ORION ENERGY SYSTEMS, INC.
Form 10-K
June 23, 2016
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

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Form 10-K
ý ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended March 31, 2016
or
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to

Commission File Number: 001-33887

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Orion Energy Systems, Inc.
(Exact name of Registrant as specified in its charter)

| | |
|---|---|
| Wisconsin | 39-1847269 |
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |
| | |
| 2210 Woodland Drive, Manitowoc, WI | 54220 |
| (Address of principal executive offices) | (Zip Code) |

(920) 892-9340
(Registrant's telephone number, including area code)
Securities registered pursuant to Section 12(b) of the act:

| Title of Each Class | Name of Each Exchange on Which Registered |
|---|---|
| Common stock, no par value | The Nasdaq Stock Market LLC (NASDAQ Captial Market) |
| Common stock purchase rights | The Nasdaq Stock Market LLC (NASDAQ Captial Market) |

Securities registered pursuant to Section 12(g) of the act:
None

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Indicate by check mark if the Registrant is a well-known seasoned issuer as defined in Rule 405 of the Securities Act. Yes ¨ No ý
Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes ¨ No ý
Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ý No ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ý No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨

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

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

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

The aggregate market value of shares of the Registrant's common stock held by non-affiliates as of September 30, 2015, the last business day of the Registrant's most recently completed second fiscal quarter, was approximately $40,265,665.

As of June 9, 2016, there were 28,059,351 shares of the Registrant's common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's Proxy Statement for the 2016 Annual Meeting of Shareholders to be held on August 3, 2016 are incorporated herein by reference in Part III of this Annual Report on Form 10-K.

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FOR THE YEAR ENDED MARCH 31, 2016
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## FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K includes forward-looking statements that are based on Orion Energy System's ("Orion", "we", "us", "our" and similar references) beliefs and assumptions and on information currently available to us. When used in this Form 10-K, the words “anticipate,” “believe,” “could,” “estimate,” “expect,” “intend,” “may,” “plan,” “p “predict,” “project,” “should,” “will,” “would” and similar expressions identify forward-looking statements. Although we belie that our plans, intentions, and expectations reflected in any forward-looking statements are reasonable, these plans, intentions or expectations are based on assumptions, are subject to risks and uncertainties, and may not be achieved. These statements are based on assumptions made by us based on our experience and perception of historical trends, current conditions, expected future developments and other factors that we believe are appropriate under the current circumstances. Such statements are subject to a number of risks and uncertainties, many of which are beyond our control. Our actual results, performance or achievements could differ materially from those contemplated, expressed or implied by the forward-looking statements contained in this Form 10-K. Important factors could cause actual results to differ materially from our forward-looking statements. Given these uncertainties, you should not place undue reliance on these forward-looking statements. Also, forward-looking statements represent our beliefs and assumptions only as of the date of this Form 10-K, including particularly the Risk Factors described under Part I. Item 1A. of this Form 10-K. All forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by the cautionary statements set forth in this Form 10-K. Actual events, results and outcomes may differ materially from our expectations due to a variety of factors. Although it is not possible to identify all of these factors, they include, among others, the following:

- our ability to achieve and sustain profitability and positive cash flows;
- our levels of cash and our limited borrowing capacity under our bank line of credit;
- the availability of additional debt financing and/or equity capital;
- our increasing reliance on third parties for the manufacture and development of products and product components;
- our increasing emphasis on selling more of our products through third party distributors and sales agents;
- our lack of major sources of recurring revenue and the potential consequences of the loss of one or more key customers or suppliers, including key contacts at such customers;
- the deterioration of market conditions, including our dependence on customers' capital budgets for sales of products and services;
- our ability to complete and execute our strategy in a highly competitive market and our ability to respond successfully to market competition;
- our ability to successfully implement our strategy of focusing on lighting solutions using Light Emitting Diode (“LED”) technologies in lieu of traditional High Intensity Fluorescent (“HIF”) lighting upon which our business has historically relied;
- the market acceptance of our products and services;
- our ability to realize expected cost savings from cost reduction initiatives;
- our development of, and participation in, new product and technology offerings or applications;
- our ability to effectively manage the growth of our business, including expansion of our Orion Distribution Services division;
- adverse developments with respect to litigation and other legal matters pursuant to which we are subject, including the ongoing litigation initiated against us by our former chief executive officer;
- our failure to comply with the covenants in our revolving credit agreement;
- the increasing duration of customer sales cycles;
- our fluctuating quarterly results of operations as we focus on new LED technologies and continue to focus investing in our third party distribution sales channel;
- our ability to recruit, hire and retain talented individuals in all disciplines of our company;
- our ability to recruit and hire sales talent to increase our in-market sales and our ability to pursue an expanded third-party sales channel through distribution and sales agents;
- price fluctuations, shortages or interruptions of component supplies and raw materials used to manufacture our products;

- our ability to effectively manage our product inventory to provide our products to customers on a timely basis;
- our ability to defend our patent portfolio;
- a reduction in the price of electricity;
- the cost to comply with, and the effects of, any current and future government regulations, laws and policies; and
- potential warranty claims in excess of our reserve estimates.

You are urged to carefully consider these factors and the other factors described under Part I. Item 1A. “Risk Factors” when evaluating any forward-looking statements, and you should not place undue reliance on these forward-looking statements.

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

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ITEM 1. BUSINESS

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

Overview

We are a leading designer and manufacturer of high-performance, energy-efficient lighting platforms. We research, develop, design, manufacture, market, sell and implement energy management systems consisting primarily of high-performance, energy-efficient commercial and industrial interior and exterior lighting systems and related services. Our products are targeted for applications in three primary market segments: (i.) commercial office and retail; (ii.) area lighting and (iii.) industrial applications, although we do sell and install products into other markets. Virtually all of our sales occur within North America.

We are primarily focused on providing commercial and industrial facilities lighting retrofit solutions in North America using solid state Light Emitting Diode (“LED”) technology. Our principal customers include national accounts, energy service companies, electrical contractors and electrical distributors. Currently, substantially all of our products are manufactured at our production facility location in Manitowoc, Wisconsin, although we are increasingly sourcing products and components from third parties as the LED market continues to evolve in order to have versatility in our product development.

While we continue to provide solutions using our legacy High Intensity Fluorescent (“HIF”) technology, we believe the market for lighting products has shifted to LED lighting systems. Compared to legacy lighting systems, LED lighting allows for better optical performance, significantly reduced maintenance costs due to performance longevity and reduced energy consumption. Due to their size and flexibility in application we also believe that LED lighting systems can address opportunities for retrofit applications that cannot be satisfied by other legacy technologies. LED lighting technologies are now the primary component of our revenue as we strive to be the leader in the industry transition to LED lighting technology. According to a July 2015 United States Department of Energy report ("DOE report"), we estimate the potential North American LED retrofit market within our key product categories to be approximately 1.1 billion lighting fixtures. In fiscal 2016, our LED lighting sales totaled $45,679,000, or 71%, of our total lighting product revenue, compared to $30,800,000, or 48%, of our total lighting product revenue for fiscal 2015. We plan to continue to primarily focus on developing and selling innovative LED products, although we will continue to market and sell legacy HIF solutions in circumstances in which LED solutions may not be our customers' best alternative.

Reportable Segments

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

Orion U.S. Markets Division ("USM")

The USM division develops and sells our commercial lighting systems and energy management systems to the wholesale contractor markets. Our U.S. Markets customers include domestic energy service companies ("ESCOs") and electrical contractors.

Our in-market sales force is focused on developing indirect customers which have represented a larger portion of our lighting revenue in recent years. We believe the effective expansion of our indirect customer base will help to increase our total revenue and operating profit to the extent we are successful in increasing our overall market coverage and awareness in regional and local markets.

Orion Engineered Systems Division ("OES")

The OES division develops and sells lighting products and provides construction and engineering services for our commercial LED and High Intensity Fluorescent ("HIF") lighting and energy management systems. OES provides turnkey solutions for large national accounts, governments, municipalities and schools.

Orion Distribution Services Division ("ODS")

The ODS division focuses on selling our lighting products through manufacturer representative agencies and a network of broadline North American distributors. ODS had growth in fiscal 2016 to revenues of $2,476,000 from

revenues of $978,000 in fiscal 2015, with a majority of that business transacting through broadline distributors.
For financial results by reportable segment, please refer to Note 10, "Segment Data" in our consolidated financial statements included in Item 8 of this Annual Report.

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Our Market Opportunity

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

Our products deliver energy savings and efficiency gains to our commercial and industrial customers without compromising their quantity or quality of light. We estimate that our energy management systems reduce our customers' lighting-related electricity costs by approximately 50% to 80%, while increasing their quantity of light by approximately 50% and improving lighting quality when replacing traditional fixtures. Our customers typically realize a one to three year payback period from electricity cost savings generated by our lighting systems without considering utility incentives or government subsidies. We have sold and installed our lighting products in over 13,550 facilities across North America, representing approximately 2 billion square feet of commercial and industrial building space, including sales to 178 of the Fortune 500 companies.

Energy-efficient lighting systems are cost-effective and environmentally responsible solutions allowing end users to reduce operating expenses. Based on a July 2015 report published by the United States Department of Energy, or DOE, we estimate the potential North American HIF and LED retrofit market within our primary markets to be approximately 7 billion lighting fixtures. Our primary markets are: (i) commercial office and retail, (ii) area lighting and (iii) industrial high bay applications.

Commercial office and retail. Our commercial office and retail market includes commercial office buildings, retail store fronts, government offices, schools and other buildings with traditional ten to twelve foot ceiling heights. The DOE estimates that there are approximately 980 million office troffer fixtures within the United States, which is a rectangular light fixture that fits into a modular dropped ceiling grid. We believe we have the opportunity to increase our revenue by serving this market with our LED Door Retrofit, or LDR™, lighting solutions.

Area lighting. Our market for area lighting includes parking garages, surface lots, automobile dealerships and gas service stations. The DOE estimates that there are approximately 65 million area lighting fixtures within the United States and an additional 44 million roadway lighting fixtures in the United States.

Industrial applications. Our market for industrial facilities includes manufacturing facilities, distribution and warehouse facilities, government buildings and agricultural buildings. These facilities typically contain high bay lighting fixtures. The DOE estimates that there are approximately 139 million low/high bay fixtures within the United States. We estimate that approximately 50% of this market still utilizes inefficient High Intensity Discharge ("HID") lighting technologies.

Commercial and industrial facilities in the United States employ a variety of lighting technologies, including HID, traditional fluorescents, LED and incandescent lighting fixtures. Our lighting systems typically replace less efficient HID and HIF fixtures. According to the Electric Power Research Institute, or EPRI, HID fixtures only convert approximately 36% of the energy they consume into visible light. We estimate our lighting systems generally reduce lighting-related electricity costs by approximately 50% to 80% compared to HID fixtures, while increasing the quantity of light by approximately 50% and improving lighting quality.

We believe that utilities within the United States recognize the importance of energy efficiency as an economical means to manage capacity constraints and as a low-cost alternative when compared to the construction costs of building new power plants. Accordingly, many of these utilities are continually focused on demand reduction through energy efficiency. According to our research of individual state and utility programs, 49 states, through legislation, regulation or voluntary action, have seen their utilities design and fund programs that promote or deliver energy efficiency. In fact, as of May 31, 2016, only Alaska, Delaware, and Maine do not currently have some form of utility or state energy efficiency programs for any of their commercial or industrial customers. Our products are not solely dependent upon these incentive programs, but we do believe that these incentive programs provide an important benefit as our customers evaluate their out-of-pocket cash investments.

Our Solution

50/50 Value Proposition. We estimate our lighting systems generally reduce lighting-related electricity costs by approximately 50% to 80% compared to legacy fixtures, while increasing the quantity of light by approximately 50% and improving lighting quality. In the commercial office and retail markets, we estimate our lighting systems generally reduce electricity costs by 50%. From December 1, 2001 through March 31, 2016, we believe that the use of our HIF and LED fixtures has saved our customers $3.7 billion in electricity costs and reduced their energy consumption by 48.2 billion kWh.

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

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

Easy Installation, Implementation and Maintenance. Most of our HIF and LED fixtures are designed with a lightweight construction and modular plug-and-play architecture that allows for fast and easy installation, facilitates maintenance and allows for easy integration of other components of our energy management system. Our office LED LDR™ products are designed to allow for a fast and easy installation without disrupting the ceiling space or the office work space. We believe our system's design reduces installation time and expense compared to other lighting solutions, which further improves our customers' return on investment. We also believe that our use of standard components reduces our customers' ongoing maintenance costs.

Expanded Product Offerings. We are committed to continue developing LED product offerings in all of the markets we serve.

Environmental Benefits. By allowing for the permanent reduction of electricity consumption, our energy management systems reduce indirect CO2 emissions that are a negative by-product of energy generation. We estimate that one of our LED or HIF lighting systems, when replacing a standard HID fixture, displaces 0.245 kW of electricity, which, based on information provided by the EPA, reduces a customer's indirect CO2 emissions by approximately 1.2 tons per year. Based on these figures, we estimate that the use of our HIF and LED fixtures has reduced indirect CO2 emissions by approximately 29.3 million tons through March 31, 2016.

Our Competitive Strengths

Compelling Value Proposition. By permanently reducing lighting-related electricity usage, our systems enable our customers to achieve significant cost savings, without compromising the quantity or quality of light in their facilities. As a result, our products offer our customers a rapid return on their investment, without relying on government subsidies or utility incentives. We also offer our customers a single source solution whereby we manage and are responsible for the entire project, including installation, across the entire North American real estate portfolio. Our ability to offer such a turnkey, national solution allows us to deliver energy reductions and cost savings to our customers in timely, orderly and planned multi-facility roll-outs.

Large and Growing Customer Base. We have developed a large and growing national customer base, and have installed our products in more than 13,550 commercial and industrial facilities across North America. We believe that the willingness of our blue-chip customers to install our products across multiple facilities represents a significant endorsement of our value proposition, which in turn helps us sell our energy management systems to new customers. We intend to leverage our expertise in managing projects across multiple facilities within our new LED product markets, which now include new customer opportunities with banks, insurance companies, hospitals, fast food chains, retail storefronts, grocery and pharmacies.

Innovative Technology. We have developed a portfolio of 67 United States patents primarily covering various elements of our products. We believe these innovations allow our products to produce more light output per unit of input energy compared to competition. We also have 29 patents pending that primarily cover various elements of our newly developed LED products and certain business methods. To complement our innovative energy management products, we have introduced integrated energy management services to provide our customers with a turnkey solution either at a single facility or across their North American facility footprints. Our demonstrated ability to innovate provides us with significant competitive advantages. Our lighting products offer significantly more light output as measured in foot-candles of light delivered per watt of electricity consumed when compared to HID or traditional fluorescent fixtures.

