

ORION ENERGY SYSTEMS, INC.  
Form DEF 14A  
June 29, 2016

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

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

Filed by the Registrant

Filed by a party other than the Registrant

Check the appropriate box:

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

**Orion Energy Systems, Inc.**

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

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

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  - (2) Form, Schedule or Registration Statement No.:
  
  
  - (3) Filing Party:

(4) Date Filed:

June 29, 2016

Dear Fellow Shareholders:

Our 2016 Annual Meeting of Shareholders will be held on Wednesday, August 3, 2016, at 1:00 p.m., Central Time, on the 40<sup>th</sup> Floor of the U.S. Bank Center, located at 777 East Wisconsin Avenue, Milwaukee, Wisconsin 53202.

Like last year, we have made access to our meeting easier due to the growing number of our institutional shareholders across the country and the world. So, rather than having to attend our meeting in person, you will be able to listen to our meeting live via the internet. We will broadcast the meeting as a live audio webcast through our website, [www.orionlighting.com](http://www.orionlighting.com), and a replay will be available on our website during the month of August. Also, if you desire to ask an appropriate question at the meeting of our Board of Directors, management or auditors, you may do so by submitting your question in writing by Friday, July 29, 2016 to Jamie Mazzeo ([jmazzeo@oesx.com](mailto:jmazzeo@oesx.com)).

Despite access to our audio webcast, if you still desire to attend the meeting in person, you will need to comply with our admission procedures. All shareholders as of the meeting record date, June 9, 2016, may attend the meeting, but must have an admission badge and photo identification in order to enter. You may request an admission badge by sending a request via mail or e-mail using the following contact information:

Orion Energy Systems, Inc.

2210 Woodland Drive

Manitowoc, Wisconsin 54220

Attn: Jamie Mazzeo

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

(920) 892-5878

**In order to allow sufficient time for us to mail you an admission badge, your request must be received prior to 5:00 p.m., Central Time, on Friday, July 29, 2016. Admission badges will only be distributed via mail and will not be available for pick-up at the Annual Meeting.**

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

We hope that by making access to our annual meeting easier through our website we will be able to reach a broader audience to hear about the exciting progress we are making at Orion.

Sincerely,

James R. Kackley  
Chairman of the Board of Directors

## Orion Energy Systems, Inc.

2210 Woodland Drive

Manitowoc, Wisconsin 54220

(800) 660-9340

### NOTICE OF 2016 ANNUAL MEETING OF SHAREHOLDERS

To the Shareholders of Orion Energy Systems, Inc.:

Our 2016 Annual Meeting of Shareholders will be held on Wednesday, August 3, 2016, at 1:00 p.m., Central Time, on the 40th Floor of the U.S. Bank Center, located at 777 East Wisconsin Avenue, Milwaukee, Wisconsin 53202.

As we did last year, we have made access to our meeting easier for all of our shareholders. So, rather than having to attend our meeting in person, you will be able to listen to our meeting live via the internet. We will broadcast the meeting as a live audio webcast through our website, [www.orionlighting.com](http://www.orionlighting.com), and a replay will be available on our website during the month of August. Despite access to our audio webcast, if you still desire to attend the meeting in person, you will need to comply with our admission procedures. All shareholders as of the meeting record date, June 9, 2016, may attend the meeting, but must have an admission badge and photo identification in order to enter. You may request an admission badge by following the procedure described in the accompanying proxy statement.

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

1. the election of one nominee named in the attached proxy statement as a Class III director to serve for a term expiring at the 2019 annual meeting of shareholders and one nominee named in the attached proxy statement as a Class I director to serve a term expiring at the 2017 annual meeting of shareholders, and, in each case, until their successors have been duly elected and qualified;
2. an advisory vote to approve the compensation of our named executive officers as disclosed in the accompanying proxy statement;
3. the approval of the Orion Energy Systems, Inc. 2016 Omnibus Incentive Plan;
4. the ratification of BDO USA, LLP to serve as our independent registered public accounting firm for our fiscal year 2017; and
5. such other business as may properly come before the annual meeting, or any adjournment or postponement thereof.

You are entitled to vote at the annual meeting only if you were a shareholder of record at the close of business on June 9, 2016. A proxy statement and proxy card are enclosed. Whether or not you expect to attend the annual meeting, it is important that you promptly complete, sign, date and mail the proxy card in the enclosed envelope so that you may vote your shares. **If you hold your shares in a brokerage account, you should be aware that, if you do not instruct your broker how to vote, your broker will not be permitted to vote your shares for the election of directors or on the advisory vote to approve the compensation of our named executive officers. Therefore, you must affirmatively take action to vote your shares at our annual meeting. If you do not, your shares will not be voted on these items.**

By order of the Board of Directors:

John H. Scribante  
Chief Executive Officer

Manitowoc, Wisconsin

June 29, 2016

**Important Notice Regarding the Availability of Proxy Materials for the Shareholder Meeting To Be Held on August 3, 2016. The Orion Energy Systems, Inc. proxy statement for the 2016 Annual Meeting of Shareholders and the 2016 Annual Report to Shareholders are available at <https://www.proxydocs.com/OESX>.**

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

## PROXY STATEMENT

### FOR THE 2016 ANNUAL MEETING OF SHAREHOLDERS

**To be Held August 3, 2016**

This proxy statement and accompanying form of proxy are being furnished to our shareholders beginning on or about June 29, 2016, in connection with the solicitation of proxies by our board of directors for use at our 2016 Annual Meeting of Shareholders to be held on Wednesday, August 3, 2016, at 1:00 p.m., Central Time, on the 40th Floor of the U.S. Bank Center, located at 777 East Wisconsin Avenue, Milwaukee, Wisconsin 53202, and at any adjournment or postponement thereof (which we refer to collectively as our annual meeting), for the purposes set forth in the attached Notice of 2016 Annual Meeting of Shareholders and as described herein.

Like last year, we have made access to our meeting easy due to the growing number of our institutional shareholders across the country and the world. Rather than having to attend our meeting in person, you will be able to listen to our meeting live via the internet. We will broadcast the meeting as a live audio webcast through our website, [www.orionlighting.com](http://www.orionlighting.com), and a replay will be available on our website during the month of August. Also, if you desire to ask an appropriate question at the meeting of our board of directors, management or auditors, you may do so by submitting your question in writing by Friday, July 29, 2016 to Jamie Mazzeo ([jmazzeo@oesx.com](mailto:jmazzeo@oesx.com)). Despite access to our audio webcast, if you still desire to attend the meeting in person, you will need to comply with our admission procedures. All shareholders as of the meeting record date, June 9, 2016, may attend the meeting, but must have an admission badge and photo identification in order to enter. You may request an admission badge by sending a request via mail or e-mail using the following contact information:

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(920) 892-5878

**In order to allow sufficient time for us to mail you an admission badge, your request must be received prior to 5:00 p.m., Central Time, on Friday, July 29, 2016. Admission badges will only be distributed via mail and will not be available for pick-up at the annual meeting.**

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

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

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annual meeting. Unless revoked, the shares represented by proxies received by our board of directors will be voted at the annual meeting in accordance with the instructions thereon. If no instructions are specified on a proxy, the votes represented thereby will be voted: (1) for the board's two director nominees set forth below; (2) for the advisory vote



to approve the compensation of our named executive officers as disclosed in the Compensation Discussion and Analysis section and the executive compensation tables set forth below in this proxy statement; (3) for approval of the Orion Energy Systems, Inc. 2016 Omnibus Incentive Plan (the 2016 Plan ); (4) for ratification of BDO USA, LLP to serve as our independent registered public accounting firm for our fiscal year 2017; and (5) on such other matters that may properly come before the annual meeting in accordance with the best judgment of the persons named as proxies. Our board of directors has designated John H. Scribante and William T. Hull, and each or any of them, as proxies to vote the shares of common stock solicited on its behalf.

**IMPORTANT: If you hold your shares in a brokerage account, you should be aware that, if you do not instruct your broker how to vote, your broker will not be permitted to vote your shares for the election of directors, the advisory vote to approve the compensation of our named executive officers or the approval of the 2016 Plan. Therefore, you must affirmatively take action to vote your shares at our annual meeting. If you do not, your shares will not be voted on these items.**

The two nominees receiving the highest vote totals of the eligible shares of our common stock, no par value per share ( Common Stock ), will be elected as our directors. With regard to the election of directors, votes may be cast in favor or withheld; votes that are withheld will be excluded entirely from the vote and will have no effect. The advisory vote to approve the compensation of our named executive officers, the approval of the 2016 Omnibus Incentive Plan and the appointment of BDO USA, LLP to serve as our independent registered public accounting firm for our fiscal year 2017 will be approved if the votes cast in favor of approval exceed the votes cast against approval. Abstentions and broker non-votes will be counted for purposes of determining the presence of a quorum but will be disregarded in the calculation of votes cast.

Only holders of record of shares of our Common Stock as of the close of business on June 9, 2016 (the Record Date ) are entitled to vote at the annual meeting. As of the Record Date, we had 28,059,351 shares of Common Stock outstanding and entitled to vote. The record holder of each share of Common Stock outstanding on the Record Date is entitled to one vote per share on each matter submitted for shareholder consideration at the annual meeting. In order for us to validly transact business at the annual meeting, we must have a quorum present. A majority of the votes of the shares of Common Stock entitled to be cast, or shares representing at least 14,029,676 votes, will represent a quorum for the purposes of the annual meeting.

**WE INTEND TO BEGIN MAILING THIS PROXY STATEMENT ON OR ABOUT JUNE 29, 2016.**

**DIRECTOR TRIBUTE**

We would like to formally extend our gratitude to three members of our board of directors who are retiring at the annual meeting, for their years of service and contributions to our company, our board and our shareholders. We extend our sincere appreciation for their valued service, guidance, advice and dedication to our company and wish each of them the best in their future endeavors.

**Thomas N. Schueller**

*6 Years of Service as a Director*

*Chairman of the Nominating and Corporate Governance Committee*

*Member of the Audit and Finance Committee*

**Tryg C. Jacobson**

*5 years of service as a Director*

*Member of the Compensation Committee*

**James D. Leslie**

*3 Years of Service as a Director*

*Member of the Compensation Committee*

**PROPOSAL ONE:****ELECTION OF DIRECTORS**

We maintain a staggered board of directors divided into three classes. Currently, there are three directors in Class II (Messrs. Altschaeffl, Otten and Williamson) and four directors in each of Class I (Ms. Rich and Messrs. Scribante, Potts and Goodson) and Class III (Messrs. Jacobson, Kackley, Leslie and Schueller). Each director generally serves for a term ending on the date of the third annual shareholders meeting following the annual shareholders meeting at which such director's class was most recently elected and until his or her successor is duly elected and qualified.

In connection with the election of directors at the annual shareholders meeting, our board of directors is implementing a planned restructuring with the intent to create a board that is smaller, more nimble and better able to address important issues with greater speed and lower cost. In connection with our board restructuring, each of Messrs. Schueller, Jacobson and Leslie, have, in consultation with the board of directors, voluntarily agreed not to stand for re-election and will retire at the annual shareholders meeting. In addition, Mr. Kackley, following consultation with and approval by the board of directors, will step down from his position as our non-executive chairman of the board of directors and run for re-election as a Class I director with a term expiring at the 2017 annual shareholders meeting. We believe that the changes to the size and composition of our board of directors will result in a more streamlined and effective corporate governance structure that will better utilize our continuing directors' multi-disciplinary expertise through greater individual involvement and participation in the operation of our board of directors and its committees. Further, we believe that these changes will allow our board to operate at a lower cost to us while providing our board with increased flexibility to respond to the challenges and opportunities that we face.

At the annual meeting, the terms of all four of our current Class III directors will expire. As discussed above, Messrs. Jacobson, Leslie and Schueller will retire at the annual meeting and Mr. Kackley will stand for re-election to serve as a Class I director, leaving the board of directors without any Class III directors. In order to preserve our staggered board, our nominating and corporate governance committee and our board have nominated John Scribante to serve as a Class III director following the annual meeting. Accordingly, assuming Mr. Scribante is elected, his designation will change from Class I to Class III following the annual meeting and our board will then have four directors in Class I (Mr. Goodson, Ms. Rich, Mr. Potts and Mr. Kackley), with terms expiring at the 2017 annual shareholders meeting, three directors in Class II (Messrs. Altschaeffl, Otten and Williamson), with terms expiring at the 2018 annual shareholders meeting and one director in Class III (Mr. Scribante), with a term expiring at the 2019 annual shareholders meeting. In addition, Mr. Altschaeffl will succeed Mr. Kackley as our non-executive chairman of the board following the annual meeting, and, effective upon the election of directors at the annual meeting, the size of the board will be reduced from eleven to eight directors. Information about each of our director nominees is set forth below.

The following tables set forth the structure of the board of directors before and after the annual meeting, assuming that Mr. Scribante and Mr. Kackley are elected to the board of directors at the annual meeting:

Board Members	Board Structure Prior to Annual Meeting			
	Class	Audit and Finance Committee	Nominating & Corporate Governance Committee	Compensation Committee
Ken Goodson	I	X		
Mike Potts	I			
Elizabeth Rich	I		X	X
John Scribante	I			
Mike Altschaeffl	II	X (Chair)	X	
Tony Otten	II	X		
Mark Williamson	II	X		X (Chair)
Tryg Jacobson	III			X
Jim Kackley	III	X	X	X
Jim Leslie	III			X
Tom Schueller	III	X	X (Chair)	

Board Members	Board Structure Following Annual Meeting			Compensation Committee
	Class	Audit and Finance Committee	Nominating & Corporate Governance Committee	
Ken Goodson	I	X		X (Chair)
Jim Kackley	I	X (Chair)	X	
Mike Potts	I			
Elizabeth Rich	I		X (Chair)	X
Mike Altschaefl	II	X	X	X
Tony Otten	II	X	X	
Mark Williamson	II	X		X
John Scribante	III			

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

The following sets forth certain information, as of June 29, 2016, about each of the board's nominees for election at the annual meeting and each director of our company whose term will continue after our annual meeting.

