contingent on the executive's continued employment through the applicable vesting date.
- (9) 10,000 shares vests in equal increments on June 18, 2014, 2015, 2016 and 2017, respectively, and 18,594 shares vest in equal increments on May 28, 2014, 2015 and 2016, respectively, in each instance contingent on the executive's continued employment through the applicable vesting date.
- (10) 20,000 shares vests in equal increments on June 18, 2014, 2015, 2016 and 2017, respectively, and 29,688 shares vest in equal increments on May 28, 2014, 2015 and 2016, respectively, in each instance contingent on the executive's continued employment through the applicable vesting date.
- (11) 20% of the total amount awarded vested and became exercisable on May 18, 2014. The remainder vests on May 18, 2015, contingent on Mr. Jensen's continued employment through the applicable vesting date.
- (12) The remainder vests on February 5, 2015, contingent on Mr. Jensen's continued employment through the applicable vesting date.
- (13) The remainder vested on May 19, 2014.
- (14) 20% of the total amount awarded vested and became exercisable on May 18, 2014. The remainder vests on May 18, 2015 contingent on Mr. Potts' continued employment through the applicable vesting date.
- (15) The remainder vested on May 19, 2014.
- (16) The remainder vests in equal increments on February 1, 2015, 2016, 2017 and 2018, contingent on Mr. Meade's continued employment through the applicable vesting date.
- (17) Vests in equal increments on January 1, 2015, 2016, 2017, 2018 and 2019, respectively, contingent on Mr. Meade's continued employment through the applicable vesting date.
- (18) The remainder vests in equal increments on November 1, 2014 and 2015, contingent on Mr. Meade's continued employment through the applicable vesting date.
- (19) 10% of the total amount awarded vested and became exercisable on May 18, 2014. The remainder vests in equal increments on May 18, 2015, 2016, 2017, 2018, 2019 and 2020, contingent on Mr. Meade's continued employment through the applicable vesting date.

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(20) The remainder vests of on February 1, 2015, contingent on Mr. Meade's continued employment through the applicable vesting date.

**Option Exercises and Stock Vested for Fiscal 2014**

The following table sets forth information about the exercise of options by our NEOs and the vesting of their restricted stock awards in fiscal 2014.

Name	Option Awards		Restricted Stock Awards	
	Number of Shares Acquired on Exercise (#)	Value Realized on Exercise (\$)	Number of Shares Acquired on Vesting (#)	Value Realized on Vesting (\$)(1)
John Scribante			13,250	\$ 43,295
Scott Jensen			2,500	\$ 5,725
Michael Potts			5,000	\$ 11,450
Marc Meade				

(1) The amounts in this column have been computed based on the closing price of our common stock on the vesting date.

## Payments Upon Termination or Change of Control

### Employment Agreements

Under the employment agreements we currently have with Messrs. Scribante, Potts, Jensen and Meade, such NEOs are entitled to certain severance payments and other benefits upon a qualifying employment termination, including certain enhanced protections under such circumstances occurring after a change in control of our company. If such executive's employment is terminated without cause or for good reason prior to the end of the employment period, the executive will be entitled to a lump sum severance benefit equal to a multiple (indicated in the table below) of the sum of his base salary plus the average of the prior three years' bonuses; a pro rata bonus for the year of the termination; and COBRA premiums at the active employee rate for the duration of the executive's COBRA continuation coverage period. To receive these benefits, such executives must execute and deliver to us (and not revoke) a general release of claims.

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

*Good reason* is defined in the employment agreements as the occurrence of any of the following without the executive's consent: (i) a material diminution in the executive's base salary; (ii) a material diminution in the executive's authority, duties or responsibilities; (iii) a material change in the geographic location at which the executive must perform services; (iv) a material breach by us of any provision of the employment agreement; or (v) our employment of Neal R. Verfuert as a senior executive officer. The definition of *good reason* in Mr. Meade's employment agreement does not include items (ii) and (v) above.

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

Executive	Severance	Employment Term	Renewal Term	Non-compete and Confidentiality
John H. Scribante	2 × Salary + Avg. Bonus	3 Years	2 Years	Yes
Michael J. Potts	1 × Salary + Avg. Bonus	1 Year	1 Year	Yes
Scott Jensen	1 × Salary + Avg. Bonus	1 Year	1 Year	Yes
Marc Meade	1 × Salary + Avg. Bonus	1 Year	1 Year	Yes

We set the severance multiples, employment and renewal terms and restrictive covenants under the employment agreements based on advice from Towers Watson that such multiples and terms were consistent with general public company practice and our subjective belief at the time that these amounts and terms were necessary to provide our NEOs with compensation arrangements that will help us to retain and attract high-quality executives in a competitive job market. The severance multiples and employment and renewal terms vary among our individual NEOs based on the advice of Towers Watson that such multiples and terms were consistent with general public company practice and our subjective judgment. We did not ascertain the basis or support for Towers Watson's advice that such multiples and other terms are consistent with general public company practice.

The employment agreements for our NEOs also provide enhanced benefits following a change of control of our company. Upon a change of control, such executive's employment term is automatically extended for a specified period, which varies among the individual executives as shown in the chart below. Following the



change of control, the executive is guaranteed the same base salary and a bonus opportunity at least equal to 100% of the prior year's target award and with the same general probability of achieving performance goals as was in effect prior to the change of control. In addition, the executive is guaranteed participation in salaried and executive benefit plans that provide benefits, in the aggregate, at least as great as the benefits being provided prior to the change of control.

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

Executive	Severance	Post Change of Control Employment Term	Trigger	Excise Tax Gross-Up	Valley
John H. Scribante	3 × Salary + Avg. Bonus	2 Years	Double	No	Yes
Michael J. Potts	2 × Salary + Avg. Bonus	2 Years	Double	No	Yes
Scott Jensen	2 × Salary + Avg. Bonus	2 Years	Double	No	Yes
Marc Meade	2 × Salary + Avg. Bonus	2 Years	Double	No	Yes

We set the post change of control severance multiples and employment terms under the NEOs' employment agreements based on our belief that these amounts and terms would provide appropriate levels of protection for the NEOs to enable them to focus their efforts on behalf of our company without undue concern for their employment or financial security following a change in control. In making this determination, our compensation committee considered information provided by Towers Watson indicating that the proposed change of control severance multiples and employment terms were generally consistent with the practices of Towers Watson's surveyed companies.