Expanded Sales Network. In addition to selling directly to electrical distribution customers, we sell our lighting products and services to national accounts. We now have relationships with more than 100 resellers and distributors that are represented by a North American network of independent lighting agencies. We intend to continue to selectively build our sales network in the future with a focus on geographic regions where we do not currently have a strong sales presence.

Our Growth Strategies

Emphasize LED Product and Market. We believe the market for lighting products has experienced a significant technology shift to LED lighting systems. Accordingly, our primary focus is on our lighting and retrofit solutions using LED technologies.

Expanded Sales Network and Salesforce. In addition to selling directly to national account customers, we sell our lighting products and services to end users through electrical distributors. During fiscal 2016, we engaged more than 18 manufacturer representative agencies to expand our reach with the broadline distributors and further enhance our ability to grow revenue. We now have relationships with more than 100 resellers and distributors that are represented by a North American network of independent lighting agencies. We continue to expand our sales network and we are also maintaining our in-market sales force which generates revenue through our independent channels.

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Develop New Sources of Revenue Through Expanded Product Offerings. We have expanded our role and product offerings in the LED marketplace, and plan to increase sales of LED fixtures for commercial office and retail applications, schools and government buildings, freezer and cold storage applications, exterior area applications, as well as high bay interior applications.
Leverage Existing Customer Base. Over the last several years, we have focused on expanding our relationships with our existing customers by transitioning from single-site facility implementations to comprehensive enterprise-wide roll-outs of our lighting products. We also intend to leverage our large installed base of HIF lighting systems to implement all aspects of our energy management system, particularly LED lighting products, wireless controls, cloud-based power data analysis and storage capabilities for our existing customers.
Continue to Improve Operational Efficiencies. We are focused on continually improving the efficiency of our operations to increase the profitability of our business and allow us to continue to deliver our compelling value proposition.
Create a Culture to Support Growth. We are focused on establishing a corporate culture that embraces high expectations and performance to continue to drive innovation, efficiency and deliver superior results to our customers.
Products and Services
Our primary focus has been, and will continue to be, emphasizing our LED lighting fixtures. Currently, substantially all of our products are manufactured at our production facility location in Manitowoc, Wisconsin, although we are increasingly sourcing products and components from third parties as the LED market continues to evolve in order to have versatility in our product development. However, we do not anticipate significant changes in product sourcing in the near term. We are focused on researching, developing and/or acquiring new LED products and technologies that are innovative in the retrofit markets, such as the LED door retrofit and exterior LED lighting products. We plan to focus our efforts on creating innovative LED retrofit products while continuing to sell legacy HIF solutions to customers in markets where LED technology adoption is in its infancy. Together with these products, we offer our customers a variety of integrated energy management services, such as system design, project management and installation.
Products
The following is a description of our primary products:
The LED Troffer Door Retrofit (LDR™): The LDR™ is designed to replace existing 4 foot by 2 foot and 2 foot by 2 foot fluorescent troffers that are frequently found in office or retail grid ceilings. Our LDR™ product is unique in that the LED optics and electronics are housed within the door frame which allows for installation of the product in approximately one to two minutes. The product provides reduced maintenance expenses based upon improved LED chips.
Interior LED High Bay Fixtures: Our LED interior high bay lighting products consist of our Harris high bay, Apollo™ high bay and ISON® high bay products. Our ISON® class of LED interior fixture offers a full package of premium features, including low total cost of ownership, optics that currently exceed competitors in terms of lumen package, delivered light, modularity and advanced thermal management. Our Apollo™ class of LED interior fixtures is designed for new construction and retrofit projects where initial cost is the largest factor in the purchase decision. In addition, our LED interior lighting products are lightweight and, we believe, easy to handle, which further reduces installation and maintenance costs and helps to build brand loyalty with electrical contractors and installers.
Exterior LED Fixtures: In October 2014, we launched a suite of new exterior LED lighting products including our Orion ISON® Class LED Exterior Area Fixture and our Apollo™ LED Exterior Area Light and Apollo™ LED Wall Pack. Our patent pending ISON® class LED exterior area fixture offers a full package of premium features, including low total cost of ownership, optics that exceed competitors in terms of lumen package, delivered light, modularity, advanced thermal management, and numerous accessory options (such as ambient sensors and fixture color). Our ISON® class LED Wall Pack is a wall mounted fixture to complement our ISON® class LED Area Light. Our Apollo™ LED Exterior Area Light and Apollo™ LED Wall Pack are designed to meet the market demand for long life exterior applications. Our exterior Apollo™ line products are ideal for new construction and retrofit projects where initial cost is the largest factor in the purchase decision.

Smart Lighting Controls. We offer a broad array of smart building control systems that have either been developed by us under the InteLite brand, or procured from third parties. These control systems provide both lighting control options (such as occupancy, daylight, or schedule control) and data intelligence capabilities for building managers to log, monitor, and analyze use of space, energy savings, and provide physical security of the space.

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

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

Services

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

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

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

Our Customers

We primarily target commercial, institutional and industrial customers who have warehousing, manufacturing, and office facilities. As of March 31, 2016, we have installed our products in 13,550 commercial and industrial facilities across North America. In fiscal 2016, there was no single customer that accounted for more than 10% of our total revenue. In fiscal 2015 we had one customer, Ford Motor Company, that accounted for 12% of our total revenue. In fiscal 2014, we had one customer, Standard Alternative LLC, that accounted for 23% of our total revenue.

Sales and Marketing

We sell our products in one of two ways: (i) directly to commercial and industrial customers using a systematic multi-step process that focuses on our value proposition and provides our sales force with a specific protocol for working with our customers from the point of lead generation through delivery of our products and services; and (ii) indirectly through independent sales agencies and electrical distributors. We believe that partnering with an agency sales force focused on providing technical product and sales support to our customers provides us with a greater potential for revenue growth. Our Distribution Services division focuses on developing and expanding customer relationships with broadline distributors. During fiscal 2016, we engaged more than 18 manufacturer representative agencies to expand our reach with broadline distributors and further enhance our ability to grow revenue. We attempt to leverage the customer relationships of these customers to further extend the geographic scope of our selling efforts. We work cooperatively with our indirect channels through participation in national trade organizations and by providing training on our sales methodologies. We intend to continue to selectively expand our independent sales network, focusing on those geographic regions where we lack sufficient sales coverage.

We have historically focused our marketing efforts on traditional direct advertising, as well as developing brand awareness through customer education and active participation in trade shows and energy management seminars. These efforts have included participating in national, regional and local trade organizations, exhibiting at trade shows, executing targeted direct mail campaigns, advertising in select publications, public relations campaigns, social media and other lead generation and brand-building initiatives.

Competition

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

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There are a number of lighting fixture manufacturers that sell LED and HIF products that compete with our lighting product lines. Lighting companies such as Acuity Brands, Inc., Carmanah Technology Corporation, Energy Focus, Inc., Eaton Corporation plc, Cree, Inc., LSI Industries, Inc., Revolution Lighting Technologies Inc., TCP International Holdings, Inc., and Hubbell Incorporated are some of our main competitors within the commercial and industrial markets.

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

Intellectual Property

As of March 31, 2016, we had been issued 67 United States patents and have applied for 29 additional United States patents. The patented and patent pending technologies cover various innovative elements of our products, including our HIF and LED fixtures. Our patented LDR™ product allows for a significantly quicker installation when compared to competitor's commercial office lighting products. Our smart lighting controls allow our lighting fixtures to selectively provide a targeted amount of light where and when it is needed most.

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

Backlog

Backlog represents the amount of revenue that we expect to realize in the future as a result of firm, committed orders. Backlog as of March 31, 2016 and 2015 totaled $5,600,000 and $7,100,000, respectively. We generally expect our backlog to become revenue within one year.

Manufacturing and Distribution

We own an approximately 266,000 square foot manufacturing and distribution facility located in Manitowoc, Wisconsin, where substantially all of our products are manufactured. As part of our business initiatives to adapt to the rapidly evolving LED market and to continue to enhance our competitiveness, we are considering implementing significant changes to our manufacturing production and assembly facility and processes.

On March 31, 2016, we entered into a purchase and sale agreement ("Agreement") with Tramontina U.S. Cookware, Inc. ("Tramontina") to sell and leaseback our manufacturing and distribution facility for a cash purchase price of approximately $2,600,000. Pursuant to the Agreement, we are negotiating a lease with Tramontina in which we will lease approximately 200,000 square feet of the building for not less than three years, with rent at $2.00 per square foot per annum. The lease will contain options by both parties to reduce the amount of leased space after March 1, 2017. The transaction is expected to close on or before June 30, 2016, subject to various closing conditions. We recorded an impairment charge of $1,614,000 in fiscal 2016 based on the related assets' carrying values exceeding the expected proceeds from this sale transaction.

We generally maintain a significant supply of raw material and purchased and manufactured component inventory. We contract with transportation companies to ship our products and manage all aspects of distribution logistics. We generally ship our products directly to the end user.

Research and Development

Our research and development efforts are centered on developing new LED products and technologies and enhancing existing products. The products, technologies and services we are developing are focused on increasing end user energy efficiency and enhancing lighting output. During fiscal 2014, we developed and commercialized the LDR™ product obtained through our acquisition of Harris Manufacturing. During fiscal 2015 and fiscal 2016, we focused our development on additional LED products, resulting in our development and commercialization of several suites of LED interior high bay products and LED exterior products.

Our research and development expenditures were $1,668,000, $2,554,000 and $2,026,000 for fiscal years 2016, 2015 and 2014, respectively.

During fiscal 2016, we opened an innovation hub in Chicago, Illinois to support the development and design of new LED products. We believe that this location is in close proximity to highly regarded engineering and business schools and will offer us a greater supply of technical talent to help us develop new LED products in the future. We also operate research and development lab and test facilities in our Jacksonville, FL and Manitowoc, WI locations.

Regulation

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

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

Our Corporate and Other Available Information

We were incorporated as a Wisconsin corporation in April 1996 and our corporate headquarters are located at 2210 Woodland Drive, Manitowoc, Wisconsin 54220. Our Internet website address is www.orionlighting.com. Our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, or the Exchange Act, are available through the investor relations page of our internet website free of charge as soon as reasonably practicable after we electronically file such material with, or furnish it to, the Securities and Exchange Commission, or the SEC.

Employees

As of March 31, 2016, we had 165 full-time and 98 temporary employees, of which 87 work in manufacturing. Our employees are not represented by any labor union, and we have never experienced a work stoppage or strike. We consider our relations with our employees to be good.

ITEM 1A. RISK FACTORS

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

We have had a history of losses and we may be unable to achieve or sustain profitability or positive cash flows in the future.

We have experienced net losses for the past four years. Generating net income and positive cash flows in the future will depend on our ability to successfully complete and execute our strategic plan. There is no guarantee that we will be able to achieve or sustain profitability or positive cash flows in the future. Our inability to successfully achieve and sustain profitability and positive cash flows may result in us experiencing a serious liquidity deficiency and resulting material adverse consequences that could threaten our viability.

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

Our existing liquidity and capital resources may not be sufficient to allow us to effectively pursue our strategy or our growth initiatives. Currently, we have limited borrowing capacity under our revolving credit facility. As of March 31, 2016, we had approximately $3,719,000 of outstanding borrowings and only $229,000 of borrowing capacity available under our revolving credit facility. If we require additional capital resources, we may not be able to obtain sufficient equity capital and/or debt financing to allow us to continue our normal course of operations or we may not be able to obtain such equity capital or debt financing on acceptable terms or conditions. Factors affecting the availability to us of equity capital or debt financing on acceptable terms and conditions include:

- The price, volatility and trading volume and history of our common stock.
- Our current and future financial results and position.
- The market's view of our company, industry and products.
- The perception in the equity and debt markets of our ability to execute our business plan or achieve our operating results expectations.

Our inability to obtain the equity capital or debt financing necessary to pursue our strategy could force us to scale back our operations or our sales initiatives due to the high working capital costs associated with an increase in the sales of our products from existing levels. If we are unable to pursue our strategy and sustain our growth initiatives, our business and operating results will be materially adversely affected.

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

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

We are increasing our emphasis on indirect distribution channels to sell our products and services. If we are unable to attract, incentivize and retain our third-party distributors and sales agents, our revenues could decline and our costs could increase.

We have significantly expanded the number of our manufacturer representative agencies that sell our products through broadline distributors, many of which are not exclusive, which means that these sales agents and distributors may sell other third-party products and services in direct competition with us. Since many of our competitors use sales agents and distributors to sell their products and services, competition for such agents and distributors is intense and may adversely affect our product pricing and gross margins. Additionally, due to mismanagement, industry trends, macro-economic developments, or other reasons, our sales agents and distributors may be unable to effectively sell our products at the levels desired or anticipated. In addition, we have historically relied on direct sales to sell our products, which were often made in competition with sales agents and distributors. In order to attract and form lasting partnerships with sales agents and distributors in the future, we will be required to overcome our historical perception as a direct sales competitor. As a result, we may have difficulty attracting and retaining sales agents and distributors and any inability to do so could have a negative effect on our ability to attract and obtain customers, which could have an adverse impact on our business.

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

Global economic and political uncertainty has led many customers to adopt strategies for conserving cash, including limits on capital spending. Our lighting systems are often purchased as capital assets and therefore are subject to capital availability. Uncertainty around such availability has led customers to delay purchase decisions, which has elongated the duration of our sales cycles. Continued weak economic conditions have adversely affected our customers’ capital budgets, purchasing decisions and facilities managers and, therefore, have adversely affected our results of operations. The return to a recessionary state of the global economy could potentially have negative effects on our near-term liquidity and capital resources, including slower collections of receivables, delays of existing order deliveries and postponements of incoming orders. Our business and results of operations will continue to be adversely affected to the extent these adverse economic conditions continue to affect our customers’ purchasing decisions.

Our financial performance is dependent on our ability to execute on our strategy and increase our profitability.

Our ability to achieve our desired growth and profitability depends on our ability to expand our reseller network, develop recurring revenue streams, effectively engage distribution and sales agents and improve our marketing, new product development, project management, margin enhancement and operating expense management, as well as other factors. If we are unable to successfully execute in any of these areas or on our growth and profitability strategy, then our business and financial performance will likely be materially adversely affected.

In addition, the gross margins of our products can vary significantly, with margins ranging from 15% to 50%. While we continue to implement our strategy of transitioning to higher-margin products, a change in the total mix of our sales toward lower margin products could reduce our profitability and result in a material adverse effect on our business and financial performance.

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

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

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

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retain customers, require us to lower our prices in order to remain competitive, and reduce our revenue and profitability, any of which could have a material adverse effect on our results of operations and financial condition.

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

The market for lighting products has experienced a significant technology shift to LED lighting systems. As a result, we are focusing our business primarily on providing lighting retrofit solutions using new LED technologies in lieu of traditional HIF lighting upon which our business has historically relied.