### Nominees For Election at the Annual Meeting

#### *Class III Director Term Expiring 2019*

*John H. Scribante*, 50, was appointed as our chief executive officer and a director in September 2012. Prior to his appointment as chief executive officer, Mr. Scribante served as the president of Orion Engineered Systems Division since August 2009, after serving as our senior vice president of business development since 2007. Mr. Scribante served as our vice president of sales from 2004 until 2007. Prior to joining our company, Mr. Scribante co-founded and served as chief executive officer of Xe Energy, LLC, a distribution company that specialized in marketing energy reduction technologies, from 2003 to 2004. From 1996 to 2003, he co-founded and served as president of Innovize, LLC, a company that provided outsourcing services to mid-market manufacturing companies. We believe that Mr. Scribante's experience working with our company since 2004, as well as his prior experience in high level management positions, qualify him for service as a director of our company. Our nominating and governance committee and our board have nominated Mr. Scribante as a Class III director in order to preserve our staggered board as a result of the restructuring of our board as described above. Accordingly, assuming he is elected, Mr. Scribante's designation will change from Class I to Class III following the annual meeting.

#### *Class I Director Term Expiring 2017*

*James R. Kackley*, 74, has served as a director since 2005 served as the non-executive chairman of our board since August 25, 2010, and served as our president and chief operating officer from July 2009 until May 2010. Mr. Kackley practiced as a public accountant for Arthur Andersen, LLP from 1963 to 1999. From 1974 to 1999, he was an audit partner for the firm. In addition, in 1998 and 1999, he served as chief financial officer for Andersen Worldwide. From June 1999 to May 2002, Mr. Kackley served as an adjunct professor at the Kellstadt School of Management at DePaul University. From 2005 until 2014, Mr. Kackley served as a director and a member of the executive committee and the audit committee of Herman Miller, Inc. From 2004 until 2010, Mr. Kackley served as a director and member of the management resources and compensation committee and audit committee of PepsiAmericas, Inc. prior to its sale, and from February 2007 to October 2007 he also served as a director and a member of the nominating and governance committee and the audit committee of Ryerson, Inc. prior to its sale. In December 2010, Mr. Kackley was elected to the board of directors of Perficient, Inc., a publicly-traded information technology consulting firm, where he serves as non-executive chairman of the board, as a member of the audit committee and the nominating and governance committee and as chairman of the

compensation committee. We believe that Mr. Kackley's background as an accountant and chief financial officer, his public company board of directors service, his role as our president and chief operating officer and his experience in leadership positions in business qualify him for service as a director of our company. Our nominating and governance committee and our board have nominated Mr. Kackley as a Class I director in connection with restructuring of our board as described above. Accordingly, assuming he is elected, Mr. Kackley's designation will change from Class III to Class I following the annual meeting.

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

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

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

*John H. Scribante* is currently serving as a Class I director. Our nominating and governance committee has nominated Mr. Scribante as a Class III director in order to preserve our staggered board as a result of Messrs. Jacobson, Leslie and Schueller not standing for re-election and Mr. Kackley standing for re-election as a Class I director. Accordingly, assuming he is elected, Mr. Scribante's designation will change from Class I to Class III following the annual meeting. Mr. Scribante's biography is set forth above.

*Kenneth L. Goodson, Jr.*, 63, has served as a director since May 2013. Since 1997, Mr. Goodson was employed by Herman Miller Inc., serving as the executive vice president of worldwide operations from 2001 until his retirement on August 1, 2013. Following his retirement, Mr. Goodson has served as a consultant to Herman Miller Inc. with responsibility for training and developing new operations executives. Mr. Goodson previously served on the board of directors of Fender Musical Instruments Corporation from 2006 until 2014, including eight years on the audit committee and personnel committee (including the chair of the personnel committee for two years). Mr. Goodson graduated in 1975 from The Pennsylvania State University with a Bachelor of Science in Administrative Management. We believe that Mr. Goodson's background in the energy industry and in management positions qualify him for service as a director of our company.

*Michael J. Potts*, 52, became our president and chief operating officer in July 2010. Prior to becoming our president and chief operating officer, Mr. Potts served as our executive vice president since 2003 and has served as a director since 2001. Mr. Potts joined our company as our vice president technical services in 2001. Prior to joining our company, Mr. Potts founded Energy Executives Inc., a consulting firm that assisted large energy-consuming clients on energy issues. From 1988 through 2001, Mr. Potts was employed by Kohler Co., one of the world's largest manufacturers of plumbing products. From 1990 through 1999 he held the position of supervising engineer energy in Kohler's energy and utilities department. In 2000, Mr. Potts assumed the position of supervisor energy management group of Kohler's entire corporate energy portfolio, as well as the position of general manager of its natural gas subsidiary. We believe that Mr. Potts' experiences as our president and chief operating officer, his leadership roles in the energy industry, his public affairs experience and his engineering background qualify him for service as a director of our company.

*Elizabeth Gamsky Rich*, 57, has served as a director since June 2010. Since 1985, Ms. Rich has been in private practice as an attorney with her practice concentrated in business law, environmental law, energy law, land use law, real estate law, and litigation. Ms. Rich has served as a member of the board of directors for Outpost Natural Foods, Gateway 2 Center Inc., the Wisconsin State Bar Board of Governors and the Plymouth Arts Foundation. She currently serves on the board of directors for the Farm-to-Consumer Legal Defense Foundation. We believe that Ms. Rich's background in advising companies in the energy and environmental sectors and her experience as a director for various entities qualify her for service as a director of our company.

##### ***Class II Directors Terms Expiring 2018***

*Michael W. Altschaeffl*, 57, has served as a director since October 2009. Mr. Altschaeffl currently serves as the President of Still Water Partners, Inc., a private investment firm. In addition, since November 2013, Mr. Altschaeffl has served as the President of E-S Plastic Products LLC, a custom manufacturer of plastic injection parts. Previously, Mr. Altschaeffl served as the Vice President Strategy and Business Development of Shiloh

Industries, Inc., a public company and leading independent manufacturer of advanced metal product solutions for high volume applications in the North American automotive, heavy truck, trailer and consumer markets from January 2013 until October 2013. Mr. Altschaeffl was an owner and Chief Executive Officer of Albany-Chicago Company LLC, a custom die cast and machined components company when Shiloh Industries purchased the company in December 2012. Mr. Altschaeffl is a certified public accountant. Prior to acquiring Albany-Chicago Company LLC in 2008, Mr. Altschaeffl worked for 27 years with two international independent registered public accounting firms, including 16 years as a partner. We believe that Mr. Altschaeffl's experience in leadership positions at manufacturing companies and his background as an accountant qualify him for service as a director of our company.

*Anthony L. Otten*, 60, has served as a director since August 2015. Mr. Otten currently has served as Chief Executive Officer of Versar, Inc. since February 2010 and has served as a member of the Board of Directors of Versar, Inc. since 2008. Mr. Otten previously served as Managing Member of Stillwater, LLC from July 2009 to February 2010; Operating Partner of New Stream Asset Funding, LLC from 2007 to June 2009; Managing Member of Stillwater, LLC from 2004 to 2007 and Principal of Grisanti, Galef and Goldress, Inc. from 2001 to 2004. Previously, Mr. Otten held senior management positions with Cabot Corporation and Marriott Corporation. We believe that Mr. Otten's experience as a Chief Executive Officer of a public company, capital markets expertise and merger and acquisition experience qualify him for service as a director of our company.

*Mark C. Williamson*, 62, has served as a director since April 2009 and was our lead independent director from October 2009 through May 2013. Mr. Williamson has been a partner of Putnam Roby Williamson Communications of Madison, Wis., a strategic communications firm specializing in energy utility matters, since 2008. He has more than 20 years of executive-level utility experience. Prior to joining Putnam Roby Williamson Communications, Mr. Williamson was vice president of major projects for American Transmission Company from 2002 to 2008, served as executive vice president and chief strategic officer with Madison Gas and Electric Company from 1986 to 2002 and, prior to 1986, was a trial attorney with the Madison firm Geisler and Kay S.C. We believe that Mr. Williamson's background in the energy utility industry and in management positions qualify him for service as a director of our company.

We strongly encourage our directors to attend our annual meeting, and it is expected that they will do so. All of our then-serving directors attended our 2015 annual meeting in person.

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## CORPORATE GOVERNANCE

### Board of Directors General

Our board of directors met twelve times during fiscal 2016, consisting of seven mandatory meetings of the board of directors and five optional meetings of the board of directors. All of our directors attended at least seventy-five percent of the aggregate of (a) the total number of mandatory meetings of the board held during the fiscal year while they were a director and (b) the total number of meetings held by all committees of the board on which they served during the fiscal year while they were serving on the committees.

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

### Standing Board Committees

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

Our audit and finance committee is currently comprised of Messrs. Altschaefl, Kackley, Goodson, Otten, Schueller and Williamson, with Mr. Altschaefl acting as the chair. As a result of the restructuring of the board of directors described above, following the annual meeting, our audit and finance committee will be comprised of Messrs. Altschaefl, Kackley, Goodson, Otten and Williamson, with Mr. Kackley acting as chair. Each current and future member of the audit and finance committee is an audit committee financial expert, as defined under rules of the Securities and Exchange Commission (the "SEC") implementing Section 407 of the Sarbanes-Oxley Act of 2002 (the "Sarbanes-Oxley Act"). The principal responsibilities and functions of our audit and finance committee are to (i) oversee the reliability of our financial reporting, the effectiveness of our internal control over financial reporting, and the independence of our internal and external auditors and audit functions and (ii) oversee the capital structure of our company and assist our board of directors in assuring that appropriate capital is available for operations and strategic initiatives. In carrying out its accounting and financial reporting oversight responsibilities and functions, our audit and finance committee, among other things, oversees and interacts with our independent auditors regarding the auditors' engagement and/or dismissal, duties, compensation, qualifications and performance; reviews and discusses with our independent auditors the scope of audits and our accounting principles, policies and practices; reviews and discusses our audited annual financial statements with our independent auditors and management; and reviews and approves or ratifies (if appropriate) related party transactions. Our audit and finance committee also is directly responsible for the appointment, compensation, retention and oversight of our independent auditors. Our audit and finance committee met seven times in fiscal 2016. Each current and future member of our audit and finance committee meets the requirements for independence under the current rules of the Nasdaq Capital Market and the SEC.

Our compensation committee is currently comprised of Ms. Rich and Messrs. Jacobson, Kackley, Leslie and Williamson, with Mr. Williamson acting as the chair. As a result of the restructuring of the board of directors described above, following the annual meeting, our compensation committee will be comprised of Ms. Rich and Messrs. Altschaefl, Goodson and Williamson, with Mr. Goodson acting as chair. The principal functions of our compensation committee include (i) administering our incentive compensation plans; (ii) establishing performance criteria for, and evaluating the performance of, our executive officers; (iii) annually setting salary and other compensation for our executive officers; (iv) overseeing the company's response to the outcome of the advisory vote on executive compensation; and (v) annually reviewing the compensation paid to our non-employee directors. Our compensation committee met seven times in fiscal 2016. Each current and future member of our compensation committee meets the requirements for independence under the current Nasdaq Capital Market and SEC

rules. Previously, during fiscal 2013, our compensation committee engaged Towers Watson, a compensation consultant, to provide it with Towers Watson's market assessment, with a focus on competitiveness, of the total compensation of the company's executive officers to assist the committee in determining fiscal 2013 compensation. Towers Watson provided no other services to us during fiscal 2013. In light of the analysis provided by Towers Watson in setting executive compensation for fiscal 2013 and because no significant changes in the underlying compensation elements have been made since such engagement, our compensation committee did not engage the services of a compensation consultant to determine executive compensation for fiscal 2014-2017. In general, the compensation committee has determined to engage an independent compensation consultant only if relevant factors or circumstances change significantly.

Our nominating and corporate governance committee is comprised of Ms. Rich and Messrs. Altschaeffl, Kackley and Schueller, with Mr. Schueller acting as the chair. As a result of the restructuring of the board of directors described above, following the annual meeting, our nominating and corporate governance committee will be comprised of Ms. Rich and Messrs. Altschaeffl, Kackley and Otten, with Ms. Rich acting as chair. The principal functions of our nominating and corporate governance committee are, among other things, to (i) establish and communicate to shareholders a method of recommending potential director nominees for the committee's consideration; (ii) develop criteria for selection of director nominees; (iii) identify and recommend persons to be selected by our board of directors as nominees for election as directors; (iv) plan for continuity on our board of directors; (v) recommend action to our board of directors upon any vacancies on the board; and (vi) consider and recommend to our board other actions relating to our board of directors, its members and its committees. Our nominating and corporate governance committee met four times in fiscal 2016. Each current and future member of our nominating and corporate governance committee meets the requirements for independence under the Nasdaq Capital Market and SEC rules.

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

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

The positions of chief executive officer and chairman have been separate since August 25, 2010, when our board elected Mr. Kackley as the non-executive chairman of the board. As a result of the restructuring of the board of directors described above, our board has elected Mr. Altschaeffl to serve as the non-executive chairman of the board following the annual meeting. Our board retains the authority to modify this structure to best address our company's unique circumstances as and when appropriate.