A change of control under the employment agreements generally occurs when a third party acquires 20% or more of our outstanding stock, there is a hostile board election, a merger occurs in which our shareholders cease to own 50% of the equity of the successor, we are liquidated or dissolved, or substantially all of our assets are sold. We have agreed to treat these events as triggering events under the employment agreements because such events would represent significant changes in the ownership of our company and could signal potential uncertainty regarding the job or financial security of the NEOs. Specifically, we believe that an acquisition by a third party of 20% or more of our outstanding stock would constitute a significant change in ownership of our company because we have a relatively diverse, widely-dispersed shareholder base. We believe the types of protections provided under our employment agreements better enable our executives to focus their efforts on behalf of our company during such times of uncertainty.

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

***Equity Plans***

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

With certain exceptions, any person (as such term is used in sections 13(d) and 14(d) of the Exchange Act), becomes a beneficial owner (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of securities representing more than 50% of the voting power of our then outstanding securities.

Our shareholders approve (or, if shareholder approval is not required, our board approves) an agreement providing for (i) our merger or consolidation with another entity where our shareholders immediately prior to the merger or consolidation will not beneficially own, immediately after the merger or consolidation, securities of the surviving entity representing more than 50% of the voting power of the then outstanding securities of the surviving entity, (ii) the sale or other disposition of all or substantially all of our assets, or (iii) our liquidation or dissolution.

Any person has commenced a tender offer or exchange offer for 30% or more of the voting power of our then outstanding shares.

Directors are elected such that a majority of the members of our board shall have been members of our board for less than two years, unless the election or nomination for election of each new director who was not a director at the beginning of such two-year period was approved by a vote of at least two-thirds of the directors then still in office who were directors at the beginning of such period. A change of control under our 2004 Stock and Incentive Awards Plan generally occurs when a third party acquires 20% or more of our outstanding stock, there is a hostile board election, a merger occurs in which our shareholders cease to own 50% of the equity of the successor, or we are liquidated or dissolved or substantially all of our assets are sold.

**Payments Upon Termination**

The following table summarizes the estimated value of payments and other benefits to which our NEOs would have been entitled under the employment agreements and equity plans described above upon certain terminations of employment, assuming, solely for purposes of such calculations, that (i) the triggering event or events occurred on March 31, 2014 and (ii) in the case of a change of control, the vesting of all stock options and restricted stock held by our NEOs was accelerated.

Name	Benefit	Without	Without
		Cause or for Good Reason (\$)	Cause or for Good Reason in Connection With a Change of Control (\$)
John H. Scribante	Severance	\$ 920,000	\$ 1,380,000
	Pro Rata Target Bonus	\$ 76,667	\$ 76,667
	Benefits		
	Acceleration of Equity*		\$ 2,000,063
	Excise Tax Cut-Back		
	Total	\$ 996,667	\$ 3,456,730
Michael J. Potts	Severance	\$ 285,000	\$ 570,000
	Pro Rata Target Bonus	\$ 24,833	\$ 24,833
	Benefits	\$ 20,415	\$ 20,415
	Acceleration of Equity*		\$ 596,015
	Excise Tax Cut-Back		
	Total	\$ 330,248	\$ 1,211,263
Scott Jensen	Severance	\$ 255,000	\$ 510,000
	Pro Rata Target Bonus	\$ 17,208	\$ 17,208
	Benefits	\$ 20,415	\$ 20,415
	Acceleration of Equity*		\$ 372,328
	Excise Tax Cut-Back		\$ (59,986)
	Total	\$ 292,623	\$ 859,965
Marc Meade	Severance	\$ 210,000	\$ 420,000
	Pro Rata Target Bonus		
	Benefits	\$ 20,415	\$ 20,415
	Acceleration of Equity*		\$ 358,060
	Excise Tax Cut-Back		
	Total	\$ 230,415	\$ 798,475
Total		\$ 1,849,953	\$ 6,326,433

\* Based on the closing price of our Common Stock on March 31, 2014.

**Payments Upon Change of Control (No Termination)**

If a change of control had occurred at the end of our fiscal 2014 on March 31, 2014, and our compensation committee had accelerated the vesting of all of the unvested stock options and restricted shares then held by our NEOs and cashed them out for a payment equal to, with respect to stock options, the product of (i) the number of shares underlying such options and (ii) the excess, if any, of the closing price per share of our Common Stock on March 31, 2014 and the exercise price per share of such options, and with respect to restricted stock, a cash





payment equal to the product of (i) the number of unvested restricted shares and (ii) the closing price of our common stock on March 31, 2014, our NEOs would have received approximately the following benefits:

Name	Number of Unvested Option Shares Accelerated and Cashed Out (#)	Value Realized for Stock Options (\$)	Number of Unvested Restricted Stock Shares Accelerated and Cashed Out (#)	Value Realized For Restricted Stock (\$)
John H. Scribante	205,715	\$ 1,038,474	132,633	\$ 961,589
Scott R. Jensen	46,484	\$ 165,021	28,594	\$ 207,307
Michael J. Potts	40,000	\$ 235,777	49,688	\$ 360,238
Marc Meade	41,000	\$ 176,810	25,000	\$ 181,250

#### RISK ASSESSMENT OF OUR COMPENSATION POLICIES AND PRACTICES

Each year, our compensation committee conducts a review of our compensation policies and practices to assess whether any risks arising from such policies and practices are reasonably likely to materially adversely affect our company. We believe that we have designed a balanced approach to our compensation programs that rewards both our NEOs and our other key employees for achieving our annual and longer-term strategic objectives and financial and business performance goals that we believe will help us achieve sustained growth and success over the long-term. We believe that our compensation committee has structured our total executive compensation to ensure that there is a focus on incentivizing and rewarding both near-term financial performance and sustained long-term shareholder appreciation. While it is possible that the pursuit of our strategic objectives and our annual financial performance targets that determine our incentive compensation may lead to employee behavior that may increase certain risks to our company, we believe that we have designed our compensation programs to help mitigate against such concerns and to help ensure that our compensation practices and decisions are consistent with our strategic business plan and our enterprise risk profile.