As a result, our future success depends significantly upon the adoption rate of LED products within our primary markets and our ability to participate in this ongoing market trend. To be an effective participant in this growing LED market opportunity, we must keep up with the evolution of LED technology, which has been moving at a fast pace. We may be unable to successfully develop and market new LED products or services that keep pace with technological or industry changes, satisfy changes in customer demands or comply with present or emerging government and industry regulations and technology standards. The development and introduction of new LED products may result in increased warranty expenses and other new product introduction expenses. In addition, we will likely continue to incur substantial costs to research and develop new LED products, which will increase our expenses, without guarantee that our new products and services will be commercially viable. We may also spend time and resources to develop and release new LED products only to discover that a competitor has also introduced similar new products with superior performance. Moreover, if new sources of lighting are developed, our current products and technologies could become less competitive or obsolete, which could result in reduced revenue, reduced earnings or increased losses and/or inventory and other impairment charges. Additionally, as the lighting retrofit market continues to shift to LED lighting products from HIF and other traditional lighting products, customer purchasing decisions have been delayed as they evaluate the relative advantages and disadvantages of the lighting retrofit product alternatives and wait for further decreases in the price of LED lighting products. These circumstances have led, and may continue to lead, to reduced revenue for us in the periods affected.

As we attempt to adapt our business organization to this quickly evolving market, we have been managing through significant change in our vendor supply chain as LED product portfolio and our product revenue continue to increase and we place most of our focus on this product line. We currently believe that our continuing efforts to negotiate further lower material input costs will improve our LED product gross margins. However, we may not be able to realize the gross margin benefits in the amounts or on the timetable anticipated and we may experience higher warranty expenses in the future as we implement our manufacturing and assembly process changes. It is also possible that, as we continue to focus our sales efforts on our LED product lines, we may increase our risk of inventory obsolescence for our legacy lighting product lines or even for outmoded LED products.

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

If we are unable to achieve market acceptance of our lighting retrofit solutions using new LED technologies or realize the expected benefits from our emphasis on promoting our LED technologies, our results of operations and financial condition will likely be materially adversely affected.

The success of our LED lighting retrofit solutions depend, in part, on our ability to claim market share ahead of our competitors.

Participants in the LED market who are able to quickly establish customer relationships and achieve market penetration are likely to gain a competitive advantage as the lighting retrofit solutions offered by us and our competitors generally have a product life of several years following installation. If we are unable to establish customer relationships and achieve market penetration in the LED market in a timely manner, we may lose the opportunity to market our LED products and services to significant portions of the lighting systems retrofit market for several years and may be at a disadvantage in securing future business opportunities from customers that have previously established relationships with one or more of our competitors. These disadvantages could reduce our revenue and profitability, which could have a material adverse effect on our results of operations and financial condition.

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

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

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products, then our ability to grow our business could be limited and we may not be able to increase our revenue or achieve profitability.

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

The market for our products and services is characterized by rapid market and technological changes, uncertain product life cycles, changes in customer demands and evolving government, industry and utility standards and regulations. As a result, our future success will depend, in part, on our ability to continue to design and manufacture new products and services. We may be unable to successfully develop and market new products or services that keep pace with technological or industry changes, satisfy changes in customer demands or comply with present or emerging government and industry regulations and technology standards.

We are subject to litigation and other legal matters that could result in charges against our income or strain our resources and distract our management, which could have a material adverse effect on our business, financial condition, results of operations, cash flows or reputation.

We are involved in a variety of claims, lawsuits and other disputes. These suits concern a variety of issues, including employee-related matters and contract disputes. In March 2014, we were named as a defendant in a civil lawsuit filed by Neal R. Verfuerth, our former chief executive officer who was terminated for cause in November 2012. The plaintiff alleges, among other things, that we breached certain agreements entered into with the plaintiff, including the plaintiff’s employment agreement, and violated certain laws. The complaint seeks, among other relief, unspecified pecuniary and compensatory damages, fees and such other relief as the court may deem just and proper. It is not feasible to predict the outcome of these pending suits and other matters, and the ultimate resolution of these matters, as well as future potential lawsuits, could result in liabilities, fines, significant expenses, distraction of management and other issues that could have a material adverse effect on our business, financial condition, results of operations, cash flows or reputation.

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

We rely upon the knowledge, experience and skills of key employees throughout our organization, particularly our senior management team and our sales group that require technical knowledge or contacts in, and knowledge of, the industry. In addition, our ability to attract talented new employees, particularly in our sales group, is also critical to our success. We also depend on our distribution channels and network of manufacturer representative agencies. If we are unable to attract and retain key employees, resellers, and manufacturer representative agencies because of competition or, in the case of employees, inadequate compensation or other factors, our operations and our ability to execute our operating plan could be adversely affected.

Increased employee turnover could negatively impact our business.

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

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

We may be vulnerable to price increases for components or raw materials that we require for our products, including aluminum, copper, certain rare earth minerals, electronic drivers, chips, ballasts, power supplies and lamps. In particular, our cost of aluminum can be subject to commodity price fluctuation. Further, suppliers' inventories of certain components that our products require may be limited and are subject to acquisition by others. In the past, we have had to purchase quantities of certain components that are critical to our product manufacturing and were in excess of our estimated near-term requirements as a result of supplier delivery constraints and concerns over component availability, and we may need to do so in the future. As a result, we have had, and may need to continue, to devote additional working capital to support a large amount of component and raw material inventory that may not be used over a reasonable period to produce saleable products, and we may be required to increase our excess and obsolete inventory reserves to provide for these excess quantities, particularly if demand for our products does not meet our expectations. Also, any shortages or interruptions in supply of our components or raw materials could disrupt our operations. If any of these events occur, our results of operations and financial condition could be materially adversely affected.

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

We do not have long-term contracts with our customers that provide us with recurring revenue from period to period. As a result, we generate a substantial portion of our revenue by securing large retrofit and multi-facility roll-out projects from new and existing customers and our dependence on individual key customers can vary from period to period as a result of the significant size of some of our retrofit and multi-facility roll-out projects. Our top 10 customers accounted for approximately 37%, 36%, and 45% respectively, of our total revenue for fiscal 2016, 2015 and 2014. In fiscal 2014 and fiscal 2015, our top customer accounted for 23% and 12% of our total revenues, respectively. In fiscal 2016, there was no single customer that accounted for more than 10% of our revenue. While we are making efforts to increase our sources of recurring revenue, we expect large retrofit and roll-out projects to continue to remain a significant component of our total revenue. Additionally, commercial office lighting retrofits provide for single large project opportunities. As a result, we may continue to experience customer concentration in future periods. The loss of, or substantial reduction in sales to, any of our significant customers, or a major customer, could have a material adverse effect on our results of operations in any given future period.

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

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

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

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

We own United States patents and patent applications for some of our products, systems, business methods and technologies. We offer no assurance about the degree of protection which existing or future patents may afford us. Likewise, we offer no assurance that our patent applications will result in issued patents, that our patents will be upheld if challenged, that competitors will not develop similar or superior business methods or products outside the protection of our patents, that competitors will not infringe upon our patents, or that we will have adequate resources to enforce our patents. Effective protection of our United States patents may be unavailable or limited in jurisdictions outside the United States, as the intellectual property laws of foreign countries sometimes offer less protection or have onerous filing requirements. In addition, because some patent applications are maintained in secrecy for a period of time, we could adopt a technology without knowledge of a pending patent application, and such technology could infringe a third party’s patent.

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

We rely on our trademarks, trade names, and brand names to distinguish our company and our products and services from our competitors. Some of our trademarks may conflict with trademarks of other companies. Failure to obtain trademark registrations could limit our ability to protect our trademarks and impede our sales and marketing efforts. Further, we cannot assure you that competitors will not infringe our trademarks, or that we will have adequate resources to enforce our trademarks.

In addition, third parties may bring infringement and other claims that could be time-consuming and expensive to defend. Also, parties making infringement and other claims may be able to obtain injunctive or other equitable relief that could effectively block our ability to provide our products, services or business methods and could cause us to pay substantial damages. In the event of a successful claim of infringement, we may need to obtain one or more licenses from third parties, which may not be available at a reasonable cost, or at all. It is possible that our intellectual property rights may not be valid or that we may infringe upon

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existing or future proprietary rights of others. Any successful infringement claims could subject us to significant liabilities, require us to seek licenses on unfavorable terms, prevent us from manufacturing or selling products, services and business methods and require us to redesign or, in the case of trademark claims, re-brand our company or products, any of which could have a material adverse effect on our business, results of operations or financial condition.

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

Our credit agreement with Wells Fargo Bank, National Association contains provisions that may limit our future borrowing availability, and may from time to time require us to maintain a minimum fixed charge coverage ratio. The credit agreement also contains other customary covenants, including certain restrictions on our ability to incur additional indebtedness, consolidate or merge, enter into acquisitions, guarantee obligations of third parties, make loans or advances, declare or pay any dividend or distribution on our stock, redeem or repurchase shares of our stock, or pledge or dispose of assets.

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

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

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

- earthquake, fire, flood and other natural disasters;
- employee or other theft;
- attacks by computer viruses or hackers;
- power outages; and
- computer systems, internet, telecommunications or data network failure.

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

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

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

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

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

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

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

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

We have significant federal net operating loss carryforwards and state net operating loss carryforwards. While our federal and state net operating loss carryforwards are fully reserved for, if we are unable to return to and maintain profitability, we may not be able to fully utilize these tax benefits. Furthermore, generally a change of more than 50% in the ownership of a company's stock, by value, over a three-year period constitutes an ownership change for federal income tax purposes. An ownership change may limit a company's ability to use its net operating loss carryforwards attributable to the period prior to such change. We believe that past issuances and transfers of our stock caused an ownership change in fiscal 2007 that may affect the timing of the use of our net operating loss carryforwards, but we do not believe the ownership change affects the use of the full amount of our net operating loss carryforwards. As a result, our ability to use our net operating loss carryforwards attributable to the period prior to such ownership change to offset taxable income will be subject to limitations in a particular year, which could potentially result in increased future tax liability for us.

Our failure to establish and maintain internal controls over financial reporting could harm our business and financial results.

Our management is responsible for establishing and maintaining effective internal control over financial reporting. Internal control over financial reporting is a process to provide reasonable assurance regarding the reliability of financial reporting for external purposes in accordance with accounting principles generally accepted in the United States. Because of its inherent limitations, internal control over financial reporting is not intended to provide absolute assurance that we would prevent or detect a misstatement of our financial statements or fraud. In fiscal 2012, our Chief Executive Officer and Chief Financial Officer concluded that our internal controls were not effective due to certain identified material weaknesses, which were remediated during fiscal 2013. Additionally, as of March 31, 2016, we identified a material weakness in our internal control over financial reporting as a result of our insufficient review of non-routine revenue transactions and the related accounting entries. A material weakness is defined as a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the annual or interim financial statements will not be prevented or detected on a timely basis. We are actively engaged in developing a remediation plan designed to address this material weakness. If the remedial measures are insufficient to address this material weakness or if additional material weaknesses or significant deficiencies in the internal control are discovered or occur in the future, our consolidated financial statements may contain material misstatements and Orion could be required to restate its financial results. The failure to maintain an effective system of internal control over financial reporting could limit our ability to report our financial results accurately and in a timely manner or to detect and prevent fraud and could also cause a loss of investor confidence and decline in the market price of our common stock.

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

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

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

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

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We may not be able to maintain compliance with The NASDAQ Capital Market's continued listing requirements.
Our common stock is listed on The NASDAQ Capital Market. In order to maintain the listing of our common stock on The NASDAQ Capital Market, we must meet minimum financial, and other requirements, including requirements that our common stock maintains a minimum price per share of $1.00. As of June 10, 2016 the closing price per share of our common stock was $1.27. If the price of our common stock were to fall below $1.00 for 30 or more consecutive business days, we would no longer be in compliance with the continued listing requirements of The NASDAQ Capital Market and may be required to take steps to satisfy the minimum price per share requirement, including calling a special meeting of our shareholders to approve a reverse stock split. A potential delisting of our common stock could adversely affect the market liquidity of our common stock, our ability to obtain financing and our ability to fund our operations.
We are not currently paying dividends and will likely continue not paying dividends for the foreseeable future.
We have never paid or declared any cash dividends on our common stock. We currently intend to retain all available funds and any future earnings to fund the development and expansion of our business, and we do not anticipate paying any cash dividends in the foreseeable future. In addition, the terms of our existing revolving credit agreement restrict the payment of cash dividends on our common stock. Any future determination to pay dividends will be at the discretion of our board of directors and will depend on our financial condition, results of operations, capital requirements, contractual restrictions and other factors that our board of directors deems relevant. The restriction on and decision not to pay dividends may impact our ability to attract investors and raise funds, if necessary, in the capital markets.
Anti-takeover provisions included in the Wisconsin Business Corporation Law, provisions in our amended and restated articles of incorporation or bylaws and the common share purchase rights that accompany shares of our common stock could delay or prevent a change of control of our company, which could adversely impact the value of our common stock and may prevent or frustrate attempts by our shareholders to replace or remove our current board of directors or management.
A change of control of our company may be discouraged, delayed or prevented by certain provisions of the Wisconsin Business Corporation Law. These provisions generally restrict a broad range of business combinations between a Wisconsin corporation and a shareholder owning 15% or more of our outstanding common stock. These and other provisions in our amended and restated articles of incorporation, including our staggered board of directors and our ability to issue “blank check” preferred stock, as well as the provisions of our amended and restated bylaws and Wisconsin law, could make it more difficult for shareholders or potential acquirers to obtain control of our board of directors or initiate actions that are opposed by the then-current board of directors, including to delay or impede a merger, tender offer or proxy contest involving our company.
Each currently outstanding share of our common stock includes, and each newly issued share of our common stock will include, a common share purchase right. The rights are attached to, and trade with, the shares of common stock and generally are not exercisable. The rights will become exercisable if a person or group acquires, or announces an intention to acquire, 20% or more of our outstanding common stock. The rights have some anti-takeover effects and generally will cause substantial dilution to a person or group that attempts to acquire control of us without conditioning the offer on either redemption of the rights or amendment of the rights to prevent this dilution. The rights could have the effect of delaying, deferring or preventing a change of control.
In addition, our employment arrangements with senior management provide for severance payments and accelerated vesting of benefits, including accelerated vesting of stock options, upon a change of control. These provisions could limit the price that investors might be willing to pay in the future for shares of our common stock, thereby adversely affecting the market price of our common stock. These provisions may also discourage or prevent a change of control or result in a lower price per share paid to our shareholders.