Our full board is responsible for the oversight of our operational risk management process. Our board has assigned responsibility for addressing certain risks, and the steps management has taken to monitor, control and report such risk, to our audit and finance committee, including risks relating to execution of our growth strategy and transition to LED products, the effects of the recessionary global economy on customer purchases, communications with the investment community regarding the impact of various activities on profitability, component inventory supply, our ability to expand our partner network, communication with investors, certain actions of our competitors, the protection of our intellectual property, sufficiency of our capital, inventory investment and risk of obsolescence, security of information systems and data, implementation of new information systems, credit risk, product liability, costs of reliance on external advisors and addition of new renewable energy technologies, with appropriate reporting of these risks made periodically to the full board. Our board relies on our compensation committee to address significant risk exposures facing our company with respect to compensation. As described herein under the heading "Risk Assessment of our Compensation Policies and Practices," each year, our compensation committee conducts a review of our compensation policies and practices to assess whether any risks arising from such policies and practices are reasonably likely to materially adversely affect our company. Our board's role in the oversight of our risk management has not affected our



board's determination that separate chief executive officer and chairman positions constitute the most appropriate leadership structure for our company at this time. Our audit and finance committee and our full board review and comment on the draft risk factors for disclosure in our annual and quarterly reports and use the receipt of such draft risk factors to initiate discussions with appropriate members of our senior management if such risk factors raise questions or concerns about the status of operational risks then facing our company.

### Nominating and Corporate Governance Committee Procedures

Our nominating and corporate governance committee will consider shareholder recommendations for potential director nominees, which should be sent to the Nominating and Corporate Governance Committee, c/o board secretary, Orion Energy Systems, Inc., 2210 Woodland Drive, Manitowoc, Wisconsin 54220. The time by which such recommendations must be received in order to be timely is set forth below under Shareholder Proposals. The information to be included with recommendations is set forth in our Amended and Restated Bylaws, and factors that our nominating and corporate governance committee will consider in selecting director nominees are set forth in our Corporate Governance Guidelines. Our Corporate Governance Guidelines are available on our website at [www.orionlighting.com](http://www.orionlighting.com). Our nominating and corporate governance committee evaluates all potential nominees in the same manner, and may consider, among other things, a candidate's strength of character, mature judgment, career specialization, relevant technical skills or financial acumen, industry knowledge and experience and geographic, gender, age, and ethnic diversity. Our nominating and corporate governance committee believes that directors should display the highest personal and professional ethics, integrity and values and sound business judgment. The committee also believes that, while diversity and variety of experiences and viewpoints represented on our board should always be considered, a director nominee should not be chosen nor excluded solely or largely because of geographic, gender, age or ethnic diversity. Our nominating and corporate governance committee evaluates each incumbent director to determine whether he or she should be nominated to stand for re-election, based on the types of criteria outlined above as well as the director's contributions to the board during their current term. As part of its periodic self-assessment, our nominating and corporate governance committee assesses the effectiveness of its director selection policy described in this paragraph, including its provisions relating to the consideration of diversity.

### Code of Conduct

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

### EXECUTIVE OFFICERS

The following table sets forth information as of June 29, 2016 regarding our current executive officers:

Name	Age	Position
John H. Scribante	50	Chief Executive Officer
William T. Hull	57	Chief Financial Officer
Michael J. Potts	52	President and Chief Operating Officer
Marc Meade	31	Executive Vice President

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

*William T. Hull* has served as our Chief Financial Officer since October 2015. Prior to his appointment, Mr. Hull previously served as an executive of RTI International Metals, Inc., a formerly NYSE listed producer and global supplier of titanium mill products, and a manufacturer of fabricated titanium and specialty metal components, serving most recently as senior vice president and chief risk officer since July 2014 and, prior to

that time, serving as senior vice president and chief financial officer since April 2007 and as vice president and chief accounting officer since August 2005. Prior to joining RTI International Metals, Inc. in 2005, Mr. Hull served as corporate controller of Stoneridge, Inc., a NYSE listed global designer and manufacturer of highly engineered electrical and electronic components, modules and systems for the commercial vehicle, automotive, agricultural and off-highway vehicles markets, where he was employed since 1986. Mr. Hull is a certified public accountant.

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

## EXECUTIVE COMPENSATION

### Compensation Discussion and Analysis

This compensation discussion and analysis describes the material elements of compensation awarded to, earned by, or paid to each of our named executive officers, whom we refer to as our NEOs, during fiscal 2016 and describes our policies and decisions made with respect to the information contained in the following tables, related footnotes and narrative for fiscal 2016. The NEOs are identified below in the table titled Summary Compensation Table for Fiscal 2016. In this compensation discussion and analysis, we also describe various actions regarding NEO compensation taken before or after fiscal 2016 when we believe it enhances the understanding of our executive compensation program.

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

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

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

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

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

In light of these objectives, we have sought to reward our NEOs for achieving financial performance goals, creating value for our shareholders, and for loyalty and dedication to our company. We continue to implement a corporate culture that focuses on profit before tax, along with revenue growth, and our fiscal 2014-2017 compensation programs were designed to incentivize and reward short-term and long-term decisions that benefit earnings and increase shareholder value.

In early fiscal 2016, our management team recommended, and our compensation committee approved, the following attributes for our fiscal 2016 executive compensation program:

Freezes on the salaries for each of our then serving NEOs other than Marc Meade, whose salary was increased due to his increased responsibilities with regard to manufacturing operations, new product development and sourcing initiatives and also to further align his salary with division presidents. The base salaries for our other NEOs were frozen due to the salary increases received in fiscal 2015;

Implemented a fiscal 2016 annual cash bonus program that focused on profitability, as well as increased revenue, in order to incentivize decisions that benefited earnings and increased shareholder value. The fiscal 2016 annual cash bonus plan provided that no bonuses would be paid to our NEOs unless the company achieved at least (i) \$110,000 of profit before taxes and (ii) revenue growth of 10% more than fiscal year 2015; and

Continued the practice of granting long-term incentive awards in the form of (i) three-year pro rata vesting restricted stock grants (representing 60% of the total dollar amount of the long-term incentive award) in order to reward our NEOs for increasing shareholder value and to motivate and retain our NEOs while aligning their economic interests with our shareholders through long-term equity ownership and (ii) cash awards (representing 40% of the total dollar amount of the long-term incentive award) payable in one-third increments upon the annual vesting of the tandem restricted stock awards in order to provide liquidity for the personal income tax liabilities incurred by our NEOs upon the vesting of their restricted stock awards; provided, however, that we permitted our NEOs to elect (prior to the grant of the award) to forego the cash portion of the long-term incentive award and receive the entire long-term incentive award in the form of three-year pro rata vesting restricted stock. All of our then serving NEOs elected to receive the combined cash and restricted share award in fiscal 2016.

In late fiscal 2016, our management recommended, and our compensation committee approved, the following attributes for our fiscal 2017 executive compensation program:

Freezing the salaries of each of our NEOs. The freeze on salaries was due to the committee's consideration of our recent financial results and condition and our then current stock price;

Freezing the dollar amount of the long-term equity incentive restricted stock awards for each of our NEOs (other than Mr. Scribante, who received a modest additional restricted stock award), with long-term equity compensation grants being set at the same dollar values as approved in fiscal 2016. The freeze on long-term equity incentive restricted stock awards was due to the compensation committee's consideration of our recent financial results and condition and our recent stock price;

Implementing a fiscal 2017 annual cash bonus program that focuses on profitability, as well as increased revenue, in order to incentivize management decisions that increase our revenue and earnings and thereby enhance shareholder value. The fiscal 2017 annual cash bonus plan provides that no bonuses will be paid to our NEOs unless the company achieves at least (i) \$500,000 of profit before taxes and (ii) revenue growth of 10% more than our fiscal year 2016 revenue; and

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

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

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*Setting Executive Compensation*

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

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

The compensation committee considered the results from the shareholder advisory vote on executive compensation at our 2015 annual meeting of shareholders as support for the company's compensation policies and practices. At our 2015 annual meeting of shareholders, more than 93% of the votes cast on the shareholder advisory vote on executive compensation were in favor of our executive compensation. Our board of directors and our compensation committee value the opinions of our shareholders and are committed to ongoing engagement with our shareholders on executive compensation practices. Our board of directors has determined that our shareholders should vote on a say-on-pay proposal each year in accordance with the preference expressed by shareholders on the say-when-on-pay proposal at our 2011 annual meeting of shareholders.

Under our fiscal 2016 cash bonus program for NEOs, no bonuses were to be paid unless the company achieved at least (i) \$110,000 of profit before taxes and (ii) revenue growth of 10% more than fiscal year 2015. Under the fiscal 2016 bonus program, for every \$1.00 of profit before taxes and bonus expenses earned over the \$110,000 threshold up to a maximum of \$1.5 million, a bonus pool of \$0.25 would have been earned and for every \$1.00 of profit before taxes and bonus expenses over \$1.5 million up to \$3.5 million, a bonus pool of \$0.269 would be earned up to a maximum total bonus pool of \$884,500 for all participating executives. In fiscal 2016, the Company did not achieve either target. Accordingly, our NEOs did not earn bonuses for fiscal 2016 despite the company's accomplishments over the past year that should strengthen the foundation and future prospects of the company, including:

Continuing to implement new initiatives to support our continued transition to LED products;

Continuing to streamline our product development process and introducing new, high-margin LED products to the market;

Continuing to reorganize our sales force to better meet the needs of our customers; and

Continuing to expand and diversify our sales channels to create recurring revenue.

In connection with William T. Hull's appointment as our chief financial officer in October 2015, we provided Mr. Hull with the following compensation arrangements: (i) an initial annual base salary of \$315,000; (ii) an initial sign-on bonus of \$50,000 payable in shares of common stock (subject to repayment if his employment was terminated for cause or for good reason before October 5, 2016); (iii) a grant of 82,906 shares of restricted stock vesting annually pro rata over a three-year period; (iv) a long-term cash retention bonus of \$78,750 due within 45 days of March 31, 2016, provided that Mr. Hull remained an employee (subject to repayment if his employment was terminated for cause or for good reason before the one-year anniversary of the

date of payment); (v) an automobile allowance of \$1,000 per month; and (vi) the payment of up to \$50,000 in relocation related expenses (subject to repayment if his employment was terminated for cause or for good reason before October 5, 2016). In setting the compensation package for Mr. Hull, our compensation committee considered the compensation of our other NEOs, the relocation of Mr. Hull to Chicago and general competitive factors. In fiscal 2017, Mr. Hull applied his entire long-term cash retention bonus toward the purchase of 57,065 shares of common stock directly from us, based on the closing price of our common stock (\$1.38) on the date of purchase.

For fiscal year 2017, our management proposed, and our compensation committee approved, freezes on the salaries for each of our NEOs. In connection with the approval of our long-term incentive compensation, our management proposed, and our compensation committee approved freezes on the dollar amount of our long-term equity incentive restricted stock awards for each of our NEOs (other than Mr. Scribante, who received a modest additional restricted stock award), with long-term equity compensation grants being set at the same dollar values as approved in fiscal 2016. In addition, our management proposed, and our compensation committee approved an incentive compensation program consisting of (i) an annual incentive cash bonus opportunity and (ii) long-term incentive compensation consisting of awards of three-year pro rata vesting restricted stock grants and cash awards payable in one-third increments upon the annual vesting of tandem restricted stock awards in order to provide liquidity for the personal income tax liabilities incurred by our NEOs upon the vesting of the restricted stock awards.

In setting compensation for fiscal years 2016 and 2017, our compensation committee prepared its own internal report on recent trends in executive compensation at public companies in general, including pay-for-performance, say-on-pay, merit increases, annual incentives, long-term incentives and perquisites. In addition, our compensation committee considered the prior compensation program for the NEOs of LSI Industries Inc., a peer company in the LED lighting market.

Previously, during fiscal 2013, our compensation committee engaged Towers Watson, a compensation consultant, to provide it with Towers Watson's market assessment, with a focus on competitiveness, of the total compensation of the company's executive officers to assist the committee in determining fiscal 2013 compensation. In general, the compensation committee has determined to save the company the cost of a consultant and engage an independent compensation consultant only if factors or circumstances change significantly.

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

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

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

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

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

The amount of our stock owned by the consultant; and

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

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

### ***Elements of Executive Compensation***

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

Base salary;

Short-term incentive compensation;

Long-term incentive compensation; and

Retirement and other benefits.

*Base Salary*

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

In early fiscal 2016, management recommended, and our compensation committee approved, freezes on the fiscal 2016 salaries for each of our then serving NEOs other than Marc Meade, whose salary was increased due to his increased responsibilities with regard to manufacturing operations, new product development and sourcing initiatives and also to further align his salary with division presidents. The salaries for each of our other NEOs were frozen due to the increases to salaries in fiscal 2015 and our relative financial performance in fiscal 2015.

In late fiscal 2016, management recommended, and our compensation committee approved, freezes on the fiscal 2017 salaries for each of our NEOs. The salaries for each of our NEOs were frozen due our relative financial and stock price performance in fiscal 2016.

The fiscal 2017 base salaries for our NEOs compared to their fiscal 2016 base salaries are as follows:

<b>Name and Current Position</b>	<b>Fiscal 2017 Base Salary</b>	<b>Fiscal 2016 Base Salary</b>
John H. Scribante Chief Executive Officer	\$ 545,000	\$ 545,000
Michael J. Potts President and Chief Operating Officer	\$ 315,000	\$ 315,000
William T. Hull Chief Financial Officer	\$ 315,000	\$ 315,000
Marc Meade Executive Vice President	\$ 235,000	\$ 235,000

*Incentive Compensation Fiscal 2016*

For fiscal 2016, our management proposed, and our compensation committee approved, an incentive compensation program that consisted of (i) an annual incentive cash bonus opportunity and (ii) long-term incentive compensation consisting of awards of three-year pro rata vesting restricted stock grants (representing 60% of the total dollar amount of the long-term incentive award) and cash awards payable in one-third increments upon the annual vesting of the tandem restricted stock awards (representing 40% of the total dollar amount of the long-term incentive award) in order to provide liquidity for the personal income tax liabilities incurred by our NEOs upon the vesting of the restricted stock awards; provided, however, that we permitted our NEOs to elect (prior to the grant of the award) to forego the cash portion of the long-term incentive award and receive the entire long-term incentive award in the form of three-year pro rata vesting restricted stock. The annual incentive cash bonus opportunity and the long-term incentive compensation for fiscal 2016 are discussed in detail below.