During our annual review, our compensation committee takes the following actions:

Identifies our material compensation arrangements and categorizes them according to the levels of potential risk-taking behaviors that our compensation committee believes they may encourage.

Meets with our chief executive officer and chief financial officer to develop a better understanding of our enterprise risk profile and the material risks, including reputational risk and those described under Part I, Item 1A, Risk Factors, in our Annual Report on Form 10-K, that we face and the relationship of our compensation policies and practices to those identified enterprise-related risks.

Evaluates the levels of potential risk-taking that may be encouraged by each material compensation arrangement to determine whether it is appropriate in the context of our overall compensation arrangements, our objectives for our compensation arrangements, our strategic goals and objectives and our enterprise risk profile.

Identifies and evaluates the likely effectiveness of the risk-mitigation attributes contained in our compensation policies and practices, as set forth below.

As part of its review of our fiscal 2014 and fiscal 2015 compensation policies and practices, our compensation committee identified the following attributes that it believes help to mitigate against the potential for excessive or unnecessary risks to be realized by our company as a result of our compensation policies and practices:

We believe that we have set base salaries at a sufficient level to discourage excessive or unnecessary risk taking. We believe that base salary, as a non-variable element of compensation, helps to moderate the incentives to incur risk in the pursuit of increased financial performance metrics that are directly tied to the payment of variable elements of compensation. To perform its moderating function, we

believe that

base salary should make up a substantial portion of target total compensation. Our NEOs' fiscal 2013 and 2014 base salaries were, on average, more than 50% of their fiscal 2013 and 2014, respectively, total actual compensation. The fiscal 2014 base salaries for our NEOs were unchanged from the base salaries in effect at the end of fiscal 2013 and, in fiscal 2015, our NEOs received salary increases following the freeze on salaries in fiscal 2014.

Our incentive compensation goals in each of fiscal 2014 and 2015 are directly tied to and support our strategic business plan and are based upon annual operating budget levels that are reviewed and approved by our board of directors and that we believe are attainable at their targeted levels without the need to (i) take excessive or unnecessary risks; (ii) take actions that would violate our Code of Conduct; or (iii) make material changes to our long-term business strategy or our methods of management or operation.

Our fiscal 2014 and 2015 incentive compensation programs capped the amount of cash bonus opportunity and provided for three-year vesting of equity awards.

Our fiscal 2014 and 2015 bonus programs use the achievement of both profitability and revenue as bonus targets. We believe that using different financial metrics helps to mitigate excessive or unnecessary risk taking and the motivation to focus on achieving any single financial performance measure that is directly tied to the amount of our incentive compensation.

Our incentive compensation for fiscal 2014 and 2015 were a combination of cash incentives and three year vesting equity awards, so that employees only realize value on such equity awards through sustained long-term appreciation of our shareholder value. The board believes that this combination of short and long-term incentive compensation lowers the risk of unnecessary short term risk taking associated with annual incentive programs.

Our incentive compensation for fiscal 2015 provides for cash bonus awards payable in one-third increments upon the annual vesting of tandem restricted stock awards in order to provide liquidity for our NEOs to pay the income taxes associated with the vesting of such awards. We believe these cash awards provide a mechanism for our NEOs to pay the taxes associated with the vesting of restricted stock without having our NEOs sell or pledge shares in order to pay for the associated taxes. We believe this structure will help to increase the level of company share ownership by our NEOs.

We have implemented stock ownership guidelines for all of our executive officers, which we believe help to focus them on long-term stock price appreciation and sustainability.

We have adopted a clawback policy as an additional risk mitigation provision. Our clawback policy calls on our board of directors to require reimbursement from any officer of an amount equal to the amount of any overpayment or overrealization of any incentive compensation paid to, or realized by, the officer if:

- (i) The payment or vesting of incentive compensation was predicated upon the achievement of certain company financial or operating results with respect to the applicable performance period that were subsequently the subject of a material financial statement restatement (other than a restatement due to subsequent changes in generally accepted accounting principles, policies or practices) that adversely affects our prior announced or stated financial results, financial condition or cash flows;
- (ii) In our board's view, the recipient engaged in misconduct that caused, partially caused or otherwise contributed to the need for the financial statement restatement; and
- (iii) Vesting would not have occurred, or no payment or a lower payment would have been made to the recipient, based upon our restated financial results, financial condition or cash flow.

As a result of the compensation committee's annual review, our compensation committee did not believe that our compensation policies and practices encourage excessive or unnecessary risk-taking in light of our strategic plan, business objectives and our enterprise risk profile. Accordingly, our compensation committee did not implement any material changes in response to this review.



**PROPOSAL TWO:**

**ADVISORY VOTE ON THE COMPENSATION OF OUR NAMED EXECUTIVE OFFICERS**

We view executive compensation as an important matter both to us and to our shareholders. As required by Section 14A of the Securities Exchange Act of 1934, we are asking shareholders to vote, on a non-binding, advisory basis, on a resolution approving the compensation of our NEOs as disclosed in the Compensation Discussion and Analysis section and the accompanying compensation tables and narrative discussion contained in this proxy statement. This advisory vote on the compensation of our NEOs allows our shareholders to express their views on our executive compensation programs.

The compensation committee considered the results from the shareholder advisory vote on executive compensation at our 2013 annual meeting of shareholders as support for the company's compensation policies and practices. At our 2013 annual meeting of shareholders, more than 94% of the votes cast on the shareholder advisory vote on executive compensation were in favor of our executive compensation. Our board of directors and our compensation committee value the opinions of our shareholders and are committed to ongoing engagement with our shareholders on executive compensation practices. Our board of directors has determined that our shareholders should vote on a say-on-pay proposal each year in accordance with the preference expressed by shareholders on the say-when-on-pay proposal at our 2011 annual meeting of shareholders.

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

to motivate our executive officers to achieve strong financial performance, particularly increased revenue, profitability, free cash flow and shareholder value;

to attract and retain executive officers who we believe have the experience, temperament, talents and convictions to contribute significantly to our future success; and

to align the economic interests of our executive officers with the interests of our shareholders.