ITEM 1B. UNRESOLVED STAFF COMMENTS
None.
ITEM 2. PROPERTIES

As of March 31, 2016, we owned an approximately 266,000 square foot manufacturing and distribution facility in Manitowoc, Wisconsin. On March 31, 2016, we entered into a purchase and sale agreement ("Agreement") with Tramontina U.S. Cookware, Inc. ("Tramontina") to sell our manufacturing and distribution facility for a cash purchase price of approximately $2,600,000. Pursuant to the Agreement, we are negotiating a lease with Tramontina under which we will lease approximately 200,000 square feet of the building for not less than three years, with rent at $2.00 per square foot per annum. The lease will contain options by

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both parties to reduce the amount of leased space after March 1, 2017. The transaction is expected to close on or before June 30, 2016, subject to various closing conditions. We recorded an impairment charge of $1,614,000 in fiscal 2016 based on the related assets' carrying values exceeding the expected proceeds from this sale transaction.

In addition, we own our approximately 70,000 square foot technology center and corporate headquarters adjacent to our Manitowoc manufacturing and distribution facility, of which we lease a portion to a third party. Both facilities are used by all of our segments. We also lease office space in the following locations:

- 5,600 square foot office in Houston, Texas.
- 10,500 square foot office space in Jacksonville, Florida.
- 3,100 square foot office space in Chicago, Illinois.

## ITEM 3. LEGAL PROCEEDINGS

We are subject to various claims and legal proceedings arising in the ordinary course of business. As of the date hereof, we are unable to currently assess whether the final resolution of any of such claims or legal proceedings may have a material adverse effect on Orion’s future results of operations. In addition to ordinary-course litigation, we are a party to the proceedings described below.

On March 27, 2014, we were named as a defendant in a civil lawsuit filed by Neal R. Verfuerth, our former chief executive officer who was terminated for cause in November 2012, in the United States District Court for the Eastern District of Wisconsin (Green Bay Division). The plaintiff alleges, among other things, that we breached certain agreements entered into with the plaintiff, including the plaintiff’s employment agreement, and violated certain laws. The complaint seeks, among other relief, unspecified pecuniary and compensatory damages, fees and such other relief as the court may deem just and proper. On November 4, 2014, the court granted our motion to dismiss six of the plaintiff's claims. On January 9, 2015, the plaintiff filed an amended complaint re-alleging claims that were dismissed by the Court, including, among other things, a retaliation claim and certain claims with respect to prior management agreements and certain intellectual property rights. On January 22, 2015, we filed a motion to dismiss and a motion to strike certain of the claims made in the amended complaint. On May 18, 2015, the court dismissed the intellectual property claims re-alleged in the January 9, 2015 amended complaint. At the court's direction, the parties attempted to mediate the matter in May 2016, but were unsuccessful in resolving the matter. We believe that we have substantial legal and factual defenses to the plaintiff's claims and allegations remaining in the case and that we will prevail in this proceeding. We intend to continue to defend against the claims vigorously.

## ITEM 4. MINE SAFETY DISCLOSURES

None.

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

Price Range of our Common Stock

Our common stock is currently listed on The NASDAQ Capital Market under the symbol "OESX". Prior to June 15, 2015, our common stock was listed on the NYSE MKT. The following table sets forth the range of high and low sales prices per share as reported on The NASDAQ Capital Market or NYSE MKT, as applicable, for the periods indicated.

| | High | Low |
|---|---|---|
| Fiscal 2016 | | |
| First Quarter | $3.48 | $2.17 |
| Second Quarter | $2.59 | $1.73 |
| Third Quarter | $2.50 | $1.58 |
| Fourth Quarter | $2.25 | $1.18 |
| Fiscal 2015 | | |
| First Quarter | $2.51 | $2.00 |
| Second Quarter | $4.44 | $2.30 |
| Third Quarter | $7.22 | $3.50 |
| Fourth Quarter | $8.11 | $4.71 |

Shareholders

As of June 9, 2016, there were approximately 229 record holders of the 28,059,351 outstanding shares of our common stock. The number of record holders does not include shareholders for whom shares are held in a "nominee" or "street" name.

Dividend Policy

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

Securities Authorized for Issuance under Equity Compensation Plans

The following table represents shares outstanding under our 2003 Stock Option Plan and our 2004 Equity Incentive Plan as of March 31, 2016.

Equity Compensation Plan Information

| Plan Category | Number of Securities to be Issued Upon Exercise of Outstanding Options and Vesting of Restricted Shares | Weighted Average Exercise Price of Outstanding Options and Restricted Shares | Number of Securities Remaining Available for Future Issuances Under the Equity Compensation Plans (1) |
|---|---|---|---|
| Equity Compensation plans approved by security holders | 3,070,435 | $ 3.32 | 787,686 |
| Equity Compensation plans not approved by security holders | — | — | — |
| Total | 3,070,435 | $ 3.32 | 787,686 |

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

Issuer Purchase of Equity Securities

We did not purchase shares of our common stock during the year ended March 31, 2016.

Unregistered Sales of Securities

None.

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Stock Price Performance Graph

The following graph shows the total shareholder return of an investment of $100 in cash on March 31, 2011, through March 31, 2016, for (1) our common stock, (2) the Russell 2000 Index and (3) The NASDAQ Clean Edge Green Energy Index. Data for the Russell 2000 Index and the NASDAQ Clean Edge Green Energy Index assume reinvestment of dividends. The stock price performance graph should not be deemed filed or incorporated by reference into any other filing made by us under the Securities Act of 1933 or the Securities Exchange Act of 1934, except to the extent that we specifically incorporate the stock performance graph by reference in another filing.

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ITEM 6. SELECTED FINANCIAL DATA

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

| | Fiscal Year Ended March 31, | | | | |
|---|---|---|---|---|---|
| | 2016 | 2015 | 2014 | 2013 | 2012 |
| | (in thousands, except per share amounts) | | | | |
| Consolidated statements of operations data: | | | | | |
| Product revenue | $64,897 | $65,881 | $71,954 | $72,604 | $90,782 |
| Service revenue | 2,745 | 6,329 | 16,669 | 13,482 | 9,780 |
| Total revenue | 67,642 | 72,210 | 88,623 | 86,086 | 100,562 |
| Cost of product revenue(1)(5) | 49,630 | 68,388 | 54,423 | 49,551 | 62,842 |
| Cost of service revenue | 2,015 | 4,959 | 11,220 | 9,805 | 7,682 |
| Total cost of revenue | 51,645 | 73,347 | 65,643 | 59,356 | 70,524 |
| Gross profit (loss) | 15,997 | (1,137) | 22,980 | 26,730 | 30,038 |
| General and administrative expenses(1)(2)(3) | 16,884 | 14,908 | 14,951 | 13,946 | 11,399 |
| Goodwill and long lived asset impairment (6) | 6,023 | — | — | — | — |
| Acquisition and integration related expenses (4) | — | 47 | 819 | — | — |
| Sales and marketing expenses(1)(2) | 11,343 | 13,290 | 13,527 | 17,129 | 15,599 |
| Research and development expenses(1) | 1,668 | 2,554 | 2,026 | 2,259 | 2,518 |
| Income (Loss) from operations | (19,921) | (31,936) | (8,343) | (6,604) | 522 |
| Interest expense | (297) | (376) | (481) | (567) | (551) |
| Gain on sale of OTA contract receivables | — | — | — | — | 32 |
| Dividend and interest income | 128 | 300 | 567 | 845 | 850 |
| Income (loss) before income tax | (20,090) | (32,012) | (8,257) | (6,326) | 853 |
| Income tax expense (benefit)(2)(3) | 36 | 49 | (2,058) | 4,073 | 370 |
| Net income (loss) and comprehensive income (loss) | $(20,126) | $(32,061) | $(6,199) | $(10,399) | $483 |
| Net income (loss) per share attributable to common shareholders: | | | | | |
| Basic | $(0.73) | $(1.43) | $(0.30) | $(0.50) | $0.02 |
| Diluted | $(0.73) | $(1.43) | $(0.30) | $(0.50) | $0.02 |
| Weighted-average shares outstanding: | | | | | |
| Basic | 27,628 | 22,353 | 20,988 | 20,997 | 22,953 |
| Diluted | 27,628 | 22,353 | 20,988 | 20,997 | 23,387 |

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

| | Fiscal Year Ended March 31, | | | | |
|---|---|---|---|---|---|
| | 2016 | 2015 | 2014 | 2013 | 2012 |
| | (in thousands) | | | | |
| Cost of product revenue | $36 | $50 | $70 | $114 | $189 |
| General and administrative expenses | 1,148 | 1,056 | 1,025 | 578 | 548 |
| Sales and marketing expenses | 235 | 360 | 485 | 451 | 501 |
| Research and development expenses | 43 | 33 | 13 | 21 | 29 |
| Total stock-based compensation expense | $1,462 | $1,499 | $1,593 | $1,164 | $1,267 |

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(2) Includes fiscal 2013 reorganization expenses of $1,900 in general and administrative expenses, $225 in sales and marketing expenses and a $4,074 valuation reserve for deferred tax assets in income tax expense.

(3) Includes fiscal 2014 loss on sale of a leased corporate jet of $1,507 in general and administrative expenses and a $2,315 benefit for deferred tax liabilities created by the acquisition of Harris in income tax benefit. Includes in fiscal 2016 a $1,400 loss contingency.

(4) Includes fiscal 2014 expenses of $515 related to the acquisition and integration of Harris.

(5) Includes fiscal 2015 expenses of $12,130 related to the impairment of wireless control inventory, fixed assets and intangible assets.

(6) Includes fiscal 2016 expenses of $4,409 related to the impairment of goodwill and $1,614 related to the write-down to fair value of the manufacturing facility.

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| | As of March 31, | | | | |
|---|---|---|---|---|---|
| | 2016 | 2015 | 2014 | 2013 | 2012 |
| | (in thousands) | | | | |
| Consolidated balance sheet data: | | | | | |
| Cash and cash equivalents | $15,542 | $20,002 | $17,568 | $14,376 | $23,011 |
| Short-term investments | — | — | 470 | 1,021 | 1,016 |
| Total assets | 70,875 | 87,805 | 98,940 | 102,097 | 125,650 |
| Long-term debt, less current maturities | 4,021 | 3,222 | 3,151 | 4,109 | 6,704 |
| Shareholder notes receivable | (4) | (4) | (50) | (265) | (221) |
| Total shareholders’ equity | $45,983 | $64,511 | $77,012 | $77,769 | $92,769 |

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

(In thousands, except percentages and per share amounts)

The following discussion and analysis of our financial condition and results of operations should be read together with our audited consolidated financial statements and related notes included in this Annual Report on Form 10-K for the fiscal year ended March 31, 2016. See also “Forward-Looking Statements” and Item 1A “Risk Factors”.

### Overview

We are a leading designer and manufacturer of high-performance, energy-efficient lighting platforms. We research, develop, design, manufacture, market, sell and implement energy management systems consisting primarily of high-performance, energy-efficient commercial and industrial interior and exterior lighting systems and related services. Our products are targeted for applications in three primary market segments: commercial office and retail, area lighting and industrial applications, although we do sell and install products into other markets. Virtually all of our sales occur within North America. We operate in three operating segments, which we refer to as Orion U.S. Markets Division ("USM"), Orion Engineered Systems Division ("OES") and Orion Distribution Services Division ("ODS"). USM focuses on selling our lighting solutions into the wholesale markets with customers including domestic energy service companies, or ESCOs, and electrical contractors. OES focuses on selling lighting products and construction and engineering services direct to end users. OES completes the construction management services related to existing contracted projects. Its customers include national accounts, governments, municipalities and schools. ODS focuses on selling our lighting products to a developing network of broadline distributors.

Our lighting products consist primarily of LED and HIF lighting fixtures. Our principal customers include national accounts, ESCOs, electrical contractors and electrical distributors. Currently, substantially all of our products are manufactured at our production facility location in Manitowoc, Wisconsin, although we are increasingly sourcing products and components from third parties as the LED market continues to evolve and in order to provide us with versatility in our product development.

While we continue to provide some solutions using our legacy HIF technology, the market for lighting products is currently in a significant technology shift to LED lighting systems. Compared to legacy lighting systems, we believe that LED lighting

technology allows for better optical performance, significantly reduced maintenance costs due to performance longevity and reduced energy consumption. Due to their size and flexibility in application, we also believe that LED lighting systems can address opportunities for retrofit applications that cannot be satisfied by fluorescent or other legacy technologies. Our LED lighting technologies have become the primary component of our revenue as we continue to strive to be a leader in the industry transition to LED lighting technology. Based on a July 2015 United States Department of Energy report, we estimate the potential North American LED retrofit market within our key product categories to be approximately 1.1 billion lighting fixtures. We plan to continue to primarily focus on developing and selling innovative LED products, although we will continue to market and sell legacy HIF solutions in circumstances in which LED solutions may not be our customers' best alternative.

We do not have long-term contracts with our customers that provide us with recurring revenue from period to period and we typically generate substantially all of our revenue from sales of lighting systems and related services to commercial and industrial customers on a project by project basis. We typically sell our lighting systems in replacement of our customers’ existing fixtures. We call this replacement process a “retrofit.” We frequently engage our customer’s existing electrical contractor to provide installation and project management services. We also sell our lighting systems on a wholesale basis, principally to electrical contractors, ESCOs, and electrical distributors to sell to their own customer bases.

Our ability to achieve our desired growth and profitability depends on our ability to expand our reseller network, develop recurring revenue streams, effectively engage distribution and sales agents and improve our marketing, new product development, project management, margin enhancement and operating expense management, as well as other factors. In addition, the gross margins of our products can vary significantly, with margins ranging from 15% to 50%. As a result, a change in the total mix of our sales toward higher or lower margin products could cause our profitability to fluctuate from period to period. Despite recent economic challenges, we remain optimistic about our near-term and long-term financial performance. We believe that customer purchases of LED lighting systems will continue to increase in the near-term as expected improvements in LED performance and expected decreases in LED product costs to make our LED products even more economically compelling to our customers. Our near-term optimism is based upon: (i) our efforts to expand our Distribution Services customer base; (ii) our intentions to continue to selectively expand our sales force; (iii) our investments into new high-performance LED industrial lighting fixtures; (iv) our expected fiscal 2017 increase in revenue and gross margin as we increase sales of these product lines; (v) our recent improvements in gross margin as a result of our cost containment initiatives and development of higher-performance LED products; and (vi) the increasing volume of unit sales of our new products, specifically our LED high bay lighting fixtures. Our long-term optimism is based upon the considerable size of the existing market opportunity for lighting retrofits, including the market opportunities in commercial office, government and retail markets, the continued development of our new products and product enhancements, including our new LED product offerings, and our efforts to expand our channels of distribution and our cost reduction initiatives. As we attempt to adapt our business organization to the quickly evolving lighting market, we are implementing significant changes to our manufacturing operations to increase our flexibility, remain competitive and lower our cost structure. Implementing these initiatives may result in additional cost and expenses, including asset impairment or write-down charges and other repositioning expenses and charges, which would likely materially adversely affect our reported results of operations. Our anticipated increase in revenues in fiscal 2017 may impact our available cash and borrowing capacity as a result of the high capital costs associated with the increase in the sales of our products from existing levels. As a result, we are pursuing various alternative sources of liquidity, including the sale and leaseback of our manufacturing facility, which is expected to be completed by the end of June 2016, subject to various closing conditions.