*Annual Incentive Cash Bonus Opportunity for Fiscal 2016*

Under the fiscal 2016 cash bonus program for NEOs, no bonuses were to be paid unless the company achieved at least (i) \$110,000 of profit before taxes and (ii) revenue growth of 10% more than fiscal year 2015. Under the fiscal 2016 bonus program, for every \$1.00 of profit before taxes and bonus expenses earned over the \$110,000 threshold up to \$1.5 million, a bonus pool of \$0.25 would have been earned, and for every \$1.00 of profit before taxes and bonus expenses earned over \$1.5 million up to \$3.5 million, a bonus pool of \$0.269 would have been earned. The maximum total bonus pool for NEOs was \$884,500.

The compensation committee established a target maximum bonus for each of our NEOs as follows for fiscal 2016:

Name	Target Maximum Bonus	Percentage of Fiscal 2016 Base Salary
John Scribante Chief Executive Officer	\$ 545,000	100%
Mike Potts President and Chief Operating Officer	\$ 157,500	50%
Marc Meade Executive Vice President	\$ 82,250	35%

In fiscal 2016, we did not achieve either target. Accordingly, our NEOs did not earn incentive bonuses for fiscal 2016 despite the company's accomplishments over the past year that should strengthen the foundation and future prospects of the company, which are described above.

*Long-Term Incentive Compensation for Fiscal 2016*

Our management proposed, and our compensation committee approved, long-term incentive awards for fiscal 2016 valued at \$528,341 for Mr. Scribante, \$305,371 for Mr. Potts and \$227,817 for Mr. Meade. Our NEOs were provided with the option to accept (i) 100% of the award in the form of three-year pro rata vesting restricted stock or (ii) 60% of the award in the form of three-year pro rata vesting restricted stock and 40% in the form of cash payable in one-third increments upon the annual vesting of the tandem restricted stock awards. Our compensation committee granted our NEOs awards of three-year pro rata vesting restricted stock because it continues to believe that granting restricted stock rewards our NEOs for increasing shareholder value and also helps to motivate and retain our NEOs while aligning their economic interests with our shareholders through long-term equity ownership. In addition, our compensation committee approved the option for our NEOs to accept a portion of the total long-term incentive award in cash payable in one-third increments upon the annual vesting of the tandem restricted stock awards in order to provide liquidity for the personal income tax liabilities incurred by our NEOs upon the vesting of the restricted stock awards. All of our NEOs elected to receive the combined cash and restricted stock award.

The restricted stock awards (with the dollar values converted into a specific number of shares based on the closing price of our Common Stock on the NYSE MKT on May 26, 2015) resulted in a grant of the following number of restricted shares and restricted cash to our NEOs on May 26, 2015:

Name and Current Position	Restricted Stock (#)	Restricted Cash (\$)
John H. Scribante Chief Executive Officer	143,441	\$ 211,336
Michael J. Potts President and Chief Operating Officer	82,906	\$ 122,148
Marc Meade Executive Vice President	61,851	\$ 91,127

*Incentive Compensation Fiscal 2017*

For fiscal 2017, our management proposed, and our compensation committee approved, an incentive compensation program consisting of (i) an annual incentive cash bonus opportunity and (ii) long-term incentive compensation consisting of awards of three-year pro rata vesting restricted stock grants (representing 60% of the total long-term incentive award) and cash awards payable in one-third increments upon the annual vesting of the tandem restricted stock awards (representing 40% of the total long-term incentive award) in order to provide liquidity to our NEOs for their tax liabilities incurred upon the vesting of the restricted stock awards. The annual incentive cash bonus opportunity and the long-term incentive compensation for fiscal 2017 are discussed in detail below.



*Annual Incentive Cash Bonus Opportunity for Fiscal 2017*

Under the fiscal 2017 cash bonus program for NEOs, no bonuses will be paid unless the company achieves at least (i) \$500,000 of profit before taxes and (ii) revenue growth of 10% more than our fiscal year 2016 revenue. Under the fiscal 2017 bonus program, for every \$1.00 of profit before taxes and bonus expenses earned over the \$500,000 threshold up to \$1.0 million, a bonus pool of \$0.37 will be earned, and for every \$1.00 of profit before taxes and bonus expenses earned over \$1.0 million up to \$3.5 million, a bonus pool of \$0.25 will be earned. The maximum total bonus pool for NEOs is \$945,000.

The financial targets described above are not a prediction of how we will perform during fiscal year 2017. The purpose of the targets is to provide appropriate financial metrics to determine amounts of compensation under our incentive compensation program. The targets are not intended to serve, and should not be relied upon, as guidance or any other indication of our expected future performance.

Our compensation committee has the discretion to adjust the achievement of the financial metrics under the fiscal 2017 annual cash bonus program for unusual and nonrecurring factors and events, such as acquisitions and other unusual events, costs and expenses.

The compensation committee established a target maximum bonus for each of our NEOs as follows for fiscal 2017:

<b>Name</b>	<b>Target Maximum Bonus</b>	<b>Percentage of Fiscal 2017 Base Salary</b>
John Scribante Chief Executive Officer	\$ 545,000	100%
Mike Potts President and Chief Operating Officer	\$ 157,500	50%
William Hull Chief Financial Officer	\$ 157,500	50%
Marc Meade Executive Vice President	\$ 82,250	35%

*Long-Term Incentive Compensation for Fiscal 2017*

Our management proposed, and our compensation committee approved, long-term incentive awards for fiscal 2017 valued at \$542,991 for Mr. Scribante, \$305,371 for Mr. Potts, \$305,371 for Mr. Hull and \$227,817 for Mr. Meade. Mr. Hull's award consists of three-year pro rata vesting restricted stock. The remainder of our NEOs were provided 60% of their award in the form of three-year pro rata vesting restricted stock and 40% in the form of cash payable in one-third increments upon the annual vesting of the tandem restricted stock awards in order to provide liquidity to our NEOs for their personal income tax liabilities incurred upon the vesting of the restricted stock awards. Our compensation committee granted our NEOs awards of three-year pro rata vesting restricted stock because it continues to believe that granting restricted stock rewards our NEOs for increasing shareholder value and also helps to motivate and retain our NEOs while aligning their economic interests with our shareholders through long-term equity ownership.

The restricted stock awards (with the dollar values converted into a specific number of shares based on the closing sale price of our Common Stock on the Nasdaq Capital Market on June 7, 2016) resulted in a grant of the following number of shares to our NEOs on June 7, 2016:

Name and Current Position	Restricted Stock (#)	Restricted Cash (\$)
John H. Scribante Chief Executive Officer	236,083	\$ 217,196
Michael J. Potts President and Chief Operating Officer	132,770	\$ 122,148
William T Hull Chief Financial Officer	221,283	N/A
Marc Meade Executive Vice President	99,051	\$ 91,127

#### *Retirement and Other Benefits*

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

*Perquisites and Other Personal Benefits.* We provide perquisites and other personal benefits that we believe are reasonable and consistent with our overall compensation program to better enable our executives to perform their duties and to enable us to attract and retain employees for key positions. We provide Messrs. Scribante, Hull and Potts with a car allowance of \$1,000 per month. We also provide our NEOs with an aggregate business development pool of \$20,000 for use with respect to business development, customer experience and other related items with individual expenditures approved at the discretion of our chief executive officer.

#### *Severance and Change of Control Arrangements*

We provide certain protections to our NEOs in the event of certain terminations of their employment, including enhanced protections for certain terminations that may occur after a change of control of our company. However, our NEOs will only receive the enhanced severance benefits following a change in control if their employment terminates without cause or for good reason. We describe this type of severance arrangement as being subject to a double trigger. All payments, including any double trigger severance payments, to be made to our NEOs in connection with a change of control under their employment agreements and any other of our agreements or plans will be subject to a potential cut-back in the event any such severance payments or other benefits become subject to non-deductibility or excise taxes as excess parachute payments under Code Section 280G or 4999. The cut-back provisions have been structured such that all amounts payable under their employment agreements and other of our agreements or plans that constitute change of control payments will be cut back to one dollar less than three times the executive's base amount, as defined by Code Section 280G, unless the executive would retain a greater amount by receiving the full amount of the payment and paying the related excise taxes (a so-called valley provision).

Our 2003 Stock Option Plan and our 2004 Stock and Incentive Awards Plan, as well as the proposed 2016 Omnibus Incentive Plan, also provide potential protections to our NEOs in the event of certain changes of control. Under these plans, our NEOs' stock options and restricted stock that are unvested at the time of a change of control may become vested on an accelerated basis in the event of certain changes of control.

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

### *Other Policies*

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

Our board of directors has also delegated limited authority to our chief executive officer, acting as a subcommittee of our compensation committee, to grant equity-based awards under our 2004 Stock and Incentive Awards Plan and, assuming it is approved, such authority will be to grant equity-based awards under our 2016 Omnibus Incentive Plan. Our chief executive officer may grant awards covering up to 250,000 shares of our Common Stock per fiscal year to certain non-executive officers in connection with offers of employment, promotions and certain other circumstances. Shares subject to awards granted under this delegated authority which are subsequently cancelled or forfeited may be added back to the delegated share authority grant amount. Under this delegation of authority, any options or stock appreciation rights granted by our chief executive officer must have an effective grant date on the first business day of the month following the event giving rise to the award.

Our equity incentive plans do not permit awards of stock options or stock appreciation rights with an effective grant date prior to the date our compensation committee or our chief executive officer takes action to approve the award.

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

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

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

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

until the fifth anniversary of their appointment as executive officers to satisfy the ownership requirement. All of our executive officers have either satisfied the ownership requirement or have additional time to do so.

*Tax Considerations.* In setting compensation for our NEOs, our compensation committee considers the deductibility of compensation under the Code. Section 162(m) of the Code generally prohibits publicly traded companies from taking a tax deduction for compensation in excess of \$1.0 million that is paid to the chief executive officer and other NEOs, excluding the chief financial officer. However, compensation that is considered performance-based compensation under Section 162(m) is not subject to the \$1.0 million limit on deductibility. We obtained shareholder approval of the material terms of the performance goals under our 2004 Stock and Incentive Awards Plan at our 2011 annual shareholders meeting to enable us to qualify awards granted under such plan as performance-based compensation to the extent the other applicable requirements of Section 162(m) are satisfied. Assuming shareholder approval of our 2016 Plan at this annual meeting, such plan will also enable us to qualify awards granted under such plan as performance-based compensation to the extent the other applicable requirements of Section 162(m) are satisfied. Our compensation committee intends to consider the deductibility of performance-based compensation under Section 162(m) in setting compensation for our NEOs, but it may approve compensation that will not meet the requirements of Section 162(m) in order to ensure competitive compensation levels and structures for our executive officers. For example, as disclosed in this Compensation Discussion and Analysis, we have granted restricted stock to our NEOs that vests based solely on continued service. Such restricted stock will not qualify as performance-based compensation under Section 162(m) and, therefore, will not be exempt from the \$1.0 million limit on deductibility under Section 162(m). Despite not being eligible for deductibility under Section 162(m) to the extent the value of any individual restricted stock exceeds \$1.0 million in value, our compensation committee believed that such awards were appropriate to provide motivational and retention incentives to our NEOs that are tied directly to the value of the Common Stock. In addition, notwithstanding our intentions, because of ambiguities and uncertainties as to the application and interpretation of Section 162(m) and the regulations issued thereunder, no assurance can be given that compensation intended to satisfy the requirements for deductibility under Section 162(m) will so qualify.

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

#### **Compensation Committee Interlocks and Insider Participation**

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

**Compensation Committee Report**

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

Mark A. Williamson, Chair

Tryg C. Jacobson

James R. Kackley

James D. Leslie

Elizabeth Gamsky Rich

### Summary Compensation Table for Fiscal 2016

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

Name and Current Principal Position	Fiscal Year	Salary (\$)	Non-Equity Incentive Plan Compensation (\$)	Stock Awards (\$)(2)	Option Awards (\$)	All Other Compensation (\$)	Total (\$)
John H. Scribante	2016	545,000		317,005		99,724(3)	961,729
Chief Executive Officer	2015	545,000		317,008		26,594	888,602
	2014	460,000		231,078		13,428	704,506
William T. Hull	2016	154,000		219,129		15,632(4)	388,761
Chief Financial Officer, Chief Accounting Officer  and Treasurer							
Michael J. Potts	2016	315,000		183,222		55,716(5)	553,938
President and Chief Operating Officer	2015	315,000		183,225		13,002	511,227
	2014	285,000		71,548		16,362	372,910
Marc Meade	2016	235,000		136,691		6,919(6)	378,610
Executive Vice President	2015	210,000		20,152		4,618	234,770
	2014	183,750		187,574		5,444	376,768
Scott R. Jensen(1)	2016	212,708		170,772(7)		41,961(8)	425,441
Former Chief Financial Officer, Chief Accounting Officer and Treasurer	2015	285,000		165,774(7)		17,880	468,654
	2014	255,000		44,812(7)		144	299,956

(1) Mr. Jensen served as our chief financial officer until October 5, 2015.

(2) Represents the grant date fair value calculated pursuant to ASC Topic 718 for restricted stock awards. Additional information about the assumptions that we used when valuing equity awards is set forth in our Annual Report on Form 10-K in the Notes to Consolidated Financial Statements for our fiscal year ended March 31, 2016.

(3) Includes an automobile allowance of \$15,000, \$8,045 in disability insurance premiums, \$3,612 in tax preparation fees, \$2,622 in life insurance premiums and \$70,445 in restricted cash that vested in tandem with the vesting of restricted stock awards.