In light of these objectives, we have sought to reward our NEOs for achieving financial performance goals, creating value for our shareholders, and for loyalty and dedication to our company. We are working to implement a new culture that focuses on profit before tax, along with revenue growth, and our fiscal 2014 and 2015 compensation programs are designed to incentivize and reward short-term and long-term decisions that benefit earnings and increase shareholder value. Some examples of recent actions we have taken to further these objectives include:

Our decision to pay no bonuses for fiscal 2014 despite achieving the revenue threshold and despite the company's accomplishments over the past year that should strengthen the foundation and future prospects of the company, including: generating significant cash; acquiring and successfully integrating the acquisition of Harris Manufacturing and Harris LED; implementing a cost-cutting program that has, and should continue to have, a positive effect on our costs and profitability; instituting an organizational development plan with an emphasis on talent development and succession planning to ensure that our team members are prepared to support our growth objectives; streamlining our product development process and introducing new LED products to the market; and reorganizing our sales force to better meet the needs of customers.

Our decision to provide salary increases to the fiscal 2015 base salaries of our NEOs following a salary freeze for fiscal 2014 and the fact that no bonuses were earned under our fiscal 2014 cash bonus program;

Our decision to implement cash bonus programs in fiscal 2014 and 2015 that continue to focus on profitability and provide that no bonuses will be paid unless the company achieves at a specified level of profit before taxes and increased revenue from the prior fiscal year;

Our decision to maintain the fiscal 2014 base salaries of our NEOs that were in effect at the end of fiscal 2013 in order to provide incentive to the executives to achieve the incentive based cash objectives and increase shareholder value over the term of the long term incentive equity grants;

Granting long-term equity incentive awards in the form of three-year pro rata vesting restricted stock grants in order to reward our NEOs for increasing shareholder value and to motivate and retain our NEOs while aligning their economic interests with our shareholders through long-term equity ownership. In addition, restricted stock is less dilutive to our shareholders than options because value to the employee can be achieved with fewer shares and can also provide a better incentive to our executives than stock options because restricted stock always maintains some intrinsic value and aligns the interests of our executives with those of our shareholders;

Granting cash awards that vest annually with the tandem restricted stock awards in order for our NEOs to pay the associated tax liability and avoid having our NEOs otherwise sell or pledge the shares in order to pay such liability; and

Our executives have employment agreements that do not provide for tax gross-ups and do not have single triggers in the event of a change-of-control.

For a further description of our executive compensation programs, please see the disclosure under the heading "Executive Compensation" above.

Our board of directors would like the support of our shareholders for the compensation of our NEOs as disclosed in this proxy statement. Accordingly, for the reasons discussed above, our compensation committee recommends that shareholders vote in favor of the following resolution:

RESOLVED, that the shareholders approve, on an advisory basis, the compensation of the named executive officers as disclosed pursuant to Item 402 of Regulation S-K, including the Compensation Discussion and Analysis section and the compensation tables and narrative discussion contained in this proxy statement.

The compensation of our NEOs as disclosed in the Compensation Discussion and Analysis section and the accompanying compensation tables and narrative discussion contained in this proxy statement will be approved if the votes cast in favor of the resolution exceed the votes cast against the resolution, assuming a quorum exists. Abstentions will be counted for purposes of determining the presence of a quorum but will be disregarded in the calculation of votes cast for this purpose.

This advisory vote on the compensation of our NEOs is not binding on our company, our board of directors or the compensation committee of the board. However, the board and the compensation committee will review and consider the outcome of this advisory vote when making future compensation decisions for our NEOs.

**RECOMMENDATION: Our compensation committee recommends a vote for approval of the compensation of our named executive officers as disclosed in the Compensation Discussion and Analysis section and accompanying compensation tables and narrative discussion contained in this proxy statement.**

#### DIRECTOR COMPENSATION

During fiscal 2014, we offered the following compensation program for our non-employee directors: (a) an annual retainer of \$40,000, payable in cash or shares of our Common Stock at the election of the recipient; (b) an annual stock option grant, vesting ratably over three years, with a grant date fair value of \$45,000; (c) an annual retainer of \$40,000 for the chairman of our board of directors, payable in cash or shares of Common Stock at the election of the recipient; (d) an annual retainer of \$20,000 for the chairmen of our ad hoc litigation committee, payable in cash or shares of Common Stock at the election of the recipient; (e) an annual retainer of \$30,000 for the chairman of our audit and finance committee of our board of directors, payable in cash or shares of Common Stock at the election of the recipient; (f) an annual retainer of \$20,000 for the chairmen of the compensation committee, payable in cash or shares of Common Stock at the election of the recipient and (g) an annual retainer of \$10,000 for the chairmen of the nominating and corporate governance committee of our board of directors, payable in cash or shares of Common Stock at the election of the recipient. In fiscal 2015, the compensation program for our non-employee directors is unchanged from fiscal 2014 other than providing non-employee directors with an annual restricted stock grant, vesting ratably over three years, with a grant date fair value of \$45,000 in lieu of their prior annual stock option grant having an identical value.

Our compensation committee did not engage a compensation consultant to establish the compensation program for our non-employee directors. However, the committee reviewed the National Association of Corporate Directors (NACD) Director Compensation Report, which provided a comprehensive report on director pay practices across a wide range of industries and company sizes, to determine the appropriate compensation levels for our non-employee directors. In order to attract potential new independent directors in the future, our board of directors has retained the flexibility to make an initial stock option or other form of equity-based grant or a cash award to any such new non-employee directors upon joining our board.

All non-management directors are required to own at least 25,000 shares. Directors are permitted to satisfy these ownership guidelines with shares of our Common Stock that they acquire through the exercise of stock options or other similar equity-based awards, through retention upon vesting of restricted shares or other similar equity-based awards and through direct share purchases. Our directors who were directors at the time of the adoption of the amended guidelines have until the fifth anniversary of the adoption to satisfy the ownership requirement. Newly elected directors will have until the fifth anniversary of their election to satisfy the ownership requirement. All of our directors have either satisfied the ownership requirement or have additional time to do so.