Our ability to achieve our desired growth and profitability depends on our ability to expand our reseller network, develop recurring revenue streams, effectively engage distribution and sales agents and improve our marketing, new product development, project management, margin enhancement and operating expense management, as well as other factors.

Our fiscal year ends on March 31. We refer to our prior fiscal years which ended on March 31, 2014 as “fiscal 2014”, and the year ended on March 31, 2015, as “fiscal 2015”, and our current fiscal year, which ended on March 31, 2016, as "fiscal 2016." Our fiscal first quarter of each fiscal year ends on June 30, our fiscal second quarter ends on September 30, our fiscal third quarter ends on December 31 and our fiscal fourth quarter ends on March 31.

Market Shift to Light Emitting Diode Products

The rapid market shift in the lighting industry from legacy lighting products to LED lighting products has caused us to adopt new strategies, approaches and processes in order to respond proactively to this paradigm shift. These changing underlying business fundamentals in this paradigm shift include:

- Rapidly declining LED product end user customer pricing and related component costs, improving LED product performance and customer return on investment payback periods, all of which are driving increasing customer preferences for LED lighting products compared to legacy lighting products.
- Increasing LED lighting product customer sales compared to decreasing HIF product sales.
- Generally lower LED product gross margins than those typically realized on sales of legacy lighting products.

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- A broader and more diverse customer base and market opportunities compared to our historical commercial and industrial facility customers.
- Increased importance of highly innovative product designs and features and faster speed to market product research and development capabilities.
- Significantly reduced product technology life cycles; significantly shorter product inventory shelf lives and the related increased risk of rapidly occurring product technology obsolescence.
- Increased reliance on international component sources.
- Less internal product fabrication and production capabilities needed to support LED product assembly.
- Different and broader types of components, fabrication and assembly processes needed to support LED product assembly compared to our legacy products.
- Expanding customer bases and sales channels.
- Significantly longer end user product warranty requirements for LED products compared to our legacy products.

As we continue to focus our primary business on selling our LED product lines to respond to the rapidly changing market dynamics in the lighting industry, we face intense competition from an increased number of other LED product companies, a number of which have substantially greater resources and more experience and history with LED lighting products than we do.

Fiscal 2016 Developments

Since the fourth quarter of fiscal 2014, we have experienced a reduction in the amount of new customer orders for our energy-efficient HIF lighting systems within our industrial and exterior markets. We attribute this to an increasing awareness within the marketplace of emerging LED product offerings. We believe that customers continue to defer purchase decisions as they evaluate the cost and performance of these LED product offerings. During the fiscal 2015 third quarter, deferrals of purchasing decisions began to abate as customer purchases of LED lighting systems during our fiscal 2015 back half increased compared to our fiscal 2014 back half. This trend continued during fiscal 2016 as our LED lighting revenue increased by 49% compared to fiscal 2015.

During the second half of fiscal 2016 we experienced a slowing of customer capital spending which we attribute to general macro-economic concerns and conservative cash allocation strategies within our manufacturing and industrial customer base. Additionally, during the fiscal 2016 third quarter, we began to further emphasize sales through our distribution channel by working through manufacturer representative agencies who represent lighting distributors throughout our addressable markets: commercial office and retail, area lighting and industrial applications. While we expect this activity to generate long-term growth, in the near-term it may have a dampening impact on revenues.

During fiscal 2016, we continued to see improvements in our LED product gross margin related to LED products as a result of our negotiated price decreases for lighting components and the benefits of our fiscal 2015 fourth quarter cost containment initiatives. During the fiscal 2016 second quarter, we experienced an increase in sales of our LED door retrofit, or LDR, product line which has lower gross margins as compared to our other LED product lines. This increase in volume negatively impacted our overall gross margin during the fiscal 2016 second quarter.

In October 2015, we introduced a series of new LED industrial high bay products. These LED products have significant advantages in delivering lumens per watt and, we believe, the lowest total cost of ownership versus other LED lighting products. Additionally, we expect that our gross margins will improve as we increase sales of these new products.

Fiscal 2017 Outlook

On March 31, 2016, we entered into a purchase and sale agreement with Tramontina U.S. Cookware, Inc. providing for the sale and leaseback of our Manitowoc manufacturing facility for gross cash proceeds of approximately $2,600,000. The agreement includes customary terms related to a real estate sales transaction and requires the parties to negotiate a lease whereby we will lease approximately 200,000 square feet of the building for a term of not less than three years with rent at $2.00 per square foot per annum. The lease will contain options by both parties to reduce amount of leased space after March 1, 2017 given sufficient notice. The closing of the transaction is expected to occur on or before June 30, 2016, subject to various closing conditions.

We expect that our revenues and gross margin will increase during fiscal 2017 as we continue to recognize the benefits of higher purchase volumes of LED components at lower costs, increasing sales volumes of our newly introduced and higher-margin LED high bay products and increased utilization of our manufacturing facility.

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We expect that our marketing expenditures will increase in fiscal 2017 primarily to support more robust customer lead generations and further enhance our brand awareness with our agents in their efforts to sell our products through our distribution channel.

Results of Operations: Fiscal 2016 versus Fiscal 2015

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

| | Fiscal Year Ended March 31, | | | | |
|---|---|---|---|---|---|
| | 2016 | 2015 | | 2016 | 2015 |
| | Amount | Amount | % Change | % of Revenue | % of Revenue |
| Product revenue | $64,897 | $65,881 | (1.5 )% | 95.9 % | 91.2 % |
| Service revenue | 2,745 | 6,329 | (56.6 )% | 4.1 % | 8.8 % |
| Total revenue | 67,642 | 72,210 | (6.3 )% | 100.0 % | 100.0 % |
| Cost of product revenue | 49,630 | 68,388 | (27.4 )% | 73.4 % | 94.7 % |
| Cost of service revenue | 2,015 | 4,959 | (59.4 )% | 3.0 % | 6.9 % |
| Total cost of revenue | 51,645 | 73,347 | (29.6 )% | 76.4 % | 101.6 % |
| Gross profit (loss) | 15,997 | (1,137 ) | NM | 23.6 % | (1.6 )% |
| General and administrative expenses | 16,884 | 14,908 | 13.3 % | 25.0 % | 20.6 % |
| Goodwill and long lived asset impairment | 6,023 | — | NM | 8.9 % | — % |
| Acquisition and integration related expenses | — | 47 | (100.0)% | — % | 0.1 % |
| Sales and marketing expenses | 11,343 | 13,290 | (14.7 )% | 16.8 % | 18.4 % |
| Research and development expenses | 1,668 | 2,554 | (34.7 )% | 2.5 % | 3.5 % |
| Loss from operations | (19,921 ) | (31,936 ) | 37.6 % | (29.5 )% | (44.2 )% |
| Interest expense | (297 ) | (376 ) | 21.0 % | (0.4 )% | (0.5 )% |
| Interest income | 128 | 300 | (57.3 )% | 0.2 % | 0.4 % |
| Loss before income tax | (20,090 ) | (32,012 ) | 37.2 % | (29.7 )% | (44.3 )% |
| Income tax expense | 36 | 49 | (26.5 )% | 0.1 % | 0.1 % |
| Net loss and comprehensive loss | $(20,126) | $(32,061) | 37.2 % | (29.8 )% | (44.4 )% |

*NM = Not Meaningful

Revenue. Product revenue decreased 1.5%, or $984,000. The slight decrease in product revenue was primarily a result of the impact of the softening macro-economic environment in the back half of fiscal 2016. Strong customer response to our next generation high bay product offering drove increased LED sales which were offset by tempered demand in the industrial sector as a result of macro-economic uncertainty. LED lighting revenue increased by 48% from $30,800,000 in fiscal 2015 to $45,679,000 in fiscal 2016. Service revenue decreased 56.6%, or $3,584,000, due to higher service revenue in fiscal 2015 primarily due to more solar revenue and project revenue from a significant customer. Total revenue decreased by 6.3%, or $4,568,000, primarily due to the items discussed above.

Cost of Revenue and Gross Margin. Our cost of product revenue decreased 27.4%, or $18,758,000, in fiscal 2016 versus the comparable period in fiscal 2015 due primarily to lower component cost, cost containment initiatives and inventory impairment charges in fiscal 2015. Our cost of service revenue decreased 59.4%, or $2,944,000 in fiscal 2016 versus the comparable period in fiscal 2015 primarily due to more solar projects and significant customer revenue in fiscal 2015 than fiscal 2016. Gross profit improved from a negative 1.6% of revenue in fiscal 2015 to 23.6% in fiscal 2016. The prior year included inventory impairment charges of $12,130,000. Our lighting gross margin was positively impacted by a favorable mix of higher-priced and higher-margin LED high bay fixtures, negotiated price decreases for lighting components and the benefits of our fiscal 2015 fourth quarter cost containment initiatives. We expect our gross margins from sales of lighting products to increase during fiscal 2017 as we continue to recognize the benefits of higher purchase volumes of LED components at lower costs, increasing sales volumes of our newly introduced and higher-margin LED high bay products and increased utilization of our manufacturing facility.

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Operating Expenses

General and Administrative. Our general and administrative expenses increased 13.3%, or $1,976,000, in fiscal 2016 primarily due to the recognition of a loss contingency of $1,400,000 in the fourth quarter of 2016.

Goodwill and long lived asset impairment. We performed our annual goodwill impairment test in the fourth quarter of fiscal 2016. In conjunction with the annual goodwill impairment test, we determined that the entire amount of our recorded goodwill of $4,409,000 was impaired. In addition, long lived assets related to the pending sale and leaseback of our manufacturing facility were impaired by $1,614,000 to properly represent the fair value of the property being sold.

Sales and Marketing. Our sales and marketing expenses decreased 14.7%, or $1,947,000, in fiscal 2016 compared to fiscal 2015. The decrease was due to a decrease in headcount related expenses for compensation and reduced travel costs in conjunction with our cost containment efforts.

Research and Development. Our research and development expenses decreased by 34.7% or $886,000, in fiscal 2016 primarily due to a reduction in consulting fees and customer field sample testing costs related to our new products as we continue to increase our cost effectiveness related to launching new products and decrease our reliance on higher-cost third parties.

Interest Expense. Our interest expense in fiscal 2016 decreased by 21.0% or $79,000 from fiscal 2015. The decrease in interest expense was due to a decrease in borrowings on our revolving credit facility.

Interest Income. Our interest income in 2016 decreased by 57.3% or $172,000 from 2015. Our interest income decreased as we continue to increase the utilization of third party finance providers for a majority of our financed projects.

Income Taxes. Our income tax expense decreased by 26.5% or $13,000 from a year ago. Our income tax expense is due primarily to the changes in expected minimum state tax liabilities.

Results of Operations: Fiscal 2015 versus Fiscal 2014

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

| | Fiscal Year Ended March 31, | | | | |
|---|---|---|---|---|---|
| | 2015 Amount | 2014 Amount | % Change | 2015 % of Revenue | 2014 % of Revenue |
| Product revenue | $65,881 | $71,954 | (8.4)% | 91.2% | 81.2% |
| Service revenue | 6,329 | 16,669 | (62.0)% | 8.8% | 18.8% |
| Total revenue | 72,210 | 88,623 | (18.5)% | 100.0% | 100.0% |
| Cost of product revenue | 68,388 | 54,423 | 25.7% | 94.7% | 61.4% |
| Cost of service revenue | 4,959 | 11,220 | (55.8)% | 6.9% | 12.7% |
| Total cost of revenue | 73,347 | 65,643 | 11.7% | 101.6% | 74.1% |
| Gross profit (loss) | (1,137) | 22,980 | (104.9)% | (1.6)% | 25.9% |
| General and administrative expenses | 14,908 | 14,951 | (0.3)% | 20.6% | 16.9% |
| Acquisition and integration related expenses | 47 | 819 | (94.3)% | 0.1% | 0.9% |
| Sales and marketing expenses | 13,290 | 13,527 | (1.8)% | 18.4% | 15.3% |
| Research and development expenses | 2,554 | 2,026 | 26.1% | 3.5% | 2.2% |
| Loss from operations | (31,936) | (8,343) | (282.8)% | (44.2)% | (9.4)% |
| Interest expense | (376) | (481) | 21.8% | (0.5)% | (0.4)% |
| Interest income | 300 | 567 | (47.1)% | 0.4% | 0.6% |
| Loss before income tax | (32,012) | (8,257) | (287.7)% | (44.3)% | (9.2)% |
| Income tax expense (benefit) | 49 | (2,058) | 102.4% | 0.1% | (2.2)% |
| Net loss and comprehensive loss | $(32,061) | $(6,199) | (417.2)% | (44.4)% | (7.0)% |

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Revenue. Product revenue decreased 8.4%, or $6,073,000, in fiscal 2015 versus fiscal 2014. The decrease in product revenue was primarily a result of the discontinuance of sales of new solar PV systems in fiscal 2015. The revenue decrease was offset by product revenue from energy-efficient lighting systems and the emergence of LED lighting solutions as our customers realize the benefits of decreased LED product costs with improved performance and the related reduction in energy usage. During the back half of fiscal 2015, the return on investment for our customers using LED technology improved and we began to experience an increase in LED product revenue. Service revenue decreased from fiscal 2014 to fiscal 2015 by 62.0% or $10,340,000. The decrease in service revenue for fiscal 2015 was a result of fewer solar projects as mentioned above.

Cost of Revenue and Gross Margin. Cost of product revenue increased in fiscal 2015 by 25.7% or $13,965,000. Total gross margin decreased from 25.9% for fiscal 2014 to (1.6)% for fiscal 2015. During the fiscal 2015 second quarter, we recorded an impairment charge of $12,130,000 related to our long-term wireless control inventory and the related development and intangible costs. Our wireless controls inventory was considered to be impaired based upon current market conditions, including a significant decline during the fiscal year in wireless controls unit volume sales, an increase in product sales in the commercial office and retail market, where the controls product offering is not saleable, limitations in alternative uses for the inventory and the increasing adoption of, and performance improvements in, LED lighting products. Total gross margin excluding the impairment charge decreased from 25.9% for fiscal 2014 to 15.2% for fiscal 2015. Gross margin from our HIF and LED integrated systems revenue for fiscal 2014 was 26.0% compared to 15.0% in 2015, excluding the aforementioned wireless control impairment, for fiscal 2015. The decrease in our lighting gross margin percentage was impacted by (i) product warranty charges; (ii) the increase in the relative sales volume of our lower margin LED products; (iii) higher than anticipated input material costs; and (iv) the decrease in sales volumes of manufactured lighting products and the related under absorption of the fixed expenses associated with our underutilized manufacturing facility. Cost of service revenue decreased in fiscal 2015 by 55.8% or $6,261,000. Our gross margin on solar PV revenues was 25.6% during fiscal 2014 compared to 25.3% during fiscal 2015.