(4) Includes an automobile allowance of \$5,867 and housing of \$9,765.

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- (5) Includes an automobile allowance of \$15,000 and \$40,716 in restricted cash that vested in tandem with the vesting of restricted stock awards.
- (6) Includes \$1,530 in disability insurance payments, \$912 in life insurance premiums and \$4,477 in restricted cash that vested in tandem with the vesting of restricted stock awards.
- (7) As a result of Mr. Jensen's departure, all unvested shares of restricted stock granted to Mr. Jensen were forfeited, including \$170,772 in restricted stock granted in fiscal 2016, \$110,516 in restricted stock granted in fiscal 2015 and \$14,937 in restricted stock granted in fiscal 2014.
- (8) Includes \$5,123 in disability insurance premiums and \$36,838 in restricted cash that vested in tandem with the vesting of restricted stock awards.

## Grants of Plan-Based Awards for Fiscal 2016

As described above in the Compensation Discussion and Analysis, under our 2004 Stock and Incentive Awards Plan and employment agreements with certain of our NEOs, we granted restricted stock and non-equity incentive awards (i.e., cash bonuses) to our NEOs in fiscal 2016. The following table sets forth information regarding all such awards.

Name	Grant Date	Date of Committee Action	Estimated Future Payouts Under Non-Equity Incentive Plan Awards		Estimated Future Payouts Under Equity Incentive Plan Awards			All Other Stock Awards: Number of Shares of Stock (#)	All Other Option Awards: Number of Securities Underlying Option Awards (#)	Exercise Price of Option Awards (\$/Sh)	Grant Date Fair Value of Stock and Option Awards (\$)(1)
			Thres-hold (\$)	Target (\$)	Thres-hold (#)	Target (#)	Max (#)				
John Scribante	5/26/15	5/13/15	(2)	(2) \$ 545,000(2)							
			(3)	(3) \$ 211,336(3)							
William Hull	10/5/15 10/5/15	9/8/15 9/8/15	(5)	(5) \$ 78,750(5)				143,441(4)			\$ 317,005
Michael Potts	5/26/15	5/13/15	(2)	(2) \$ 157,500(2)				82,906(7)			\$ 50,000
			(3)	(3) \$ 122,149(3)							
Marc Meade	5/26/15	5/13/15	(2)	(2) \$ 82,250(2)				82,906(4)			\$ 183,222
			(3)	(3) \$ 91,126(3)							
								61,851(4)			\$ 136,691

- (1) Represents the grant date fair value computed in accordance with ASC Topic 718.
- (2) The fiscal 2016 incentive cash bonus program provided for maximum award amounts for each executive, but did not include threshold or target award amounts. Under our fiscal 2016 cash bonus program for NEOs, no bonuses were to be paid unless the company achieved at least (i) \$110,000 of profit before taxes and (ii) revenue growth of 10% more than fiscal year 2015. Under the fiscal 2016 bonus program, for every \$1.00 of profit before taxes and bonus expenses earned over the \$110,000 threshold up to a maximum of \$1.5 million, a bonus pool of \$0.25 would have been earned and for every \$1.00 of profit before taxes and bonus expenses over \$1.5 million up to \$3.5 million, a bonus pool of \$0.269 would be earned up to a maximum total bonus pool of \$884,500 for all participating executives.
- (3) Represents cash awards payable in one-third increments upon the annual vesting of the tandem restricted stock awards in order to provide liquidity for the tax liabilities incurred by our NEOs upon the vesting of the restricted stock awards. Amounts vest 1/3 per year on May 26, 2016, 2017 and 2018.
- (4) Vests 1/3 per year on May 26, 2016, 2017 and 2018.
- (5) Represents a long term signing bonus equal to 50% of Mr. Hull's base salary prorated for six months of fiscal 2016. Payment of the long term signing bonus is due within 45 days of March 31, 2016, provided that Mr. Hull remains an employee (subject to repayment if his employment is terminated for cause or for good reason before the one-year anniversary of the date of payment).



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- (6) Represents a sign-on bonus of \$50,000 payable to Mr. Hull in shares of common stock within 30 days of Mr. Hull beginning his employment with the company (subject to repayment if Mr. Hull's employment is terminated for cause or for good reason before October 5, 2016).
  
- (7) Vests 1/3 per year on October 5, 2016, 2017 and 2018.

### Outstanding Equity Awards at Fiscal 2016 Year End

The following table sets out information about the outstanding equity awards held by our NEOs as of March 31, 2016.

Name	Option Awards				Stock Awards	
	Number of Securities Underlying Unexercised Options Exercisable (#)	Number of Securities Underlying Unexercised Options Unexercisable (#)	Option Exercise Price(\$)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested (#)	Market Value of Shares or Units of Stock That Have Not Vested (\$)(1)
Mr. Scribante	100,000		\$ 1.62	11/12/2022	235,704(2)	\$ 327,629
	60,000	40,000(3)	\$ 2.03	06/12/2022		
	16,731		\$ 3.46	05/18/2020		
	200,000	50,000(4)	\$ 3.01	09/01/2019		
	11,759		\$ 3.78	05/19/2019		
	21,452		\$ 5.35	08/08/2018		
	40,000		\$ 2.50	06/02/2016		
Mr. Hull					82,906(6)	\$ 115,239
Mr. Potts	30,000	20,000(5)	\$ 2.00	06/18/2022	131,885(7)	\$ 183,320
	11,620		\$ 3.46	05/18/2020		
	11,759		\$ 3.78	05/19/2019		
	21,452		\$ 5.35	08/08/2018		
	45,000		\$ 2.20	12/20/2016		
Mr. Meade	12,000	8,000(8)	\$ 2.05	02/01/2023	80,050(10)	\$ 112,270
	25,000		\$ 3.45	11/01/2020		
	10,000	10,000(9)	\$ 3.46	05/18/2020		
	5,000		\$ 4.70	02/01/2020		

- (1) The amounts in this column have been computed based on the closing price of our common stock of \$1.39 on March 31, 2016. The actual value realized by the executive will depend on the market value of our common stock on the date that the award vests.
- (2) 143,441 shares vest in equal increments on May 26, 2016, 2017 and 2018, 10,000 shares vest in equal increments on June 18, 2016 and 2017, 31,944 shares vest on May 28, 2016, and 50,319 shares vest in equal increments on May 15, 2016 and 2017; in each instance contingent on Mr. Scribante's continued employment through the applicable vesting date.
- (3) 20% of the total amount awarded vested and became exercisable on June 12, 2016. The remainder vests on June 12, 2017 contingent on Mr. Scribante's continued employment through the applicable vesting date.
- (4) The option will vest completely when our Common Stock's average closing price over five consecutive trading days equals or exceeds \$8.00 per share, contingent on Mr. Scribante's continued employment through the applicable vesting date.
- (5) 20% of the total amount awarded vested and became exercisable on June 18, 2016. The remainder vests on June 18, 2017 contingent on the executive's continued employment through the applicable vesting date.

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- (6) The shares vest in equal increments on October 5, 2016, 2017 and 2018.
  
- (7) 82,906 shares vest in equal increments on May 26, 2016, 2017 and 2018, 10,000 shares vest in equal increments on June 18, 2016 and 2017, 9,896 shares vest on May 28, 2016, and 29,083 shares vest in equal increments on May 15, 2016 and 2017; in each instance contingent on the executive s continued employment through the applicable vesting date.

- (8) The remainder vests in equal increments on February 1, 2017 and 2018, contingent on Mr. Meade's continued employment through the applicable vesting date.
- (9) 10% of the total amount awarded vested and became exercisable on May 18, 2016. The remainder vests in equal increments on May 18, 2017, 2018, 2019 and 2020, contingent on Mr. Meade's continued employment through the applicable vesting date.
- (10) 61,851 shares vest in equal increments on May 26, 2016, 2017 and 2018, 15,000 shares vest in equal increments on January 1, 2017, 2018 and 2019, and 3,199 shares vest in equal increments on May 15, 2016 and 2017; in each instance contingent on Mr. Meade's continued employment through the applicable vesting date.

**Option Exercises and Stock Vested for Fiscal 2016**

The following table sets forth information about the exercise of options by our NEOs and the vesting of their restricted stock awards in fiscal 2016.

Name	Option Awards		Restricted Stock Awards	
	Number of Shares Acquired on Exercise (#)	Value Realized on Exercise (\$)	Number of Shares Acquired on Vesting (#)	Value Realized on Vesting (\$)(1)
John Scribante			70,478	\$ 185,646
William Hull			24,510	\$ 50,000
Michael Potts			29,438	\$ 81,176
Marc Meade			6,599	\$ 15,391

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

**Payments Upon Termination or Change of Control**

**Employment Agreements**

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

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

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

executive must perform services; (iv) a material breach by us of any provision of the employment agreement; or (v) our employment of Neal R. Verfuert as a senior executive officer. The definition of "good reason" in Mr. Meade's employment agreement does not include items (ii) and (v) above and the definition of "good reason" in Mr. Hull's employment agreement does not include item (v) above.

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

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

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

The employment agreements for our NEOs also provide enhanced benefits following a change of control of our company. Upon a change of control, such executive's employment term is automatically extended for a specified period, which varies among the individual executives as shown in the chart below. Following the change of control, the executive is guaranteed the same base salary and a bonus opportunity at least equal to 100% of the prior year's target award and with the same general probability of achieving performance goals as was in effect prior to the change of control. In addition, the executive is guaranteed participation in salaried and executive benefit plans that provide benefits, in the aggregate, at least as great as the benefits being provided prior to the change of control.

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

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

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

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

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

#### *Equity Plans*

Our equity plans provide for certain benefits in the event of certain changes of control. Under both our existing equity plans, and the proposed 2016 Plan, if there is a change of control, our compensation committee may, among other things, accelerate the vesting of restricted stock and restricted cash and exercisability of all outstanding stock options and/or require that all outstanding options be cashed out. Our 2003 Stock Option Plan defines a change of control as the occurrence of any of the following:

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

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

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

Directors are elected such that a majority of the members of our board shall have been members of our board for less than two years, unless the election or nomination for election of each new director who was not a director at the beginning of such two-year period was approved by a vote of at least two-thirds of the directors then still in office who were directors at the beginning of such period.

A change of control under our 2004 Stock and Incentive Awards Plan, as well as under our proposed 2016 Plan, generally occurs when a third party acquires 20% or more of our outstanding stock, there is a hostile board election, a merger occurs in which our shareholders cease to own 50% of the equity of the successor, or we are liquidated or dissolved or substantially all of our assets are sold.

### *Payments Upon Termination*

The following table summarizes the estimated value of payments and other benefits to which our NEOs would have been entitled under the employment agreements and equity plans described above upon certain terminations of employment, assuming, solely for purposes of such calculations, that (i) the triggering event or events occurred on March 31, 2016, (ii) in the case of the pro rata target bonus, that no bonus was earned for the year of termination and (iii) in the case of a change of control, the vesting of all stock options and restricted stock held by our NEOs was accelerated.

<b>Name</b>	<b>Benefit</b>	<b>Without Cause or for Good Reason (\$)</b>	<b>Without Cause or for Good Reason in Connection With a Change of Control (\$)</b>
John H. Scribante	Severance	\$ 1,090,000	\$ 1,635,000
	Pro Rata Target Bonus		
	Benefits		
	Acceleration of Equity*		\$ 538,965
	Excise Tax Cut-Back		(\$ 446,661)
	<b>Total</b>	<b>\$ 1,090,000</b>	<b>\$ 1,727,304</b>
Michael J. Potts	Severance	\$ 315,000	\$ 630,000
	Pro Rata Target Bonus		
	Benefits	\$ 23,858	\$ 23,858
	Acceleration of Equity*		\$ 305,468
	Excise Tax Cut-Back		
	<b>Total</b>	<b>\$ 338,858</b>	<b>\$ 959,327</b>
William T. Hull	Severance	\$ 315,000	\$ 630,000
	Pro Rata Target Bonus		
	Benefits		
	Acceleration of Equity*		\$ 115,239
	Excise Tax Cut-Back		(\$ 140,750)
	<b>Total</b>	<b>\$ 315,000</b>	<b>\$ 604,489</b>
Marc Meade	Severance	\$ 235,000	\$ 470,000
	Pro Rata Target Bonus		
	Benefits	\$ 23,858	\$ 23,858
	Acceleration of Equity*		\$ 202,397
	Excise Tax Cut-Back		(\$ 140,750)
	<b>Total</b>	<b>\$ 258,858</b>	<b>\$ 555,505</b>
<b>Total</b>		<b>\$ 2,002,716</b>	<b>\$ 3,846,625</b>

\* Based on the closing price of our Common Stock on March 31, 2016.



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

If a change of control had occurred at the end of our fiscal 2016 on March 31, 2016, and our compensation committee had accelerated the vesting of all of the unvested stock options and restricted shares then held by our NEOs and cashed them out for a payment equal to, with respect to stock options, the product of (i) the number of shares underlying such options and (ii) the excess, if any, of the closing price per share of our Common Stock on March 31, 2016 and the exercise price per share of such options, and with respect to restricted stock, a cash payment equal to the product of (i) the number of unvested restricted shares and (ii) the closing price of our common stock on March 31, 2016, and with respect to the restricted cash, a cash payment equal to the amounts set forth in each tandem restricted stock and cash award agreement at the time of grant, our NEOs would have received approximately the following benefits.