#### Director Compensation for Fiscal 2014

The following table summarizes the compensation of our non-employee directors for fiscal 2014. Directors who are also employees did not receive any compensation for their service as directors and they are therefore omitted from the table. We reimbursed each of our directors, including our employee directors, for expenses incurred in connection with attendance at meetings of our board and its committees.

Name	Fees Earned or Paid in Cash \$(1)	Option Awards \$(2)(3)	All Other Compensation (\$)	Total (\$)
Michael W. Altschaeffl	70,000	33,237		103,237
Kenneth L. Goodson, Jr.	35,275	33,237		68,512
Tryg C. Jacobson	40,000	33,237		73,237
James D. Leslie	35,275	33,237		68,512
James R. Kackley	80,000	33,237		113,237
Elizabeth Gamsky Rich	40,000	33,237		73,237
Thomas N. Schueller	50,000	33,237		83,237
Mark C. Williamson	80,000	33,237		113,237

- (1) As permitted under our compensation program for non-employee directors, the following directors elected to receive the following portions of their fiscal 2014 retainer in shares of our Common Stock: Michael W. Altschaeffl \$43,750 (12,794 shares); Kenneth L. Goodson, Jr. \$35,275 (8,513 shares); Tryg C. Jacobson \$10,000 (1,746 shares); James D. Leslie -\$35,275 (8,513 shares); and Elizabeth Gamsky Rich. -\$5,000 (2,075) shares.
- (2) Represents the grant date fair value of the awards pursuant to ASC Topic 718. Additional information about the assumptions that we used when valuing equity awards is set forth in our Annual Report on Form 10-K in the Notes to Consolidated Financial Statements for our fiscal year ended March 31, 2014.
- (3) The option awards outstanding as of March 31, 2014 for each non-employee director were as follows: Mr. Altschaeffl held options to purchase 110,462 shares of our Common Stock; Mr. Jacobson held options to purchase 85,259 shares of our Common Stock; Mr. Kackley held options to purchase 175,605 shares of our Common Stock; Ms. Gamsky Rich held options to purchase 105,171 shares of our Common Stock; Mr. Schueller held options to purchase 105,171 shares of our Common Stock; and Mr. Williamson held options to purchase 115,754 shares of our Common Stock, Mr. Goodson held options to purchase 36,568 shares of our Common Stock; and Mr. Leslie held options to purchase 36,568 shares of our Common Stock. All options vest ratably over a three-year continued board service period.



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**SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT**

The following table sets forth certain information regarding the beneficial ownership of our Common Stock as of June 12, 2014, by:

each person (or group of affiliated persons) known to us to be the beneficial owner of more than 5% of our Common Stock;

each of our named executive officers;

each of our directors; and

all of our directors and current executive officers as a group.

Beneficial ownership is determined in accordance with the rules of the SEC and includes any shares over which a person exercises sole or shared voting or investment power. Under these rules, beneficial ownership also includes any shares as to which the individual or entity has the right to acquire beneficial ownership of within 60 days of June 12, 2014, through the exercise of any warrant, stock option or other right. Except as noted by footnote, and subject to community property laws where applicable, we believe that the shareholders named in the table below have sole voting and investment power with respect to all shares of Common Stock shown as beneficially owned by them. Information is based on 21,737,725 shares outstanding as of June 12, 2014.

Except as set forth below, the address of all shareholders listed under Directors and executive officers is c/o Orion Energy Systems, Inc. 2210 Woodland Drive, Manitowoc, WI 54220.

	Shares Beneficially Owned	
	Number	Percentage of Outstanding
<b>Directors and executive officers</b>		
John Scribante(1)	520,915	2.4%
Michael J. Potts(2)	564,651	2.6%
Scott R. Jensen(3)	190,420	*
Marc Meade(4)	38,292	*
James R. Kackley(5)	396,438	1.8%
Michael W. Altschaefl(6)	154,277	*
Kenneth L. Goodson, Jr.(7)	33,083	*
Tryg C. Jacobson(8)	86,245	*
James D. Leslie(9)	36,483	*
Elizabeth G. Rich(10)	77,576	*
Thomas N. Schueller(11)	83,406	*
Mark C. Williamson(12)	107,493	*
<b>All current directors and executive officers as a group (12 individuals)(13)</b>	<b>2,289,279</b>	<b>10.5%</b>
<b>Principal shareholders</b>		
Ariel Investments, LLC(14)	3,631,431	16.7%

\* Indicates less than 1%.

- (1) Consists of (i) 93,839 shares of Common Stock owned directly; (ii) 23,815 shares of Common Stock owned by Garden Villa on 3rd LLP; (iii) 38,333 shares of Common Stock held in the TMS Trust; (iv) 5,000 shares of restricted Common Stock vesting on June 18, 2014 and (v) 359,928 shares of Common Stock issuable upon the exercise of options. The number does not include (i) 180,014 shares of Common Stock subject to options that will not become exercisable within 60 days of June 12, 2014 and (ii) 139,189 shares of restricted Common

Stock that do not vest within 60 days of June 12, 2014.