Operating Expenses

General and Administrative. Our general and administrative expenses in fiscal 2015 decreased slightly from fiscal 2014 by 0.3%, or $43,000. The decrease was due to a loss from the sale of our corporate leased aircraft and related aviation employee severance expenses during fiscal 2014 that did not reoccur in fiscal 2015. Expenses in fiscal 2015 actually increased slightly over fiscal 2014 when excluding the loss mentioned above. Increases in fiscal 2015 were slightly higher in almost every category of expense with larger amounts attributable to compensation related expenses and amortization expense.

Acquisition and Integration Related Expenses. Our acquisition related expenses decreased by $772,000 in fiscal 2015 as the amounts in fiscal 2014 primarily related to the Harris acquisition.

Sales and Marketing. Our sales and marketing expenses decreased slightly in 2015 by 1.8%, or $237,000. The decrease was due to reduced depreciation as certain of our sales information systems reached the end of their depreciable lives and reduced travel expenses as a result of the sale of our corporate jet. These decreases were partially offset by increased spending for advertising, brand development and product promotions to increase LED revenue opportunities.

Research and Development. Our research and development expenses increased from fiscal 2014 to fiscal 2015 by 26.1%, or $528,000. The increase was due to spending for samples, testing and certification of our new LED products as we expanded our LED product lines during fiscal 2015.

Interest Expense. Our interest expense decreased in fiscal 2015 by 21.8%, or $105,000. The decrease in interest expense was due to the reduction in financed contract debt for our Orion Throughput Agreement (“OTA”) projects in fiscal 2015 compared to the prior year.

Interest Income. Our interest income decreased in fiscal 2015 by 47.1%, or $267,000. Our interest income decreased as we increased the utilization of third party finance providers for a majority of our financed projects. We expect our interest income to continue to decrease as we continue to utilize third party finance providers for our OTA projects.

Income Taxes. Our income tax expense increased from an income tax benefit for fiscal 2014 to income tax expense for fiscal 2015, an increase of 102.4% or $2,107,000. During fiscal 2014, we reversed a portion of our valuation reserve to offset deferred tax liabilities created by the acquisition of Harris. Our effective income tax benefit for fiscal 2014 was 24.9% compared to an effective tax rate of (0.2)% for fiscal 2015. The change in effective rate was due primarily to the changes in the valuation reserve in fiscal 2014 and minimum state tax liabilities.

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Orion U.S. Markets Division

Our Orion U.S. Markets Division ("USM") sells lighting solutions into the wholesale markets.

The following table summarizes our USM segment operating results:

| | For the year ended March 31, | | |
|---|---|---|---|
| (dollars in thousands) | 2016 | 2015 | 2014 |
| Revenues | $38,841 | $37,778 | $38,766 |
| Operating loss | $(4,958 ) | $(12,542) | $(1,012 ) |
| Operating margin | (12.8 )% | (33.2 )% | (2.6 )% |

Fiscal 2016 Compared to Fiscal 2015

USM segment revenue increased from fiscal 2015 by 2.8%, or $1,063,000. The increase in revenue during fiscal 2016 was primarily due to increased sales of our LED lighting products and our initiative to expand the number of our key resellers.

USM segment operating loss decreased from fiscal 2015 by 60.5%, or $7,584,000. The decrease in operating loss in fiscal 2016 was primarily due to: (i) expense related to the segment's long-term inventory controls impairment charge of $6,586,000 incurred during fiscal 2015; (ii) the increase in revenue in fiscal 2016 and the related increase in contribution margin dollars; (iii) the improvements to our gross margin related to cost decreases on LED components; and (iv) a reduction in our operating expenses related to compensation and discretionary spending, partially offset by the segment's fiscal 2016 goodwill impairment charge of $2,371,000 and fiscal 2016 fixed asset impairment charge of $689,000.

Fiscal 2015  Compared to Fiscal 2014

USM segment revenue in fiscal 2015 compared to fiscal 2014 decreased by 2.5% or $988,000. The decrease was primarily due to the delay in customer purchasing decisions resulting from the continuing emergence of LED lighting solutions. We believe customers delayed decisions throughout the first half of fiscal 2015 as they monitored and evaluated lighting technology alternatives.

USM segment operating loss increased by $11,530,000. The increase in operating loss for fiscal 2015 was primarily due to expense related to the proportional long-term inventory controls impairment charge and to the product mix as a result of an increase in lower margin LED product revenues.

Orion Engineered Systems Division

Our Orion Engineered Systems Division ("OES") sells lighting products and provides construction and engineering services for our commercial lighting and energy management systems. OES also provides turnkey solutions for large national accounts, governments, municipalities and schools.

The following table summarizes OES segment operating results:

| | For the year ended March 31, | | |
|---|---|---|---|
| (dollars in thousands) | 2016 | 2015 | 2014 |
| Revenues | $26,325 | $33,454 | $49,857 |
| Operating income (loss) | $(6,982 ) | $(12,431) | $1,260 |
| Operating margin | (26.5 )% | (37.2 )% | 2.5 % |

Fiscal 2016 Compared to Fiscal 2015

OES revenue decreased in fiscal 2016 by 21.3%, or $7,129,000, compared to fiscal 2015. This decrease in revenue was primarily due to customer contraction of capital spending within the manufacturing and industrial sector.

OES segment operating loss decreased 43.8%, or $5,449,000, from fiscal 2015 compared to fiscal 2016. The decrease in operating loss was due to: (i) the segment's long-term inventory controls impairment charge of $5,544,000 incurred during fiscal 2015; (ii) improvements to our fiscal 2016 gross margin related to cost decreases on LED components; and (iii) a decrease in operating expenses for compensation and discretionary expenses resulting from our fourth quarter fiscal 2015 cost containment initiative, partially offset by the segment's fiscal 2016 goodwill impairment charge of $2,038,000 and fiscal 2016 fixed asset impairment charge of $804,000.

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Fiscal 2015 Compared to Fiscal 2014

OES segment revenue decreased 32.9%, or $16,403,000. The decrease in revenue for fiscal 2015 was due to a decrease in the number and size of solar projects under construction, which was partially offset by an increase in LED lighting revenue and the acquisition of Harris.

OES segment operating income decreased in fiscal 2015 by $13,691,000. The decrease in operating income for fiscal 2015 was due to the expense related to the segment's long-term inventory controls impairment charge incurred during fiscal 2015 and the decline in revenue and the reduction in contribution margin dollars due to the increase of lower margin LED products.

Orion Distribution Services Division

Our Orion Distribution Services Division ("ODS") sells lighting products to a developing network of North American broadline distributors.

The following table summarizes our ODS segment operating results:

| | For the year ended March 31, | | |
|---|---|---|---|
| (dollars in thousands) | 2016 | 2015 | 2014 |
| Revenues | 2,476 | 978 | — |
| Operating loss | (632) | (455) | — |
| Operating margin | (25.5)% | (46.5)% | —% |

Fiscal 2016 Compared to Fiscal 2015

ODS segment revenue increased in fiscal 2016 from fiscal 2015 by 153%, or $1,498,000. The increase in revenue in fiscal 2016 was due to the relatively low base line of revenue following the April 2014 start-up of this business unit and to variability in the timing of customer orders as this business unit develops.

ODS segment operating loss increased by 38.9%, or $177,000, in fiscal 2016. The operating loss was due to the increased contribution margin dollars earned from our increasing revenue offset by our continued investment in selling costs to grow this start-up business and a fiscal 2016 fixed asset impairment charge of $121,000.

Fiscal 2015 Compared to Fiscal 2014

ODS segment revenue was $978,000 in fiscal 2015 as compared to zero in the prior year as a result of organizational changes and the creation of the new distribution markets into which our Distribution Services division sells in fiscal 2015.

ODS segment operating loss for fiscal 2015 was due to the impact of low factory utilization levels on gross margin and our investment in selling costs to start-up this business unit.

Liquidity and Capital Resources

Overview

We had approximately $15,542,000 in cash and cash equivalents as of March 31, 2016, compared to $20,002,000 at March 31, 2015. In February 2015, we completed an underwritten public offering of 5.46 million shares of our common stock, at an offering price to the public of $3.50 per share. Net proceeds of the offering approximated $17,465,000.

In January 2014, we filed a universal shelf registration statement with the Securities and Exchange Commission. Under our shelf registration statement, we currently have the flexibility to publicly offer and sell from time to time up to $55,000,000 of debt and/or equity securities, although, we are currently limited to selling an amount of securities equal to one-third of our public float on such registration statement. The filing of the shelf registration statement may help facilitate our ability to raise public equity or debt capital to expand existing businesses, fund potential acquisitions, invest in other growth opportunities, repay existing debt, or for other general corporate purposes.

In February 2015, Orion entered into a credit and security agreement ("Credit Agreement") with Wells Fargo Bank, National Association. The Credit Agreement provides for a revolving credit facility ("Credit Facility") that matures on February 6, 2018. Borrowings under the Credit Facility are initially limited to $15,000,000 subject to a borrowing base requirement based on eligible receivables and inventory. Such limit may increase to $20,000,000 subject to the borrowing base requirement, after July 31, 2016, if we satisfy certain conditions. The Credit Facility includes a $2,000,000 sublimit for the issuance of letters of credit.

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As of March 31, 2016, Orion had no outstanding letters of credit. Borrowings under the Credit Agreement outstanding as of March 31, 2016, amounted to approximately $3,719,000. Orion estimates that as of March 31, 2016, it was eligible to borrow an additional $229,000 under the Credit Facility based upon current levels of eligible inventory and accounts receivable. Orion was in compliance with its covenants in the Credit Agreement as of March 31, 2016.
Our future liquidity needs are dependent upon many factors, including our relative revenue, gross margins, cash management practices, capital expenditures, pending or future litigation results, cost containment measures and future potential acquisition transactions. In addition, we tend to experience high working capital costs when we increase sales from existing levels. Based on our current expectations, while we anticipate realizing improved net income performance during fiscal 2017, we also currently believe that we will experience negative working capital cash flows during some quarters of fiscal 2017. While we believe that we will likely have adequate available cash and equivalents and credit availability under our Credit Agreement to satisfy our currently anticipated working capital and liquidity requirements during the near-term, there can be no assurance to that effect. We are pursuing various alternative sources of liquidity, including the pending sale and leaseback of our manufacturing facility, to help ensure that we will have adequate available cash to satisfy our working capital needs. We are also implementing certain inventory management practices which should help to reduce our inventory levels and enhance our cash position. If we experience significant liquidity constraints, we may be required to reduce our sales efforts, implement additional cost savings initiatives or undertake other efforts to conserve our cash.
Cash Flows
The following table summarizes our cash flows for our fiscal 2016, fiscal 2015 and fiscal 2014:

| | Fiscal Year Ended March 31, | | |
|---|---|---|---|
| | 2016 | 2015 | 2014 |
| | (in thousands) | | |
| Operating activities | $(3,473) | $(12,812) | $9,901 |
| Investing activities | (372) | (730) | (4,814) |
| Financing activities | (615) | 15,976 | (1,895) |
| (Decrease) increase in cash and cash equivalents | $(4,460) | $2,434 | $3,192 |

Cash Flows Related to Operating Activities. Cash used in operating activities primarily consisted of a net loss adjusted for certain non-cash items including depreciation and amortization, stock-based compensation expenses, deferred income taxes, asset impairment charges, and the effect of changes in working capital and other activities.
Cash used in operating activities for fiscal 2016 was $3,473,000 and consisted of net cash provided by changes in operating assets and liabilities of $3,621,000 and a net loss adjusted for non-cash expense items of $7,094,000. Cash provided by changes in operating assets and liabilities consisted of a decrease of $7,116,000 in accounts receivable due to the increase in lighting revenue and collections from customers, an increase in accounts payable of $713,000 due to the increase in inventory purchases to support our growth in lighting product revenue during fiscal 2016, an increase of $1,803,000 in accrued expenses due to a loss contingency reserve and accrued project installation costs, and a decrease in deferred contract costs of $137,000 due to the completion of solar projects. Cash used by changes in operating assets and liabilities included an increase of $3,249,000 in inventory due to the increase in purchases to support our anticipated growth in lighting product revenue, an increase in prepaid and other assets of $2,645,000 for project billings that increased unbilled revenue, and a decrease in deferred revenue of $254,000 due to project completions.
Cash used in operating activities for fiscal 2015 was $12,812,000 and consisted of net cash provided by changes in operating assets and liabilities of $550,000 and a net loss adjusted for non-cash expense items of $13,362,000. Cash provided by changes in operating assets and liabilities consisted of an increase in accounts payable of $2,475,000 due to the increase in inventory purchases to support our growth in lighting product revenue during the fiscal 2015 back half, an increase of $838,000 in accrued expenses due to increased warranty reserves and accrued project installation costs, a decrease in deferred contract costs of $651,000 due to the completion of solar projects and a decrease in prepaid and other assets of $1,261,000 for project billings that reduced unbilled revenue related to financed projects. Cash used by changes in operating assets and liabilities included an increase of $1,909,000 in accounts receivable due to the increase in lighting revenue during the fiscal 2015 back half, an increase of $2,356,000 in inventory due to the

increase in purchases to support our anticipated growth in lighting product revenue for fiscal 2016 and a decrease in deferred revenue of $410,000 due to project completions.
Cash provided from operating activities for fiscal 2014 was $9,901,000 and consisted of net cash provided by changes in operating assets and liabilities of $8,050,000 and net income adjusted for non-cash expense items of $1,851,000. Cash provided by changes in operating assets and liabilities consisted of a decrease of $3,962,000 in inventory on decreased purchases of lighting components, predominantly fluorescent ballasts, lamps, wireless controls and motion sensors, a decrease in deferred contract costs of $1,376,000 due to the timing of project completions and a decrease in accounts receivable of $8,395,000 related to customer collections. Cash used from changes in operating assets and liabilities included a $1,072,000 increase in

prepaid expenses and other for unbilled revenue related to solar projects, a decrease in accounts payable of $762,000 on reduced inventory purchases, a $2,274,000 decrease in deferred revenue due to the decline in solar project activity and a $1,575,000 decrease in accrued expenses due to a decrease in accrued reorganization expenses.

Cash Flows Related to Investing Activities. Cash used in investing activities was $372,000 in fiscal 2016 which consisted of $401,000 for capital improvements related to LED production. Cash provided by investing activities in fiscal 2015 included $35,000 related to the sale of property, plant, and equipment.