Name	Number of Unvested Option Shares Accelerated and Cashed Out (#)	Value Realized for Stock Options (\$)	Number of Unvested Restricted Stock Shares Accelerated and Cashed Out (#)	Value Realized For Restricted Stock (\$)	Value Realized For Restricted Cash (\$)
John H. Scribante			235,704	\$ 327,629	\$ 211,336
William T. Hull			82,906	\$ 115,239	\$ 122,148
Michael J. Potts			131,885	\$ 183,320	
Marc Meade			80,050	\$ 112,270	\$ 91,127

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

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

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

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

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

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

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



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

We believe that we have set base salaries at a sufficient level to discourage excessive or unnecessary risk taking. We believe that base salary, as a non-variable element of compensation, helps to moderate the incentives to incur risk in the pursuit of increased financial performance metrics that are directly tied to the payment of variable elements of compensation. To perform its moderating function, we believe that base salary should make up a substantial portion of target total compensation. Our NEOs' fiscal 2014-2016 base salaries were, on average, more than 50% of their total actual compensation during such fiscal year.

Our incentive compensation goals in each of fiscal 2016 and 2017 are directly tied to and support our strategic business plan and are based upon annual operating budget levels that are reviewed and approved by our board of directors and that we believe are attainable at their targeted levels without the need to (i) take excessive or unnecessary risks; (ii) take actions that would violate our Code of Conduct; or (iii) make material changes to our long-term business strategy or our methods of management or operation.

Our fiscal 2015-2017 incentive compensation programs capped the amount of cash bonus opportunity and provided for three-year vesting of equity awards.

Our fiscal 2015-2017 bonus programs use the achievement of both profitability and revenue as bonus targets. We believe that using different financial metrics helps to mitigate excessive or unnecessary risk taking and the motivation to focus on achieving any single financial performance measure that is directly tied to the amount of our incentive compensation.

Our incentive compensation for fiscal 2015-2017 was a combination of cash incentives and three-year vesting equity awards, so that employees only realize value on such equity awards through sustained long-term appreciation of our shareholder value. The board believes that this combination of short and long-term incentive compensation lowers the risk of unnecessary short term risk taking associated with annual incentive programs.

Our incentive compensation for fiscal 2015-2017 provide for cash bonus awards payable in one-third increments upon the annual vesting of tandem restricted stock awards in order to provide liquidity for our NEOs to pay the income taxes associated with the vesting of such awards; provided, however, that in fiscal 2016 and 2017 we provided our NEOs with the option to accept the entire award solely in restricted stock. We believe the option to accept a portion of the long-term incentive award in cash provides a mechanism for our NEOs to pay the taxes associated with the vesting of restricted stock without having our NEOs sell or pledge shares in order to pay for the associated taxes. We believe this structure will help to increase the level of company share ownership by our NEOs.

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

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

(i) The payment or vesting of incentive compensation was predicated upon the achievement of certain company financial or operating results with respect to the applicable performance period that were subsequently the subject of a material financial statement restatement (other than a restatement due to subsequent changes in generally accepted accounting principles, policies or practices) that adversely affects our prior announced or stated financial results, financial condition or cash flows;

(ii) In our board's view, the recipient engaged in misconduct that caused, partially caused or otherwise contributed to the need for the financial statement restatement; and

(iii) Vesting would not have occurred, or no payment or a lower payment would have been made to the recipient, based upon our restated financial results, financial condition or cash flow.

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

**PROPOSAL TWO:**

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

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

The compensation committee considered the results from the shareholder advisory vote on executive compensation at our 2015 annual meeting of shareholders as support for the company's compensation policies and practices. At our 2015 annual meeting of shareholders, more than 93% of the votes cast on the shareholder advisory vote on executive compensation were in favor of our executive compensation. Our board of directors and our compensation committee value the opinions of our shareholders and are committed to ongoing engagement with our shareholders on executive compensation practices. Our board of directors has determined that our shareholders should vote on a say-on-pay proposal each year in accordance with the preference expressed by shareholders on the say-when-on-pay proposal at our 2011 annual meeting of shareholders.

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

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

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

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

In light of these objectives, we have sought to reward our NEOs for achieving financial performance goals, creating value for our shareholders, and for loyalty and dedication to our company. Since 2014, we have worked to implement a new culture that focuses on profit before tax, along with revenue growth, and our fiscal 2014–2017 compensation programs were designed to incentivize and reward short-term and long-term decisions that benefit earnings and increase shareholder value. Some examples of recent actions we have taken to further these objectives include:

Our decision to pay no incentive plan bonuses for fiscal 2014–2016 despite achieving the revenue threshold in fiscal 2014 and despite the company's accomplishments that should strengthen the foundation and future prospects of the company, including: continuing to implement new initiatives to support our continued transition to LED products; continuing to streamline our product development process and introducing new, higher margin LED products to the market; continuing to reorganize our sales force to better meet the needs of customers; and continuing to expand and diversify our sales channels to create recurring revenue.

Our decision to freeze salaries for all NEOs for fiscal 2016–2017 at the fiscal 2015 levels for all of our NEOs other than Marc Meade, whose salary was increased in fiscal 2016 due to his increased responsibilities with regard to manufacturing operations, new product development and sourcing initiatives and also to further align his salary with division presidents. The salaries for each of our other NEOs were frozen in fiscal 2016 due to the increases to salaries in fiscal 2015 following a freeze on salaries in fiscal 2014 and due to the financial performance of the company during fiscal 2015. The salaries for each of our NEOs have been frozen for fiscal 2017 due to our recent financial performance and condition and recent stock price.

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Our decision to freeze long-term equity incentive restricted stock awards for each of our NEOs for fiscal 2017 (other than Mr. Scribante, who received a modest additional restricted stock award), with long-term

equity compensation grants being set at the same dollar values as approved in fiscal 2016. The long-term equity incentive restricted stock awards for each of our NEOs were frozen for fiscal 2017 due to our recent financial performance and condition and recent stock price in fiscal 2016.

Our decision to implement cash bonus programs in fiscal 2014 – 2017 that focus on profitability and provide that no bonuses will be paid unless the company achieves at a specified level of profit before taxes and increased revenue from the prior fiscal year;

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

Providing the option for NEOs to receive 40% of the total long-term incentive award in the form of cash that vests annually with the tandem restricted stock awards in order for our NEOs to pay the associated tax liability and avoid having our NEOs otherwise sell or pledge the shares in order to pay such liability; and

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

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

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

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

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

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

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



**PROPOSAL THREE:**

**APPROVAL OF THE 2016 OMNIBUS INCENTIVE PLAN**

Our Board of Directors is seeking approval from our shareholders of the Orion Energy Systems, Inc. 2016 Omnibus Incentive Plan (the 2016 Plan ), including the authority to issue up to 1,750,000 shares of our Common Stock under the 2016 Plan, as such number may be adjusted as described below. The two complementary goals of the 2016 Plan are to attract and retain outstanding individuals to serve as officers, directors, employees and consultants to our Company and to increase shareholder value. Through the approval of the 2016 Plan, the Board seeks to provide a direct link between shareholder value and compensation awards by authorizing awards of shares of our Common Stock, monetary payments based on the value of our Common Stock and other incentive compensation awards that are based on our financial performance. We believe the 2016 Plan strikes an appropriate balance between rewarding performance and limiting shareholder dilution, while providing us with the flexibility to meet changing compensation needs.

We believe that awarding stock options and restricted stock reflects our executive compensation philosophy and the principle of pay for performance. By awarding stock options and restricted stock, we link long-term incentives directly to stock price. If our stock price decreases, so does the value of the award holder's compensation. Stock options and restricted stock also help us maintain competitive compensation levels in the market and retain high-performing employees through multi-year vesting requirements. We use annual performance incentives to encourage executives to focus on financial objectives that translates into stock price performance and value creation in that fiscal year. The long-term incentive performance plan awards that we have granted in the past are likewise tied to our long-term overall performance to ensure that an executive's pay was directly linked to the achievement of strong, sustained long-term operating performance.

We are asking for the authority to issue up to 1,750,000 shares of our Common Stock under the 2016 Plan based on our estimate of the number of shares needed for two years' worth of equity awards. We calculated our estimate of two years' worth of awards by multiplying the average number of share awards we granted annually during fiscal years 2013-2015 by two. In addition, we have discussed the amount of shares to be reserved under the 2016 Plan with a number of our significant shareholders and they have, in each case, expressed their support for the reservation of 1,750,000 shares for issuance under the 2016 Plan.

The Board is also seeking approval of the 2016 Plan to maintain our ability to grant awards that qualify as performance-based compensation under Section 162(m) of the Internal Revenue Code of 1986, as amended (the Code ), to the extent the Board concludes such performance-based compensation is desirable. Such performance-based compensation is not included in the limit of \$1,000,000 per year per covered executive on compensation that is deductible by us. One of the requirements for compensation to qualify as performance-based under Code Section 162(m) is that the material terms of the performance goal under which the compensation is to be paid must be disclosed to and approved by the shareholders, and shareholder approval of the 2016 Plan would satisfy this requirement.

**Effect of Proposal on Existing Incentive Plan**

We currently maintain the 2004 Stock and Incentive Awards Plan, as amended (the Prior Plan ). If our shareholders approve the 2016 Plan, then the Prior Plan will terminate and no new awards will be granted under the Prior Plan, although awards previously granted under the Prior Plan and still outstanding will continue to be subject to all terms and conditions of the Prior Plan. If shareholders do not approve the 2016 Plan, then the Prior Plan will remain in effect in accordance with its terms. However, there will be insufficient shares available under the Prior Plan to make annual awards and to provide grants to new hires in the coming years. In this event, the Compensation Committee of the Board would be required to revise its compensation philosophy and devise other programs to attract, retain and compensate its management employees.

As of the Record Date, there were 1,520,331 shares subject to outstanding stock options under the Prior Plan and 1,167,816 shares subject to unvested restricted stock awards under the Prior Plan. 173,299 shares of Common Stock remained available as of the Record Date for additional grants under the Prior Plan.

## Authorized Shares, Stock Price and Dilution

Our Articles of Incorporation, as amended, authorize the issuance of 200,000,000 shares of Common Stock and, as of the Record Date, there were 28,059,351 shares of Common Stock issued and outstanding. The market value of one share of Common Stock on NASDAQ as of the close of market on the Record Date was \$1.35.

## Summary of Terms of 2016 Plan

The following is a summary of the material provisions of the 2016 Plan. A copy of the 2016 Plan is attached to this Proxy Statement as Annex A and is incorporated by reference into this Proxy Statement in its entirety. This summary is subject to the language of the 2016 Plan and the text of the 2016 Plan controls if there is any inconsistency between this summary and the 2016 Plan text.

*Administration.* Our Compensation Committee will administer the 2016 Plan unless it elects to delegate certain of its duties as permitted by the terms of the 2016 Plan. The Committee or any such delegate will be referred to in this section as the Administrator. The Administrator will have the authority to interpret the 2016 Plan and any agreement covering any award under the 2016 Plan; make, change and rescind rules and regulations relating to the 2016 Plan; and make changes to, or reconcile any inconsistency in, any award or agreement covering an award.

*Eligibility.* The Administrator may designate any of the following as a participant, to the extent of the Administrator's authority under the 2016 Plan: any officer or other employee of the company or its affiliates or individuals engaged to become an officer or employee, any consultant or advisor who provide services to the company or its affiliates, and any directors of the company, including non-employee directors of the company. The selection of participants will be based upon the Administrator's opinion that the participant is in a position to contribute materially to the company's continued growth and development and to its long-term financial success. There are (1) six non-employee directors, (2) four NEOs and (3) approximately 263 other employees who would be eligible to participate in the 2016 Plan.

*Types of Awards.* Awards under the 2016 Plan may consist of stock options, stock appreciation rights (SARs), performance shares, performance units, shares of Common Stock, restricted stock, restricted stock units, incentive awards or dividend equivalent units. If the 2016 Plan is approved, then the Administrator may grant any type of award to any participant it selects, but only employees of the company or its subsidiaries may receive grants of incentive stock options within the meaning of Section 422 of the Code. Awards may be granted alone or in addition to, in tandem with, or (subject to the 2016 Plan's prohibition on repricing) in substitution for any other award (or any other award granted under another plan of the company or any affiliate, including the plan of an acquired entity).

*Shares Reserved under the 2016 Plan.* The 2016 Plan provides that 1,750,000 shares of Common Stock are reserved for issuance under the 2016 Plan, subject to adjustment as described below. Up to 1,750,000 shares (the entire amount of the reserve) may be issued pursuant to the exercise of incentive stock options. If any shares subject to awards granted under the Prior Plan would again become available for new grants under the terms of such plan if such plan were still in effect, then those shares will be available for the purpose of granting awards under the 2016 Plan, thereby increasing the number of shares available for issuance under the 2016 Plan.

The number of shares reserved for issuance will be reduced on the date of the grant of any award by the maximum number of shares, if any, with respect to which such award is granted. In general, (1) if an award granted under the 2016 Plan expires, is canceled or terminates without issuance of shares or other payment, (2) if it is determined that all or some portion of the shares with respect to which an award was granted will not be issuable or that compensation payable in respect to shares covered by such an award will not be payable on the basis that the conditions for such issuance will not be satisfied, (3) if shares are forfeited under an award, or (4) if shares are issued under any award and the company reacquires them pursuant to rights reserved by the company upon the issuance of the shares, then such shares may again be used for new awards under the 2016 Plan. Any shares reacquired under clause (4) may not be issued pursuant to incentive stock options. Shares tendered or withheld to satisfy Federal, state or local tax withholding obligations, shares that are tendered or withheld in payment of the exercise price of a stock option or as a result of the net settlement of a stock appreciation right and shares purchased by the company using proceeds from stock option exercises may not be made recredited to the share reserve.