- (2) Consists of (i) 452,144 shares of Common Stock; (ii) 107,507 shares of Common Stock issuable upon the exercise of options and (iii) 5,000 shares of restricted Common Stock vesting on June 18, 2014. The number does not include (i) 32,324 shares of Common Stock subject to options that will not become exercisable within 60 days of June 12, 2014 and (ii) 68,521 shares of restricted Common Stock that do not vest within 60 days of June 12, 2014.
- (3) Consists of (i) 31,396 shares of Common Stock; (ii) 156,524 shares of Common Stock issuable upon the exercise of options and (iii) 2,500 shares of restricted Common Stock vesting on June 18, 2014. The number does not include (i) 37,066 shares of Common Stock subject to options that will not become exercisable within 60 days of June 12, 2014 and (ii) 53,186 shares of restricted Common Stock that do not vest within 60 days of June 12, 2014.
- (4) Consists of (i) 7,292 shares of Common Stock and (ii) 31,000 shares of Common Stock issuable upon the exercise of options. The number does not include (i) 39,000 shares of Common Stock subject to options that will not become exercisable within 60 days of June 12, 2014 and (ii) 29,798 shares of restricted Common Stock that do not vest within 60 days of June 12, 2014.
- (5) Consists of (i) 207,976 shares of Common Stock; (ii) 133,462 shares of Common Stock issuable upon the exercise of options; and (iii) 55,000 shares of Common Stock beneficially owned by Mr. Kackley's grandchildren. The number does not include (i) 42,143 shares of Common Stock subject to options that will not become exercisable within 60 days of June 12, 2014 and (ii) 10,715 shares of restricted Common Stock that do not vest within 60 days of June 12, 2014.
- (6) Consists of (i) 77,076 shares of Common Stock; and (ii) 77,201 shares of Common Stock issuable upon the exercise of options. The number does not include (i) 33,261 shares of Common Stock subject to options that will not become exercisable within 60 days of June 12, 2014 and (ii) 10,715 shares of restricted Common Stock that do not vest within 60 days of June 12, 2014.
- (7) Consists of (i) 20,894 shares of Common Stock; and (ii) 12,189 shares of Common Stock issuable upon the exercise of options. The number does not include (i) 24,379 shares of Common Stock subject to options that will not become exercisable within 60 days of June 12, 2014 and (ii) 10,715 shares of restricted Common Stock that do not vest within 60 days of June 12, 2014.
- (8) Consists of (i) 41,596 shares of Common Stock; and (ii) 44,649 shares of Common Stock issuable upon the exercise of options. The number does not include (i) 40,610 shares of Common Stock subject to options that will not become exercisable within 60 days of June 12, 2014 and (ii) 10,715 shares of restricted Common Stock that do not vest within 60 days of June 12, 2014.
- (9) Consists of (i) 24,294 shares of Common Stock; and (ii) 12,189 shares of Common Stock issuable upon the exercise of options. The number does not include (i) 24,379 shares of Common Stock subject to options that will not become exercisable within 60 days of June 12, 2014 and (ii) 10,715 shares of restricted Common Stock that do not vest within 60 days of June 12, 2014.
- (10) Consists of (i) 5,666 shares of Common Stock and (ii) 71,910 shares of Common Stock issuable upon the exercise of options. The number does not include (i) 33,261 shares of Common Stock subject to options that will not become exercisable within 60 days of June 12, 2014 and (ii) 10,715 shares of restricted Common Stock that do not vest within 60 days of June 12, 2014.
- (11) Consists of (i) 11,496 shares of Common Stock held in an IRA and (ii) 71,910 shares of Common Stock issuable upon the exercise of options. The number does not include (i) 33,261 shares of Common Stock subject to options that will not become exercisable within 60 days of June 12, 2014 and (ii) 10,715 shares of restricted Common Stock that do not vest within 60 days of June 12, 2014.
- (12) Consists of (i) 25,000 shares of Common Stock and (ii) 82,493 shares of Common Stock issuable upon the exercise of options. The number does not include (i) 22,678 shares of Common Stock subject to options that will not become exercisable within 60 days of June 12, 2014 and (ii) 10,715 shares of restricted Common Stock that do not vest within 60 days of June 12, 2014.

- (13) Includes 1,160,962 shares of Common Stock issuable upon the exercise of options and 12,500 shares of restricted Common Stock. The number does not include (i) 542,376 shares of Common Stock subject to options that will not become exercisable within 60 days of June 12, 2014 and (ii) 376,396 shares of restricted Common Stock that do not vest within 60 days of June 12, 2014.

(14) The address of Ariel Investments, LLC, which we refer to as Ariel, is 200 E. Randolph Drive, Suite 2900, Chicago, Illinois 60601. Other than share ownership percentage information, the information set forth is as of December 31, 2013, as reported by Ariel in its Amendment No. 3 to Schedule 13G filed with us and the SEC. Ariel has sole voting power as to 2,335,240 shares and sole dispositive power over 3,631,431 shares.

#### **Section 16(a) Beneficial Ownership Reporting Compliance**

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires our executive officers, directors, and persons who beneficially own more than ten percent of our common stock, no par value per share (which we refer to as our Common Stock), to file initial statements of beneficial ownership (Form 3), and statements of changes in beneficial ownership (Forms 4 or 5) of our Common Stock with the SEC. The SEC requires executive officers, directors and greater than ten percent shareholders to furnish us with copies of all these forms filed with the SEC.

To our knowledge, based solely upon our review of the copies of these forms received by us, or written representations from certain reporting persons that no additional forms were required for those persons, we believe that all of our executive officers and directors complied with their reporting obligations during fiscal 2014, except that each of Messrs. Scribante, Potts and Jensen inadvertently did not file a Form 4 within two business days following the receipt of shares of our restricted stock on May 28, 2013.

#### **Policies and Procedures Governing Related Person Transactions**

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

a related person means any of our directors, executive officers, nominees for director, holder of 5% or more of our Common Stock or any of their immediate family members; and

a related person transaction generally is a transaction (including any indebtedness or a guarantee of indebtedness) in which we were or are to be a participant and the amount involved exceeds \$120,000, and in which a related person had or will have a direct or indirect material interest.

Each of our executive officers, directors or nominees for director is required to disclose to our audit and finance committee certain information relating to related person transactions for review, approval or ratification by our audit and finance committee. In making a determination about approval or ratification of a related person transaction, our audit and finance committee will consider the information provided regarding the related person transaction and whether consummation of the transaction is believed by the committee to be in our best interests. Our audit and finance committee may take into account the effect of a director's related person transaction on the director's status as an independent member of our board of directors and eligibility to serve on committees of our board under SEC rules and the listing standards of the NYSE MKT. Any related person transaction must be disclosed to our full board of directors.

#### **Related Person Transactions**

We had no related person transactions that occurred in fiscal year 2014.

## AUDIT AND FINANCE COMMITTEE MATTERS

### Report of the Audit and Finance Committee

*The information contained in this report shall not be deemed to be soliciting material or filed or incorporated by reference in future filings with the SEC, or subject to the liabilities of Section 18 of the Securities Exchange Act of 1934, as amended (the Exchange Act), except to the extent that we specifically incorporate it by reference into a document filed under the Securities Act of 1933, as amended, or the Exchange Act.*

Our audit and finance committee has adopted certain pre-approval categories for each fiscal year. These categories relate to auditor assistance with periodic filings with the SEC, auditor assistance with board approved capital raising or debt financing, auditor assistance with board approved acquisitions, auditor assistance with due diligence, required responses to SEC comment letters, and auditor assistance with routine tax matters.