Cash used in fiscal 2015 was $730,000 which included $2,006,000 invested for capital improvements related to new product tooling, information technology systems and infrastructure investments to improve response time to customers and generate business efficiencies and $234,000 for investment in patents. Cash provided from investing activities in fiscal 2015 included $472,000 from the sale of short-term investments and $1,040,000 of proceeds from the sale of our facility in Plymouth, Wisconsin.

Cash used in investing activities was $4,814,000 in fiscal 2014. Cash used primarily included $4,992,000 for the acquisition of Harris and $410,000 for capital improvements related to product development tooling and information technology systems. Cash provided from investing activities in fiscal 2014 primarily included $555,000 from the sales of short-term investments and $80,000 in proceeds from the sale of assets.

Cash Flows Related to Financing Activities. Cash used in financing activities was $615,000 for fiscal 2016. This included $1,901,000 cash used for the repayment of long-term debt, partially offset by $1,218,000 of net proceeds from our Credit Facility and $104,000 received from stock option exercises.

Cash provided by financing activities was $15,976,000 for fiscal 2015. This included $17,465,000 in net proceeds from our February 2015 stock offering, $2,500,000 in borrowings against our revolving credit facility, $446,000 from the refinancing of the JP Morgan OTA credit facility and $441,000 in proceeds from stock option and warrant exercises and stock note repayments. Cash flows used in financing activities included $4,494,000 for repayment of long-term debt and $406,000 for financing costs related to new debt agreements.

Cash used in financing activities was $1,895,000 for fiscal 2014. This included $3,229,000 for repayment of long-term debt. Cash flows provided by financing activities included $1,125,000 received from stock option exercises and $215,000 from shareholder note repayments.

Working Capital

Our net working capital as of March 31, 2016 was $29,239,000, consisting of $48,530,000 in current assets and $19,291,000 in current liabilities. Our net working capital as of March 31, 2015 was $36,726,000, consisting of $55,045,000 in current assets and $18,319,000 in current liabilities. Our current accounts receivable balance decreased by $7,374,000 from the fiscal 2015 year-end due to strengthened emphasis on collection efforts in the back half of fiscal 2016. Our current inventory increased from the fiscal 2015 year-end by $2,741,000 due to increases in LED component inventories to support the increase in LED product orders. Our prepaid and other current assets increased by $2,631,000 due to an increase in unbilled revenue for completed projects. Our accounts payable increased by $713,000 on the increase in inventory, increased sourced products and improvements in negotiated vendor payment terms as we transition our supply chain to an increasing number of new LED vendors. Our accrued expenses increased from our fiscal 2015 year-end by $1,389,000 due to a loss contingency reserve recorded in the fourth quarter of fiscal 2016.

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

Indebtedness

Revolving Credit Agreement

On February 6, 2015, we entered into a Credit Agreement with Wells Fargo Bank, National Association. The Credit Agreement provides for a Credit Facility that matures on February 6, 2018. Borrowings under the Credit Facility are initially limited to $15,000,000 subject to a borrowing base requirement based on eligible receivables and inventory. Such limit may increase to $20,000,000 subject to the borrowing base requirement, after July 31, 2016, if we satisfy certain conditions. The Credit Facility includes a $2,000,000 sublimit for the issuance of letters of credit.

From and after any increase in the Credit Facility limit from $15,000,000 to $20,000,000 the Credit Agreement will require us to maintain, as of the end of each month, a minimum ratio for the trailing twelve-month period of (i) earnings before interest, taxes, depreciation and amortization, subject to certain adjustments, to (ii) the sum of cash interest expense, certain principal payments on indebtedness and certain dividends, distributions and stock redemptions, equal to at least 1.10 to 1.00. The Credit Agreement also contains other customary covenants, including certain restrictions on our ability to incur additional indebtedness, consolidate or merge, enter into acquisitions, guarantee obligations of third parties, make loans or advances, declare or pay any dividend or distribution on our stock, redeem or repurchase shares of our stock, or pledge or dispose of assets. Each subsidiary is a joint and several co-borrower or guarantor under the Credit Agreement, and the Credit Agreement is secured by a security interest in substantially all of our and our subsidiaries' personal property (excluding various assets relating to customer OTAs) and a mortgage on certain real property.

Borrowings under the Credit Agreement bear interest at the daily three-month LIBOR plus 3.0% per annum, with a minimum interest charge for each year or portion of a year during the term of the Credit Agreement of $130,000 regardless of usage. As of March 31, 2016, the interest rate was 3.63%. We must pay an unused line fee of 0.25% per annum of the daily average unused amount of the Credit Facility and a letter of credit fee at the rate of 3.0% per annum on the undrawn amount of letters of credit outstanding from time to time under the Credit Facility.

As of March 31, 2016, we had no outstanding letters of credit. Borrowings under the Credit Agreement outstanding as of March 31, 2016, amounted to approximately $3,719,000. We estimate that, as of March 31, 2016, we were only eligible to borrow an additional $229,000 under the Credit Facility based upon the then current levels of eligible inventory and accounts receivable. We were in compliance with our covenants in the Credit Agreement as of March 31, 2016.

Capital Spending

Over the past three fiscal years, we have made capital expenditures primarily for general corporate purposes for our corporate headquarters and technology center, production equipment and tooling and for information technology systems. Our capital expenditures totaled $401,000 in fiscal 2016, $2,006,000 in fiscal 2015, and $410,000 in fiscal 2014. We plan to incur approximately $1,000,000 in capital expenditures in fiscal 2017. Our capital spending plans predominantly consist of investments related to new product development tooling and investments in information technology systems. We expect to finance these capital expenditures primarily through our existing cash, equipment secured loans and leases, to the extent needed, long-term debt financing, or by using our available capacity under our Credit Facility.

Contractual Obligations

Information regarding our known contractual obligations of the types described below as of March 31, 2016 is set forth in the following table:

| | Payments Due By Period | | | | |
|---|---|---|---|---|---|
| | Total | Less than 1 Year | 1-3 Years | 3-5 Years | More than 5 Years |
| | (in thousands) | | | | |
| Bank debt obligations | $4,282 | $ 563 | $ 3,719 | $ — | $ — |
| Other debt obligations | 140 | 119 | 16 | 5 | |
| Capital lease obligations | 345 | 64 | 91 | 190 | |
| Cash interest payments on debt | 316 | 157 | 159 | — | — |
| Operating lease obligations | 1,647 | 512 | 1,037 | 98 | — |
| Purchase order and capital expenditure commitments(1) | 2,189 | 2,189 | — | — | — |
| Total | $8,919 | $ 3,604 | $ 5,022 | $ 293 | $ — |

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

Off-Balance Sheet Arrangements

We have no off-balance sheet arrangements.

Inflation

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

Critical Accounting Policies and Estimates

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

Revenue Recognition. We recognize revenue when the following criteria have been met: there is persuasive evidence of an arrangement; delivery has occurred and title has passed to the customer; the sales price is fixed and determinable and no further obligation exists; and collectability is reasonably assured. Virtually all of our revenue is recognized when products are shipped to a customer or when services are completed and acceptance provisions, if any, have been met. In certain of our contracts, we provide multiple deliverables. We record the revenue associated with each element of these arrangements by allocating the total contract revenue to each element based on their relative selling prices. In such circumstances, we use a hierarchy to determine the selling price to be used for allocating revenue to deliverables: (1) vendor-specific objective evidence, or “VSOE” of selling price, if available, (2) third-party evidence, or “TPE” of selling price if VSOE is not available, and (3) best estimate of the selling price if neither VSOE nor TPE is available. We determine the selling price for our lighting and energy management system products, installation and recycling services and for solar renewable product and services using management’s best estimate of selling price as VSOE or TPE evidence does not exist. We consider external and internal factors including, but not limited to, pricing practices, margin objectives, competition, geographies in which we offer our products and services, internal costs, and the scope and size of projects. Our Power Purchase Agreement (“PPA”) contracts are supply side agreements for the generation of electricity for which we recognize revenue on a monthly basis over the life of the PPA contract, typically in excess of 10 years. For sales of our solar PV systems, we recognize revenue using the percentage-of-completion method by measuring project progress by the percentage of costs incurred to date of the total estimated costs for each contract as materials are installed. Revenue from sales of our solar PV systems is generally recognized over a period of three to 15 months. Additionally, we offer our OTA sales-type financing program under which we finance the customer’s purchase of our energy management systems. Our OTA contracts are sales-type capital leases under GAAP and we record revenue at the net present value of the future payments at the time customer acceptance of the installed and operating system is complete. Our OTA contracts under this sales-type financing are either structured with a fixed term, typically 60 months, and a bargain purchase option at the end of term, or are one year in duration and, at the completion of the initial one-year term, provide for (i) one to four automatic one-year renewals at agreed upon pricing; (ii) an early buyout for cash; or (iii) the return of the equipment at the customer’s expense. The revenue that we are entitled to receive from the sale of our lighting fixtures under our OTA financing program is fixed and is based on the cost of the lighting fixtures and applicable profit margin. Our revenue from agreements entered into under this program is not dependent upon our customers’ actual energy savings. Upon completion of the installation, we may choose to sell the future cash flows and residual rights to the equipment on a non-recourse basis to an unrelated third party finance company in exchange for cash and future payments.

Inventories. Inventories are stated at the lower of cost or market value and include raw materials, work in process and finished goods. Items are removed from inventory using the first-in, first-out method. Work in process inventories are comprised of raw materials that have been converted into components for final assembly. Inventory amounts include the cost to manufacture the item, such as the cost of raw materials and related freight, labor and other applied overhead costs. We review our inventory for obsolescence and marketability. If the estimated market value, which is based upon assumptions about future demand and market conditions, falls below cost, then the inventory value is reduced to its market value. During fiscal 2015, we recorded an impairment charge of $12,130,000 to our wireless controls inventory. Our inventory obsolescence reserves at March 31, 2016 were $2,127,000, or 11.1% of gross inventory, and $1,619,000, or 10.2% of gross inventory, at March 31, 2015.

Allowance for Doubtful Accounts. We perform ongoing evaluations of our customers and continuously monitor collections and payments and estimate an allowance for doubtful accounts based upon the aging of the underlying receivables, our historical experience with write-offs and specific customer collection issues that we have identified. While such credit losses have historically been within our expectations, and we believe appropriate reserves have been established, we may not adequately predict future credit losses. If the financial condition of our customers were to deteriorate and result in an impairment of their ability to make payments, additional allowances might be required which would result in additional general and administrative expense in the period such determination is made. Our allowance for doubtful accounts was $505,000, or 4.4% of gross receivables, at March 31, 2016 and $458,000, or 2.4% of gross receivables, at March 31, 2015.

Recoverability of Long-Lived Assets. We evaluate long-lived assets such as property, equipment and definite lived intangible assets, such as patents, customer relationships, developed technology, and non-competition agreements, for impairment whenever events or circumstances indicate that the carrying value of the assets recognized in our financial statements may not be recoverable. Factors that we consider include whether there has been a significant decrease in the market value of an asset, a significant change in the way an asset is being utilized, or a significant change, delay or departure in our strategy for that asset, such as the loss of a customer in the case of customer relationships. Our assessment of the recoverability of long-lived assets involves significant judgment and estimation. These assessments reflect our assumptions, which, we believe, are consistent with the assumptions hypothetical marketplace participants use. Factors that we must estimate when performing recoverability and impairment tests include, among others, the economic life of the asset. If impairment is indicated, we first determine if the total estimated future cash flows on an undiscounted basis are less than the carrying amounts of the asset or assets. If so, an impairment loss is measured and recognized. During fiscal 2016, we recorded an impairment loss of $1,614,000 related to the write-down of our Manitowoc manufacturing facility based upon the net realizable value of the pending sale leaseback transaction to occur by the end of the first fiscal quarter of fiscal 2017. During fiscal 2015, we recorded an impairment loss of $1,030,000 related to development and licensing costs for our wireless controls inventory.

After an impairment loss is recognized, a new, lower cost basis for that long-lived asset is established. Subsequent changes in facts and circumstances do not result in the reversal of a previously recognized impairment loss.

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

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

Goodwill. We test goodwill for impairment at least annually as of the first day of the fiscal fourth quarter, or when indications of potential impairment exist. We monitor for the existence of potential impairment indicators throughout the fiscal year. We conduct impairment testing for goodwill at the reporting unit level. Reporting units, as defined by Accounting Standards Codification (“ASC”) 350, Intangibles - Goodwill and Other, may be operating segments as a whole or an operation one level below an operating segment, referred to as a component. For fiscal 2016 and fiscal 2015, our reporting units consisted of our segments: USM and OES. The ODS segment had no goodwill.

We may initiate goodwill impairment testing by considering qualitative factors to determine whether it is more likely than not that a reporting unit's carrying value is greater than its fair value. Such factors may include the following, among others: a significant adverse change in macroeconomic conditions or legal factors; deterioration in our industry and market environment, including unanticipated or increased competition, a change in the market for our products or services, or a regulatory development; cost factors such as increases in raw materials, labor, or other costs that have a negative effect on earnings and cash flows; overall financial performance such as a significant decline in the reporting unit's expected future cash flows or a decline in actual or planned revenue or earnings compared with actual and projected results of relevant prior periods; a sustained, significant decline in our stock price and market capitalization; and changes in management, key personnel, strategy, or customers. If our qualitative assessment reveals that goodwill impairment is more likely than not, we perform the two-step impairment test. Alternatively, we may bypass the qualitative test and initiate goodwill impairment testing with the first step of the two-step goodwill impairment test.

During the first step of the goodwill impairment test, we compare the fair value of the reporting unit to its carrying value, including goodwill. We derive a reporting unit's fair value through a combination of the market approach (a guideline transaction method) and the income approach (a discounted cash flow analysis). The income approach utilizes a discount rate from the capital asset pricing model. If all reporting units are analyzed during the first step of the goodwill impairment test, their respective fair values are reconciled back to our consolidated market capitalization.

If the fair value of a reporting unit exceeds its carrying value, then we conclude that no goodwill impairment has occurred. If the carrying value of the reporting unit exceeds its fair value, we perform the second step of the goodwill impairment test to measure possible goodwill impairment loss. During the second step, we hypothetically value the reporting unit's tangible and intangible assets and liabilities as if the reporting unit had been acquired in a business combination. Then, the implied fair value of the reporting unit's goodwill is compared to the carrying value of its goodwill. If the carrying value of the reporting unit's goodwill exceeds the implied fair value of the goodwill, we recognize an impairment loss in an amount equal to the excess, not to exceed the carrying value of the reporting unit's goodwill. Once an impairment loss is recognized, the adjusted carrying value of the goodwill becomes the new accounting basis of the goodwill for the reporting unit.

In conjunction with our annual goodwill testing, a quantitative test was performed in fiscal 2016 based upon the decline in our stock price, continued operating losses and a decline in our enterprise market capitalization to below our book value. As a result, during fiscal 2016, we recorded an impairment loss of $4,409,000 related to all of our goodwill which was determined to be in excess of its implied fair value based upon the second step of the goodwill impairment test.