No participant may be granted awards under the 2016 Plan that could result in such participant:

receiving stock options for, and/or stock appreciation rights with respect to, more than 1,000,000 shares of Common Stock (or 200,000 shares of Common Stock for a non-employee director) during any fiscal year of the company;

receiving awards of restricted stock, restricted stock units, and/or other stock-based award relating to more than 1,000,000 shares of Common Stock (or 200,000 shares of Common Stock for a non-employee director) during any fiscal year of the company;

receiving an award of performance shares and/or an award of performance units the value of which is based on the fair market value of a share of Common Stock for more than 1,000,000 shares of Common Stock (or 200,000 shares of Common Stock for a non-employee director) in respect of any fiscal year of the company;

receiving annual incentive award(s) in respect of any single fiscal year of the company that could result in a cash payment of more than \$1,000,000 (or a payment of more than \$200,000 for a non-employee director);

receiving long-term incentive award(s) and/or award(s) of performance units the value of which is not based on the fair market value of a share of Common Stock in respect of any period of two fiscal years of the company that could result in a payment of more than \$2,000,000 (or a payment of more than \$400,000 for a non-employee director), or in respect of any three fiscal years of the company that could result in the payment of \$3,000,000 (or a payment of more than \$600,000 for a non-employee director); or

receiving other stock-based awards or dividend equivalent units relating to more than 1,000,000 shares of Common Stock (or 200,000 shares of Common Stock for a non-employee director) during any fiscal year.

Each of these limitations is subject to adjustment as described below.

*Stock Options.* If the 2016 Plan is approved, then the Administrator will have the authority to grant stock options and to determine all terms and conditions of each stock option. Stock options will be granted to participants at such time as the Administrator will determine. The Administrator will also determine the number of stock options granted, whether a stock option is to be an incentive stock option or non-qualified stock option and the grant date for the stock option, which may not be any date prior to the date that the Administrator approves the grant. The Administrator will fix the stock option price per share of Common Stock, which may never be less than the fair market value of a share of Common Stock on the date of grant. The Administrator will determine the expiration date of each stock option except that the expiration date may not be later than 10 years after the date of grant. Stock options will be exercisable and vest at such times and be subject to such restrictions and conditions as the Administrator deems necessary or advisable, including with respect to the manner of payment of the exercise price of such stock options. If a stock option intended to be an incentive stock option fails to meet the requirements thereof, the stock option will automatically be treated as a non-qualified stock option to the extent of such failure. Except to the extent otherwise provided in an award agreement, a participant will not have any rights as a holder of shares of Common Stock as a result of the grant of a stock option until the stock option is exercised, the exercise price and applicable withholding taxes are paid and the shares of Common Stock subject to the stock option are issued.

*Stock Appreciation Rights.* If the 2016 Plan is approved, then the Administrator will have the authority to grant stock appreciation rights. A stock appreciation right, or SAR, is the right of a participant to receive cash in an amount, and/or Common Stock with a fair market value, equal to the appreciation of the fair market value of a share of Common Stock during a specified period of time. The Administrator will determine all terms and conditions of each stock appreciation right including (1) whether the SAR is granted independently of a stock option or relates to a stock option, (2) the grant date, which may not be a date prior to the date the Administrator approves the grant, (3) the number of shares of Common Stock to which the SAR relates, (4) the grant price, which may never be less than the fair market value of the Common Stock subject to the SAR as determined on the date of grant, (5) the terms and conditions of exercise or maturity, including vesting, (6) a term that must be no later than 10 years after the date of grant, and (7) whether the SAR will settle in cash, Common Stock or a combination of the two.

*Performance and Stock Awards.* If the 2016 Plan is approved, then the Administrator will have the authority to grant awards of shares of Common Stock, restricted stock, restricted stock units, performance shares or performance units. Restricted stock awards are shares of Common Stock subject to a risk of forfeiture and/or restrictions on transfer, which may lapse upon the achievement or partial achievement of performance goals (as described below) established by the Administrator and/or upon completing a period of service. Restricted stock units represent the right to receive cash and/or shares of Common Stock the value of which is equal to the fair market value of one share of Common Stock, to the extent performance goals or other criteria established by the Administrator are achieved and/or upon completing a period of service. Performance shares are the right to receive shares of Common Stock to the extent performance goals established by the Administrator are achieved or other requirements are met. Performance units represent the right to receive cash and/or shares of Common Stock valued in relation to a unit that has a designated dollar value or the value of which is equal to the fair market value of one or more shares of Common Stock, to the extent performance goals established by the Administrator are achieved or other requirements are met.

The Administrator will determine all terms and conditions of the awards including (1) the number of shares of Common Stock and/or units to which such award relates, (2) whether performance goals must be achieved for the participant to realize any portion of the benefit under the award, (3) the length of the vesting and/or performance period and, if different, the date that payment of the benefit will be made, (4) with respect to performance units, whether to measure the value of each unit in relation to a designated dollar value or the fair market value of one or more shares of Common Stock, and (5) with respect to performance units and restricted stock units, whether the awards will settle in cash, in shares of Common Stock (including restricted stock), or in a combination of the two.

*Performance Goals.* For purposes of the 2016 Plan, performance goals mean any goals the Administrator establishes that relate to one or more of the following with respect to the company or any one or more of its subsidiaries, affiliates or other business units: net sales; cost of sales; revenue; gross income; net income; operating income; income from continuing operations; earnings (including before taxes, and/or interest and/or depreciation and amortization); earnings per share (including diluted earnings per share); price per share; cash flow; net cash provided by operating activities; net cash provided by operating activities less net cash used in investing activities; net operating profit; ratio of debt to debt plus equity; return on shareholder equity; return on capital; return on assets; operating working capital; average accounts receivable; economic value added; and customer satisfaction; operating margin; profit margin; sales performance; sales quota attainment; new sales; cross/integrated sales; customer engagement; internal revenue growth; and client retention. As to each performance goal, the relevant measurement of performance shall be computed in accordance with generally accepted accounting principles, if applicable; provided that, the Administrator may, at the time of establishing the performance goal(s), exclude the effects of (i) extraordinary, unusual and/or non-recurring items of gain or loss, (ii) gains or losses on the disposition of a business, (iii) changes in tax or accounting regulations or laws, or (iv) the effect of a merger or acquisition. In the case of awards that the Administrator determines will not be considered performance-based compensation under Code Section 162(m), or for purposes of exercising discretion to reduce the amount payable under any Award that is considered performance-based compensation under Code Section 162(m), the Administrator may establish other performance goals not listed in the 2016 Plan, including subjective, individual goals. Where applicable, the performance goals may be expressed, without limitation, in terms of attaining a specified level of the particular criterion or the attainment of an increase or decrease (expressed as absolute numbers or a percentage) in the particular criterion or achievement in relation to a peer group or other index. The performance goals may include a threshold level of performance below which no payment will be made (or no vesting will occur), levels of performance at which specified payments will be paid (or specified vesting will occur), and a maximum level of performance above which no additional payment will be made (or at which full vesting will occur).

*Incentive Awards.* If the 2016 Plan is approved, then the Administrator will have the authority to grant annual and long-term incentive awards. An incentive award is the right to receive a cash payment, to the extent performance goals are achieved. The Administrator will determine all terms and conditions of an annual or long-term incentive award, including the performance goals (as described above), the performance period, the potential amount payable and the timing of payment. The Administrator must require payment of all or any portion of the amount subject to the incentive award is contingent on the achievement or partial achievement of one or more performance goals during the period the Administrator specifies. The Administrator may deem that performance goals subject to an award are achieved upon a participant's death, disability, retirement or such other circum-

stances as the Administrator may specify. The performance period for an annual incentive award must relate to a period of one year, and the performance period for a long-term incentive award must relate to a period of more than one year.

*Dividend Equivalent Units.* If the 2016 Plan is approved, then the Administrator will have the authority to grant dividend equivalent units in tandem with awards other than stock options or stock appreciation rights. A dividend equivalent unit is the right to receive a payment (in cash or shares) equal to the cash dividends or other cash distributions paid with respect to a share of Common Stock. The Administrator will determine all terms and conditions of dividend equivalent units, subject to the limitations of the 2016 Plan. No dividend equivalent unit granted in tandem with another award may include vesting provisions more favorable to the participant than the vesting provisions, if any, to which the tandem award is subject. No dividend equivalent unit will provide for payment on performance shares or performance share units prior to their vesting.

*Other Stock-Based Awards.* The company may grant to any participant shares of unrestricted stock as a replacement for other compensation to which such participant is entitled, such as in payment of director fees, in lieu of cash compensation, in exchange for cancellation of a compensation right, or as a bonus.

*Vesting and Performance Periods.* The performance period for an annual incentive award must relate to a period of one year, and the performance period for a long-term incentive award must relate to a period of more than one year. Notwithstanding the requirements for any vesting and/or performance period for an award included in the 2016 Plan, however, the Administrator may impose, at the time an award is granted or any later date, a shorter vesting and/or performance period to take into account a participant's hire or promotion, or may accelerate the vesting or deem an award earned, in whole or in part, on a participant's death, disability, retirement, termination by the company or an affiliate without cause or a change of control. Under the 2016 Plan, the Administrator may not increase the amount of compensation payable under an award intended to be performance-based compensation under Code Section 162(m), although the Administrator may decrease the amount of compensation a participant may earn under such an award.

*Transferability.* Awards are not transferable other than by will or the laws of descent and distribution, unless the Administrator allows a participant (i) to designate in writing a beneficiary to exercise the award or receive payment under the award after the participant's death, (ii) to transfer an award to the former spouse of the participant as required by a domestic relations order incident to a divorce, or (iii) provided that the participant receives no consideration in connection therewith, to otherwise transfer an award.

*Adjustments.* If (1) the company is involved in a merger or other transaction in which shares of Common Stock are changed or exchanged, (2) the company subdivides or combines shares of Common Stock or declares a dividend payable in shares of Common Stock, other securities (other than stock purchase rights issued pursuant to a shareholder rights agreement) or other property, (3) the company effects a cash dividend that exceeds 10% of the fair market value of the shares of Common Stock or any other dividend or distribution in the form of cash or a repurchase of shares of Common Stock that the Board determines is special or extraordinary or that is in connection with a recapitalization or reorganization, or (4) any other event occurs that in the judgment of the Administrator requires an adjustment to prevent dilution or enlargement of the benefits intended to be made available under the 2016 Plan, then the Administrator will, in a manner it deems equitable to prevent dilution or enlargement of the benefits or potential benefits intended to be made available under the 2016 Plan, adjust any or all of: (A) the number and type of shares subject to the 2016 Plan and which may, after the event, be made the subject of awards; (B) the number and type of shares of Common Stock subject to outstanding awards; (C) the grant, purchase or exercise price with respect to any award; and (D) to the extent such discretion does not cause an award intended to qualify as performance-based compensation under Section 162(m) of the Code to lose its status as such, the performance goals of an award.

In any such case, the Administrator may also provide for a cash payment to the holder of an outstanding award in exchange for the cancellation of all or a portion of the award.

The Administrator may, in connection with any merger, consolidation, acquisition of property or stock, or reorganization, and without affecting the number of shares of Common Stock otherwise reserved or available under the 2016 Plan, authorize the issuance or assumption of awards upon terms it deems appropriate.

*Change of Control.* The 2016 Plan does not provide for automatic vesting of awards solely upon a change of control. However, in order to preserve a participant's rights under an award in the event of a change of control, the Administrator in its discretion may, at the time an award is made or at any time thereafter, take one or more of the following actions: (a) provide for the acceleration of any time period, or the deemed achievement of any performance goals, relating to the exercise or realization of the award; (b) provide for the purchase of the award for an amount of cash or other property that could have been received upon the exercise or realization of the award had the award been currently exercisable or payable (or the cancellation of awards in exchange for no payment to the extent that no cash or other property would be received upon the exercise or realization of the award in such circumstances); (c) adjust the terms of the award in the manner determined by the Administrator to reflect the change of control; (d) cause the award to be assumed, or new right substituted therefor, by another entity; or (e) make such other provision as the Administrator may consider equitable and in our best interests.

Except as otherwise expressly provided in any agreement between participant and us or an affiliate, if the receipt of any payment by a participant under the circumstances described above would result in the payment by the participant of any excise tax provided for in Section 280G and Section 4999 of the Code, then the amount of such payment will be reduced to the extent required to prevent the imposition of such excise tax.

We also may amend, modify or rescind the change of control provisions of the 2016 Plan if we determine that their operation may prevent a transaction in which we or an affiliate are a party from receiving desired tax treatment, including without limitation requiring that each participant receive a replacement or substitute award issued by the surviving or acquiring corporation. In connection with any merger, consolidation, acquisition of property or stock, or reorganization, the Administrator may authorize the issuance or assumption of awards under the 2016 Plan upon such terms and conditions as it may deem appropriate.

*Term of Plan.* Unless earlier terminated by the Board of Directors, the 2016 Plan will remain in effect until the date all shares reserved for issuance have been issued. If the term of the 2016 Plan extends beyond 10 years from the effective date, no incentive stock options may be granted after such time unless the shareholders of the company have approved an extension of the 2016 Plan.

*Termination and Amendment.* The Board of Directors or the Administrator may amend, alter, suspend, discontinue or terminate the 2016 Plan at any time, subject to the following limitations:

the Board must approve any amendment to the 2016 Plan if the company determines such approval is required by prior action of the Board, applicable corporate law or any other applicable law;

shareholders must approve any amendment to the 2016 Plan if the company determines such approval is required by Section 16 of the Securities Exchange Act of 1934, the Code, the listing requirements of any principal securities exchange or market on which the shares are then traded or any other applicable law; and

shareholders must approve any amendment to the 2016 Plan that materially increases the number of shares of Common Stock reserved under the 2016 Plan or the limitations stated in the 2016 Plan on the number of shares of Common Stock or value that participants may receive through an award or that amends the provisions that would diminish the protections afforded by the prohibition on repricing and backdating of outstanding stock options or SARs.