We, the members of the audit and finance committee, represent the following:

1. As required by our charter, we reviewed the company's financial statements for the fiscal year 2014 and met with management, as well as representatives of BDO USA, LLP, the company's independent registered public accounting firm (which we refer to as BDO) for fiscal year 2014, to discuss the financial statements.
2. We also discussed with members of BDO the matters required to be discussed by the Statement on Auditing Standards 61, *Communications with Audit Committees*, as amended.
3. In addition, we received the written disclosures and the letter from BDO required by applicable requirements of the Public Company Accounting Oversight Board regarding BDO's communications with the audit and finance committee concerning independence, and discussed with members of BDO their independence from management and the company.
4. Based on these discussions, the financial statement review and other matters we deemed relevant, we recommended to the company's board of directors that the company's audited financial statements for the fiscal year 2014 be included in the company's Annual Report on Form 10-K for the year ended March 31, 2014.

Respectfully submitted by the audit and finance committee:

Michael W. Altschaefl, Chair

Kenneth L. Goodson, Jr.

James R. Kackley

Thomas N. Schueller

Mark C. Williamson

### Principal Accountant Services and Fees

BDO serves as our independent registered public accounting firm. Representatives of BDO are expected to be present at our annual meeting. They will have the opportunity to make a statement if they so desire and to respond to appropriate questions.

The following table presents fees billed by BDO for professional services rendered for the audit of our annual financial statements for fiscal 2014 and fiscal 2013 and fees billed for other services rendered during fiscal 2014 and fiscal 2013:

	Fiscal 2014	Fiscal 2013
Audit fees(1)	\$ 407,906	\$ 317,425
Audit-related fees(2)	170,771	
All other(3)		11,705

Total fees

\$ 578,677

\$ 329,130

- (1) Represents the aggregate fees billed for the integrated audit of our fiscal 2014 and 2013 financial statements, respectively, review of quarterly financial statements and attendance at audit committee meetings and shareholder meetings.
- (2) Represents with respect to fiscal 2014, the aggregate fees related to the acquisition of Harris.
- (3) Represents, with respect to fiscal 2013, the aggregate fees for work on the SEC investigation related to our solar revenue recognition restatement.

**Audit Committee Pre-Approval Policy**

The audit and finance committee, in accordance with its charter, must pre-approve all non-audit services provided by our independent registered public accountants. The audit and finance committee generally pre-approves specified services in the defined categories of audit services, audit related services and tax services up to specified amounts. Pre-approval may also be given as part of our audit and finance committee's approval of the scope of the engagement of the independent registered public accountants or on an individual, explicit case-by-case basis before the independent auditor is engaged to provide each service.

The audit and finance committee has considered whether the provision of the services not related to the audit of the financial statements acknowledged in the table above was compatible with maintaining the independence of BDO and is of the opinion that the provision of these services was compatible with maintaining BDO's independence.



**PROPOSAL THREE:**

**RATIFICATION OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

Our audit and finance committee has selected BDO USA, LLP (which we refer to as "BDO") to be our independent registered public accounting firm for our fiscal year 2015. In selecting BDO to be our independent registered public accounting firm for the fiscal year 2015, our audit and finance committee considered the results from its review of BDO's independence, including (i) all relationships between BDO and our company and any disclosed relationships or services that may impact BDO's objectivity and independence; (ii) BDO's performance and qualification as an independent registered public accounting firm; and (iii) the fact that the BDO engagement audit partner is rotated on a regular basis as required by applicable laws and regulations.

Our audit and finance committee charter does not require that our shareholders ratify the selection of BDO as our independent registered public accounting firm. We are doing so because we believe it is a matter of good corporate governance practice. If our shareholders do not ratify the selection, our audit and finance committee may reconsider whether to retain BDO, but still may retain the firm. Even if the selection is ratified, our audit and finance committee, in its discretion, may change the appointment at any time during the year if it determines that such a change would be in the best interests of us and our shareholders.

**RECOMMENDATION OF THE BOARD: The board recommends a vote for the approval of the ratification of BDO USA, LLP as our independent registered public accounting firm for our fiscal year 2015.**

**ANNUAL REPORT ON FORM 10-K**

We will provide without charge to each person to whom a copy of this proxy statement has been delivered, upon written or oral request, a copy of our Annual Report on Form 10-K for our fiscal year ended March 31, 2014. Requests should be made to our board secretary at our principal executive offices located at 2210 Woodland Drive, Manitowoc, Wisconsin 54220; telephone number (800) 660-9340.

**SHAREHOLDER PROPOSALS**

We did not receive any shareholder proposals for inclusion in this year's proxy statement. All shareholder proposals pursuant to Rule 14a-8 under the Securities Exchange Act of 1934 ( "Rule 14a-8" ) for presentation at our 2015 annual meeting of shareholders must be received at our offices located at 2210 Woodland Drive, Manitowoc, Wisconsin 54220, by February 24, 2015, for inclusion in our proxy statement for our 2014 annual meeting.

A shareholder who intends to present business, other than a shareholder proposal pursuant to Rule 14a-8, or nominate a director at our 2015 annual meeting must comply with the requirements set forth in our bylaws. Among other things, a shareholder must give written notice to our board secretary on or before December 31, 2014, unless our 2015 annual meeting is on or after May 1, 2015, in which case notice must be received not later than the close of business on the day which is determined by adding to December 31, 2014 the number of days starting with May 1, 2015 and ending on the date of the 2014 annual meeting. By way of example, if our 2015 annual meeting takes place on August 6, 2015, then such notice to be timely must be received not later than the close of business on April 8, 2015.

If the notice is not timely received in accordance with the foregoing, then we are not required to present such proposal at the 2015 annual meeting because the notice will be considered untimely. If our board of directors chooses to present such a shareholder proposal submitted after its due date at the 2015 annual meeting, then the persons named in proxies solicited by our board of directors for the 2015 annual meeting may exercise discretionary voting power with respect to such proposal.