Indefinite Lived Intangible Assets. We test indefinite lived intangible assets for impairment at least annually on the first day of our fiscal fourth quarter , or when indications of potential impairment exist. We monitor for the existence of potential impairment indicators throughout the fiscal year. Our impairment test may begin with a qualitative test to determine whether it is more likely than not that an indefinite lived intangible asset's carrying value is greater than its fair value. If our qualitative assessment reveals that asset impairment is more likely than not, we perform a quantitative impairment test by comparing the fair value of the indefinite lived intangible asset to its carrying value. Alternatively, we may bypass the qualitative test and initiate impairment testing with the quantitative impairment test. Determining the fair value of indefinite-lived intangible assets entails significant estimates and assumptions including, but not limited to, estimating future cash flows from product sales, perpetuation of employment agreements containing non-competition clauses, continuation of customer relationships and renewal of customer contracts, and approximating the useful lives of the intangible assets acquired.

If the fair value of the indefinite lived intangible asset exceeds its carrying value, we conclude that no indefinite lived intangible asset impairment has occurred. If the carrying value of the indefinite lived intangible asset exceeds its fair value, we recognize an impairment loss in an amount equal to the excess, not to exceed the carrying value. Once an impairment loss is recognized, the adjusted carrying value becomes the new accounting basis of the indefinite lived intangible asset.

During fiscal 2016, we performed a quantitative test on indefinite lived intangible assets related to our Harris tradename and determined that its fair value exceeded its carrying value and was not impaired. This test was performed in conjunction with our annual impairment test of goodwill after determining the goodwill was impaired.

Stock-Based Compensation. We have historically issued stock options and restricted stock awards to our employees, executive officers and directors. During fiscal 2014, we changed our long-term equity incentive grant policy so that only restricted shares are currently issued. We adopted the provisions of ASC 718, Compensation - Stock Compensation, which requires us to expense the estimated fair value of stock options and similar awards based on the fair value of the award on the date of grant. Compensation costs for equity incentives are recognized in earnings, net of estimated forfeitures, on a straight-line basis over the requisite service period.

We did not issue any stock options during fiscal 2016 or fiscal 2015. The fair value of each option for financial reporting purposes was estimated on the date of grant using the Black-Scholes option-pricing model with the following assumptions used for grants:

| | 2014 |
|---|---|
| Weighted average expected term | 4.1 years |
| Risk-free interest rate | 0.8% |
| Expected volatility | 73.3% |
| Expected forfeiture rate | 20.3% |

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

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

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

We determined volatility based upon the historical market price of our common share price.

Since the closing of our IPO in December 2007, we have solely used the closing sale price of our common shares as reported by the national securities exchange on which we were listed on the date of grant to establish the exercise price of our stock options.

As of March 31, 2016, $2,242,000 of total stock-based compensation cost was expected to be recognized by us over a weighted average period of 2.6 years. We expect to recognize $1,113,000 of stock-based compensation expense in fiscal 2017 based on restricted stock awards outstanding as of March 31, 2016. This expense will increase further to the extent we have granted, or will grant, additional stock options or restricted stock awards in the future.

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

Our judgment is required in determining our provision for income taxes, our deferred tax assets and liabilities, and any valuation allowance recorded against our net deferred tax assets. We continue to monitor the realizability of our deferred tax assets and adjust the valuation allowance accordingly. For fiscal 2014, we reversed $2,315,000 of our valuation reserve to offset deferred tax liabilities created by the acquisition of Harris. For fiscal 2015 and fiscal 2016, we increased our valuation allowance against our net federal and our net state deferred tax assets due to our cumulative three year taxable losses. In making these determinations, we considered all available positive and negative evidence, including projected future taxable income, tax planning strategies, recent financial performance and ownership changes.

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

As of March 31, 2016, we had net operating loss carryforwards of approximately $55,807,000 for federal tax purposes and $42,181,000 for state tax purposes. Included in these loss carryforwards were $3,586,000 for federal and $3,941,000 for state tax expenses that were associated with the exercise of non-qualified stock options. The benefit from our net operating losses created from these compensation expenses has not yet been recognized in our financial statements and will be accounted for in our shareholders' equity as a credit to additional paid-in-capital as the deduction reduces our income taxes payable. We first recognize tax benefits from current period stock option expenses against current period income. The remaining current period income is offset by net operating losses under the tax law ordering approach. Under this approach, we will utilize the net operating losses from stock option expenses last.

We also had federal tax credit carryforwards of $1,475,000 and state tax credit carryforwards of $769,000, which are fully reserved for as part of our valuation allowance. Both the net operating losses and tax credit carryforwards will begin to expire in varying amounts between 2020 and 2036. We recognize penalties and interest related to uncertain tax liabilities in income tax expense. Penalties and interest were immaterial as of the date of adoption and are included in unrecognized tax benefits. Due to the existence of net operating loss and credit carryforwards, all years since 2002 are open to examination by tax authorities.

By their nature, tax laws are often subject to interpretation. Further complicating matters is that in those cases where a tax position is open to interpretation, differences of opinion can result in differing conclusions as to the amount of tax benefits to be recognized under Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 740, Income Taxes. ASC 740 utilizes a two-step approach for evaluating tax positions. Recognition (Step 1) occurs when an enterprise concludes that a tax position, based solely on its technical merits, is more likely than not to be sustained upon examination. Measurement (Step 2) is only addressed if Step 1 has been satisfied. Under Step 2, the tax benefit is measured as the largest amount of benefit, determined on a cumulative probability basis that is more likely than not to be realized upon ultimate settlement. Consequently, the level of evidence and documentation necessary to support a position prior to being given recognition and measurement within the financial statements is a matter of judgment that depends on all available evidence. As of March 31, 2016, the balance of gross unrecognized tax benefits was approximately $227,000, all of which would reduce our effective tax rate if recognized. We believe that our estimates and judgments discussed herein are reasonable, however, actual results could differ, which could result in gains or losses that could be material.

Recent Accounting Pronouncements

See Note 2 —Summary of Significant Accounting Policies to our accompanying audited consolidated financial statements for a full description of recent accounting pronouncements including the respective expected dates of adoption and expected effects on results of operations and financial condition.

Item 7A Quantitative and Qualitative Disclosure About Market Risk

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

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

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

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

As of March 31, 2016, $3,719,000 of our $4,767,000 of outstanding debt was at floating interest rates. An increase of 1.0% in the prime rate would result in an increase in our interest expense of approximately $37,200 per year.

Commodity Price Risk. We are exposed to certain commodity price risks associated with our purchases of raw materials, most significantly our aluminum purchases. A hypothetical 10% fluctuation in aluminum prices would have an impact of $450,000 on earnings in fiscal 2017.

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ITEM 8. INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM
Board of Directors and Stockholders
Orion Energy Systems, Inc.
Manitowoc, Wisconsin

We have audited the accompanying consolidated balance sheets of Orion Energy Systems, Inc. as of March 31, 2016 and 2015 and the related consolidated statements of operations and comprehensive income, shareholders' equity, and cash flows for each of the three years in the period ended March 31, 2016. In connection with our audits of the financial statements, we have also audited the financial statement schedule II, Valuation and Qualifying Accounts for each of the three years in the period ended March 31, 2016. These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements and schedule. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Orion Energy Systems, Inc. at March 31, 2016 and 2015, and the results of its operations and its cash flows for each of the three years in the period ended March 31, 2016, in conformity with accounting principles generally accepted in the United States of America.

Also, in our opinion, the financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly, in all material respects, the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Orion Energy Systems, Inc.'s internal control over financial reporting as of March 31, 2016, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated June 23, 2016 expressed an adverse opinion thereon.

/s/BDO USA, LLP
Milwaukee, Wisconsin
June 23, 2016

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Stockholders
Orion Energy Systems, Inc.
Manitowoc, Wisconsin

We have audited Orion Energy Systems, Inc.'s internal control over financial reporting as of March 31, 2016, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Orion Energy Systems, Inc.'s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying "Item 9A, Management's Report on Internal Control Over Financial Reporting". Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

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

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company's annual or interim financial statements will not be prevented or detected on a timely basis. A material weakness regarding management's risk assessment, monitoring activities and control activities over revenue recognition has been identified and included in management's assessment in Item 9A. This material weakness was considered in determining the nature, timing, and extent of audit tests applied in our audit of the 2016 financial statements, and this report does not affect our report dated June 23, 2016 on those financial statements.

In our opinion, Orion Energy Systems, Inc. did not maintain, in all material respects, effective internal control over financial reporting as of March 31, 2016, based on the COSO criteria.

We do not express an opinion or any other form of assurance on management's statements referring to any corrective actions taken by the company after the date of management's assessment.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Orion Energy Systems, Inc. as of March 31, 2016 and 2015, and the related consolidated statements of operations and comprehensive income, shareholders' equity, and cash flows for each of the three years in the period ended March 31, 2016 and our report dated June 23, 2016 expressed an unqualified opinion thereon.

/s/BDO USA, LLP

Milwaukee, Wisconsin
June 23, 2016

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

| | March 31, | |
|---|---|---|
| | 2016 | 2015 |
| Assets | | |
| Cash and cash equivalents | $15,542 | $20,002 |
| Accounts receivable, net | 10,889 | 18,263 |
| Inventories, net | 17,024 | 14,283 |
| Deferred contract costs | 37 | 90 |
| Prepaid expenses and other current assets | 5,038 | 2,407 |
| Total current assets | 48,530 | 55,045 |
| Property and equipment, net | 17,004 | 21,223 |
| Goodwill | — | 4,409 |
| Other intangible assets, net | 5,048 | 6,335 |
| Long-term accounts receivable | 108 | 426 |
| Other long-term assets | 185 | 367 |
| Total assets | $70,875 | $87,805 |
| Liabilities and Shareholders' Equity | | |
| Accounts payable | $11,716 | $11,003 |
| Accrued expenses and other | 6,586 | 5,197 |
| Deferred revenue, current | 243 | 287 |
| Current maturities of long-term debt | 746 | 1,832 |
| Total current liabilities | 19,291 | 18,319 |
| Revolving credit facility | 3,719 | 2,500 |
| Long-term debt, less current maturities | 302 | 722 |
| Deferred revenue, long-term | 1,022 | 1,231 |
| Other long-term liabilities | 558 | 522 |
| Total liabilities | 24,892 | 23,294 |
| Commitments and contingencies | | |
| Shareholders' equity: | | |
| Preferred stock, $0.01 par value: Shares authorized: 30,000,000 shares at March 31, 2016 and 2015; no shares issued and outstanding at March 31, 2016 and 2015 | — | — |
| Common stock, no par value: Shares authorized: 200,000,000 at March 31, 2016 and 2015; shares issued: 37,192,559 and 36,837,864 at March 31, 2016 and 2015; shares outstanding: 27,767,138 and 27,421,533 at March 31, 2016 and 2015 | — | — |
| Additional paid-in capital | 152,140 | 150,516 |
| Treasury stock: 9,425,421 and 9,416,331 common shares at March 31, 2016 and 2015 | (36,075) | (36,049) |
| Shareholder notes receivable | (4) | (4) |
| Retained deficit | (70,078) | (49,952) |
| Total shareholders' equity | 45,983 | 64,511 |
| Total liabilities and shareholders' equity | $70,875 | $87,805 |

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

| | Fiscal Year Ended March 31, | | |
|---|---|---|---|
| | 2016 | 2015 | 2014 |
| Product revenue | $64,897 | $65,881 | $71,954 |
| Service revenue | 2,745 | 6,329 | 16,669 |
| Total revenue | 67,642 | 72,210 | 88,623 |
| Cost of product revenue | 49,630 | 68,388 | 54,423 |
| Cost of service revenue | 2,015 | 4,959 | 11,220 |
| Total cost of revenue | 51,645 | 73,347 | 65,643 |
| Gross profit (loss) | 15,997 | (1,137) | 22,980 |
| Operating expenses: | | | |
| General and administrative | 16,884 | 14,908 | 14,951 |
| Goodwill and long lived asset impairment | 6,023 | — | — |
| Acquisition and integration related expenses | — | 47 | 819 |
| Sales and marketing | 11,343 | 13,290 | 13,527 |
| Research and development | 1,668 | 2,554 | 2,026 |
| Total operating expenses | 35,918 | 30,799 | 31,323 |
| Loss from operations | (19,921) | (31,936) | (8,343) |
| Other income (expense): | | | |
| Interest expense | (297) | (376) | (481) |
| Interest income | 128 | 300 | 567 |
| Total other income (expense) | (169) | (76) | 86 |
| Loss before income tax | (20,090) | (32,012) | (8,257) |
| Income tax expense (benefit) | 36 | 49 | (2,058) |
| Net loss and comprehensive loss | $(20,126) | $(32,061) | $(6,199) |
| Basic net loss per share attributable to common shareholders | $(0.73) | $(1.43) | $(0.30) |
| Weighted-average common shares outstanding | 27,627,693 | 22,353,419 | 20,987,964 |
| Diluted net loss per share | $(0.73) | $(1.43) | $(0.30) |
| Weighted-average common shares and share equivalents outstanding | 27,627,693 | 22,353,419 | 20,987,964 |

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

| | Shareholders' Equity Common Stock | | | | | |
|---|---|---|---|---|---|---|
| | Shares | Additional Paid-in Capital | Treasury Stock | Shareholder Notes Receivable | Retained Earnings (Deficit) | Total Shareholders' Equity |
| Balance, March 31, 2013 | 20,162,397 | $128,104 | $(38,378) | $ (265) | $(11,692) | $ 77,769 |
| Issuance of stock and warrants for services | 33,641 | 129 | — | — | — | 129 |
| Stock activity for acquisition | 940,940 | — | 2,382 | — | — | 2,382 |
| Exercise of stock options and warrants for cash | 446,059 | 1,152 | — | — | — | 1,152 |
| Shares issued under Employee Stock Purchase Plan | 2,373 | (4) | 10 | — | — | 6 |
| Tax benefit from exercise of stock options | — | 13 | — | — | — | 13 |
| Collection of shareholder notes receivable | — | — | — | 215 | — | 215 |
| Stock-based compensation | 23,084 | 1,593 | — | — | — | 1,593 |
| Treasury stock purchase | (20,168) | — | (48) | — | — | (48) |
| Net loss | — | — | — | — | (6,199) | (6,199) |
| Balance, March 31, 2014 | 21,588,326 | $130,987 | $(36,034) | $ (50) | $(17,891) | $ 77,012 |
| Issuance of common stock for cash, net of issuance costs | 5,462,500 | 17,465 | — | — | — | 17,465 |
| Issuance of stock and warrants for services | 27,931 | 131 | — | — | — | 131 |
| Exercise of stock options and warrants for cash | 178,387 | 430 | — | — | | |