**SHAREHOLDER COMMUNICATIONS WITH THE BOARD OF DIRECTORS**

Shareholders who wish to communicate with our board or with particular directors may send correspondence to our board secretary at Orion Energy Systems, Inc., 2210 Woodland Drive, Manitowoc, Wisconsin 54220. Our board secretary will forward all appropriate communications to our board or to particular directors as directed or as appropriate. Shareholders may also communicate directly with non-management directors of our board by directing communications to Orion Energy Systems, Inc., 2210 Woodland Drive, Manitowoc, Wisconsin 54220, Attn: Chairman of the Board.

**MAILINGS TO HOUSEHOLDS**

To reduce duplicate mailings, we are now sending only one copy of any proxy statement or annual report to multiple shareholders sharing an address unless we receive contrary instructions from one or more of the shareholders. Upon written request, we will promptly deliver a separate copy of any annual report or proxy statement to a shareholder at a shared address.

If you wish to receive separate copies of each proxy statement and annual report please notify us by writing or calling our board secretary at 2210 Woodland Drive, Manitowoc, Wisconsin 54220, telephone number (800) 660-9340. If you are receiving duplicate mailings, you may authorize us to discontinue mailings of multiple proxy statements and annual reports. To discontinue duplicate mailings, notify us by writing or calling our board secretary.

**PROXY SOLICITATION**

We will bear the costs of solicitation of proxies for our annual meeting. In addition to solicitation by mail, directors, officers and our regular employees may solicit proxies from shareholders by telephone, telegram, in person or otherwise. These directors, officers and employees will not receive additional compensation, but may be reimbursed for out-of-pocket expenses in connection with the solicitation. Brokers, nominees, fiduciaries, and other custodians who are requested to forward soliciting material to the beneficial owners of our Common Stock held of record by them will be reimbursed for their reasonable expenses.

**YOUR VOTE IS IMPORTANT.**

**THE PROMPT RETURN OF PROXIES WILL SAVE OUR COMPANY THE EXPENSE OF FURTHER REQUESTS FOR PROXIES. PLEASE PROMPTLY MARK, SIGN, DATE AND RETURN THE ENCLOSED PROXY IN THE ENCLOSED ENVELOPE.**

Shareowner Services

P.O. Box 64945

St. Paul, MN 55164-0945

**Vote by Internet, Telephone or Mail**

**24 Hours a Day, 7 Days a Week**

Your phone or Internet vote authorizes the named proxies to vote your shares in the same manner as if you marked, signed and returned your proxy card.

**INTERNET/MOBILE**

[www.proxypush.com/oesx](http://www.proxypush.com/oesx)

Use the Internet to vote your proxy until

12:00 p.m. (CT) on August 5, 2014.

**PHONE 1-866-883-3382**

Use a touch-tone telephone to vote your proxy until 12:00 p.m. (CT) on August 5, 2014.

**MAIL** Mark, sign and date your proxy card and return it in the postage-paid envelope provided.

**If you vote your proxy by Internet or by Telephone, you do NOT need to mail back your Proxy Card.**

*ò Please detach here ò*

**The Board of Directors Recommends a Vote FOR Items 1, 2 and 3.**

1. Election of directors
- |                      |                            |          |                   |
|----------------------|----------------------------|----------|-------------------|
| 01 John H. Scribante | 03 Kenneth L. Goodson, Jr. | Vote FOR | Vote WITHHELD     |
| 02 Michael J. Potts  | 04 Elizabeth Gamsky Rich   |          | from all nominees |

all  
nominees

(except as marked)

**(Instructions: To withhold authority to vote for any indicated nominee, write the number(s) of the nominee(s) in the box provided to the right.)**

2. Advisory vote on the approval of the compensation of the Company's named executive officers as disclosed in the proxy statement.       For       Against  Abstain
3. Ratification of BDO USA, LLP to serve as the Company's independent registered public accounting firm for fiscal year 2015.       For       Against  Abstain
4. On such other matters that may properly come before the annual meeting in accordance with the best judgment of the persons named as proxies.

**THIS PROXY WHEN PROPERLY EXECUTED WILL BE VOTED AS DIRECTED OR, IF NO DIRECTION IS GIVEN, WILL BE VOTED FOR THE FOUR DIRECTOR NOMINEES INDICATED ABOVE AND FOR ITEMS 2 AND 3. IT WILL ALSO BE VOTED IN ACCORDANCE WITH THE BEST JUDGMENT OF THE PROXIES NAMED HEREIN ON ANY OTHER MATTERS THAT MAY PROPERLY COME BEFORE THE ANNUAL MEETING.**

Address Change? Mark box, sign, and indicate changes below:     

Date \_\_\_\_\_

Signature(s) in Box

Please sign name(s) exactly as shown at left. When signing as executor, administrator, trustee or guardian, give full title as such; when shares have been issued in names of two or more persons, all should sign.

**ORION ENERGY SYSTEMS, INC.**

**ANNUAL MEETING OF SHAREHOLDERS**

**Wednesday, August 6, 2014**

**1:00 p.m. (Local Time)**

**Live Meeting Webcast available through our website: [www.oesx.com](http://www.oesx.com).**

**U.S. Bank Center 40th Floor**

**777 East Wisconsin Avenue**

**Milwaukee, Wisconsin 53202**

**ORION ENERGY SYSTEMS, INC.**

**2210 Woodland Drive**

**Manitowoc, Wisconsin 54220**

**proxy**

**This proxy is solicited by the Board of Directors for use at the Annual Meeting on August 6, 2014.**

The undersigned hereby appoints John H. Scribante and Scott R. Jensen, and each of them, proxies with full power of substitution to vote all shares of Common Stock of Orion Energy Systems, Inc. of record in the name of the undersigned at the close of business on June 12, 2014 at the Annual Meeting of Shareholders of Orion Energy Systems, Inc. to be held on August 6, 2014, or at any adjournment or postponement thereof.

I further acknowledge receipt of the Notice of the Annual Meeting, the Proxy Statement and the Annual Report on Form 10-K, and I hereby revoke any other proxy I may have executed previously for the 2014 Annual Meeting of Shareholders.

*See reverse for voting instructions.*