Subject to the requirements of the 2016 Plan, the Administrator may modify, amend or cancel any award or waive any restrictions or conditions applicable to any award or the exercise of the award. However, except as otherwise provided in the 2016 Plan or the award agreement, any modification or amendment that materially diminishes the rights of the participant, or the cancellation of an award, will be effective only if agreed to by the participant or other interested party. The Administrator need not obtain participant (or other interested party) consent for the modification, amendment or cancellation of an award pursuant to a change of control or as follows: (1) to the extent the Administrator deems such action necessary to comply with any applicable law or the listing requirements of any principal securities exchange or market on which the shares of Common Stock are then traded; (2) to the extent the Administrator deems necessary to preserve favorable accounting or tax treatment of any award for the company; or (3) to the extent the Administrator determines that such action does not materially and adversely affect the value of an award or that such action is in the best interest of the affected participant or any other persons(s) as may then have an interest in the award. Notwithstanding the foregoing, unless

determined otherwise by the Administrator, any such amendment shall be made in a manner that will enable an award intended to be exempt from Section 409A of the Code to continue to be so exempt, or to enable an award intended to comply with Section 409A of the Code to continue to so comply.

The authority of the Board and the Administrator to administer, terminate or modify the 2016 Plan or then-outstanding awards will extend beyond the termination date of the 2016 Plan. Termination of the 2016 Plan will not affect the rights of participants with respect to awards previously granted to them, and all unexpired awards will continue in force and effect after termination of the 2016 Plan except as they may lapse or be terminated by their own terms and conditions.

*Recoupment and Disgorgement of Awards.* The 2016 Plan gives the Administrator full power and authority to terminate or cause a participant to forfeit an award, and require the participant to disgorge to the company any gains attributable to an award, if the participant engages in any action constituting, as determined by the Administrator in its discretion, cause for termination or a breach of any award agreement or any other agreement between the participant and the company or an affiliate concerning noncompetition, nonsolicitation, confidentiality, trade secrets, intellectual property, nondisparagement or similar obligations. This power and authority applies despite anything to the contrary in an award agreement.

In addition, any awards granted pursuant to the 2016 Plan, and any shares of Common Stock issued or cash paid pursuant to an award, will be subject to any recoupment or clawback policy adopted by, or any recoupment or similar requirement otherwise made applicable by law, regulation or listing standards to, the company from time to time.

*Repricing and Backdating Prohibited.* Except for the adjustments provided for in the 2016 Plan, neither the Administrator nor any other person may: (1) amend the terms of outstanding stock options or SARs to reduce the exercise or grant price of such outstanding stock options or SARs; (2) cancel outstanding stock options or SARs in exchange for stock options or SARs with an exercise or grant price less than the exercise or grant price of the original stock options or SARs; or (3) cancel outstanding stock options or SARs with an exercise or grant price above the current Fair Market Value of a share of Common Stock in exchange for cash or other securities. The Administrator may not make a grant of an stock option or SAR with a grant date that is effective before the date the Administrator takes action to approve such award.

*Foreign Participation.* To assure the viability of awards granted to participants employed or residing in foreign countries, the Administrator may provide for such special terms as it may consider necessary or appropriate to accommodate differences in local law, tax policy, accounting or custom. The Administrator may approve such supplements to, or amendments, restatements or alternative versions of, the 2016 Plan as it determines is necessary or appropriate for such purposes. Any such amendment, restatement or alternative versions that the Administrator approves for purposes of using the 2016 Plan in a foreign country will not affect the terms of the 2016 Plan for any other country. All such supplements, amendments, restatements or alternative versions must receive shareholder approval to the extent the company determines such approval is required by: (i) Section 16 of the Exchange Act, (ii) the Code, (iii) the listing requirements of any principal securities exchange or market on which the Shares are then traded, or (iv) any other applicable law.

#### **Certain Federal Income Tax Consequences**

The following summarizes certain U.S. Federal income tax consequences relating to the 2016 Plan under current tax law. The summary is based upon the laws and regulations in effect as of the date of this proxy statement and does not purport to be a complete statement of the law in this area. Furthermore, the discussion below does not address the tax consequences of the receipt or exercise of awards under foreign, state or local tax laws, and such tax laws may not correspond to the Federal income tax treatment described herein. The exact Federal income tax treatment of transactions under the 2016 Plan will vary depending upon the specific facts and circumstances involved and participants are advised to consult their personal tax advisors with regard to all consequences arising from the grant or exercise of awards and the disposition of any acquired shares.

*Stock Options.* The grant of a stock option will create no income tax consequences to the company or the recipient. A participant who is granted a non-qualified stock option will generally recognize ordinary compensation income at the time of exercise in an amount equal to the excess of the fair market value of the Common

Stock at such time over the exercise price. The company will generally be entitled to a deduction in the same amount and at the same time as ordinary income is recognized by the participant. Upon the participant's subsequent disposition of the shares of Common Stock received with respect to such stock option, the participant will recognize a capital gain or loss (long-term or short-term, depending on the holding period) to the extent the amount realized from the sale differs from the tax basis, i.e., the fair market value of the Common Stock on the exercise date.

In general, a participant will recognize no income or gain as a result of exercise of an incentive stock option (except that the alternative minimum tax may apply). Except as described below, the participant will recognize a long-term capital gain or loss on the disposition of the Common Stock acquired pursuant to the exercise of an incentive stock option and the company will not be allowed a deduction. If the participant fails to hold the shares of Common Stock acquired pursuant to the exercise of an incentive stock option for at least two years from the grant date of the incentive stock option and one year from the exercise date, then the participant will recognize ordinary compensation income at the time of the disposition equal to the lesser of (a) the gain realized on the disposition, or (b) the excess of the fair market value of the shares of Common Stock on the exercise date over the exercise price. The company will generally be entitled to a deduction in the same amount and at the same time as ordinary income is recognized by the participant. Any additional gain realized by the participant over the fair market value at the time of exercise will be treated as a capital gain.

*Stock Appreciation Rights.* The grant of a stock appreciation right will create no income tax consequences to the Company or the recipient. Upon the exercise or maturity of a stock appreciation right, the participant will recognize ordinary income equal to the amount of cash and the fair market value of any shares received. The company will generally be entitled to a corresponding deduction in the same amount and at the same time as the participant recognizes income. If shares are delivered under the stock appreciation right, upon the participant's subsequent disposition of the shares, the participant will recognize capital gain or loss (long-term or short-term, depending on the holding period) to the extent the amount realized from the disposition differs from the shares' tax basis, i.e., the fair market value of the shares on the date the participant received the shares.

*Restricted Stock.* Generally, a participant will not recognize income and the company will not be entitled to a deduction at the time an award of restricted stock is made, unless the participant makes the election described below. A participant who has not made such an election will recognize ordinary income at the time the restrictions on the stock lapse in an amount equal to the fair market value of the restricted stock at such time. The company will generally be entitled to a corresponding deduction in the same amount and at the same time as the participant recognizes income. Any otherwise taxable disposition of the restricted stock after the time the restrictions lapse will result in a capital gain or loss (long-term or short-term, depending on the holding period) to the extent the amount realized from the sale differs from the tax basis, i.e., the fair market value of the Common Stock on the date the restrictions lapse. Dividends paid in cash and received by a participant prior to the time the restrictions lapse will constitute ordinary income to the participant in the year paid and the company will generally be entitled to a corresponding deduction for such dividends. Any dividends paid in stock will be treated as an award of additional restricted stock subject to the tax treatment described herein.

A participant may, within 30 days after the date of the award of restricted stock, elect to recognize ordinary income as of the date of the award in an amount equal to the fair market value of such restricted stock on the date of the award (less the amount, if any, the participant paid for such restricted stock). If the participant makes such an election, then the company will generally be entitled to a corresponding deduction in the same amount and at the same time as the participant recognizes income. If the participant makes the election, then any cash dividends the participant receives with respect to the restricted stock will be treated as dividend income to the participant in the year of payment and will not be deductible by the company. Any otherwise taxable disposition of the restricted stock (other than by forfeiture) will result in a capital gain or loss. If the participant who has made an election subsequently forfeits the restricted stock, then the participant will not be entitled to deduct any loss. In addition, the company would then be required to include as ordinary income the amount of any deduction the company originally claimed with respect to such shares.

*Performance Shares.* The grant of a performance share award will create no income tax consequences for the company or the participant. Upon the participant's receipt of shares after the end of the applicable performance period and any applicable vesting period, the participant will recognize ordinary income equal to the fair market value of the shares received, except that if the participant receives shares of restricted stock in payment of



performance shares, recognition of income may be deferred in accordance with the rules applicable to restricted stock as described above. In addition, the participant will recognize ordinary compensation income equal to the dividend equivalents, if any, paid on performance shares. The company will generally be entitled to a deduction in the same amount and at the same time as income is recognized by the participant. Upon the participant's subsequent disposition of the shares, the participant will recognize capital gain or loss (long-term or short-term, depending on the holding period) to the extent the amount realized from the disposition differs from the shares' tax basis, i.e., the fair market value of the shares on the date the participant received the shares.

*Performance Units and Restricted Stock Units.* The grant of a performance unit or restricted stock unit will create no income tax consequences to the company or the participant. Upon the participant's receipt of cash and/or shares at the end of the applicable performance or vesting period, or upon settlement if settlement is deferred beyond vesting, the participant will recognize ordinary income equal to the amount of cash and/or the fair market value of the shares received, and the company will be entitled to a corresponding deduction in the same amount and at the same time. If performance units or restricted stock units are settled in whole or in part in shares, upon the participant's subsequent disposition of the shares the participant will recognize a capital gain or loss (long-term or short-term, depending on the holding period) to the extent the amount realized upon disposition differs from the shares' tax basis, i.e., the fair market value of the shares on the date the employee received the shares.

*Incentive Awards.* A participant who is paid an incentive award will recognize ordinary income equal to the amount of cash paid and/or the fair market value of the shares received, and the company will be entitled to a corresponding deduction in the same amount and at the same time. If incentive awards are paid in whole or in part in shares, upon the participant's subsequent disposition of the shares the participant will recognize a capital gain or loss (long-term or short-term, depending on the holding period) to the extent the amount realized upon disposition differs from the shares' tax basis, i.e., the fair market value of the shares on the date the employee received the shares.

*Dividend Equivalent Units.* A participant who is paid a dividend equivalent with respect to an award will recognize ordinary income equal to the value of cash paid and/or the fair market value of the shares received, and the company will be entitled to a corresponding deduction in the same amount and at the same time.

*Other Stock Based Awards.* A participant who receives shares of Common Stock pursuant to a stock award will recognize ordinary income equal to the fair market value of the shares received and the company will be entitled to a corresponding deduction in the same amount and at the same time. Upon the participant's subsequent disposition of the shares the participant will recognize a capital gain or loss (long-term or short-term, depending on the holding period) to the extent the amount realized upon disposition differs from the shares' tax basis, i.e., the fair market value of the shares on the date the employee received the shares.

*Withholding.* In the event the company or an affiliate is required to withhold any Federal, state or local taxes or other amounts in respect of any income recognized by a participant as a result of the grant, vesting, payment or settlement of an award or disposition of any shares acquired under an award, the company may deduct (or require an affiliate to deduct) from any payments of any kind otherwise due the participant cash, or with the consent of the Administrator, shares of Common Stock otherwise deliverable or vesting under an award, to satisfy such tax or other obligations. Alternatively, the company or its affiliate may require such participant to pay to the company or its affiliate, in cash, promptly on demand, or make other arrangements satisfactory to the company or its affiliate regarding the payment to the company or its affiliate of the aggregate amount of any such taxes and other amounts. If shares of Common Stock are deliverable upon exercise or payment of an award, then the Administrator may permit a participant to satisfy all or a portion of the Federal, state and local withholding tax obligations arising in connection with such award by electing to (a) have the company or its affiliate withhold shares of Common Stock otherwise issuable under the award, (b) tender back shares of Common Stock received in connection with such award or (c) deliver other previously owned shares, in each case having a fair market value equal to the amount to be withheld; provided that the amount to be withheld may not exceed the total minimum Federal, state and local tax withholding obligations associated with the transaction to the extent needed for the company and its affiliates to avoid an accounting charge. If an election is provided, the election must be made on or before the date as of which the amount of tax to be withheld is determined and otherwise as the Administrator requires. In any case, the company and its affiliates may defer making payment or delivery under any award if any such tax may be pending unless and until indemnified to its satisfaction.

**No Guarantee of Tax Treatment.** Notwithstanding any provisions of the 2016 Plan, the company does not guarantee that (1) any award intended to be exempt from Section 409A of the Code is so exempt, (2) any award intended to comply with Section 409A or Section 422 of the Code does so comply, or (3) any award will otherwise receive a specific tax treatment under any other applicable tax law, nor in any such case will the company or any of its affiliates be required to indemnify, defend or hold harmless any individual with respect to the tax consequences of any award.

**Section 162(m) Limit on Deductibility of Compensation.** Section 162(m) of the Code limits the deduction the company can take for compensation it pays to its Chief Executive Officer and the three other highest paid officers other than the Chief Financial Officer (determined as of the end of each year) to \$1 million per year per individual. However, certain performance-based compensation that meets the requirements of Section 162(m) of the Code does not have to be included when determining whether the \$1 million limit has been met. The 2016 Plan is designed so that awards granted to the covered individuals may meet the requirements for performance-based compensation contained in Section 162(m) of the Code. Although the 2016 Plan is designed to permit awards that meet such requirements, our Compensation Committee reserves the right to provide compensation that does not qualify as performance based compensation under Section 162(m) of the Code to the extent it believes such compensation is necessary or appropriate to continue to provide competitive arrangements intended to attract and retain, and provide appropriate incentives to, qualified officers and other key employees.

**New Plan Benefits.** The company cannot currently determine the awards that may be granted under the 2016 Plan in the future to the executive officers or non-employee directors named in this proxy statement or to other officers, non-employee directors, employees, or other persons. The Administrator will make such determinations from time to time.

**Equity Compensation Plan Information.** The following table provides information about the company's equity compensation plans as of March 31, 2016.

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance (excluding securities reflected in column(a) (c)
<b>Equity Compensation Plans:</b>			
Approved by security holders	3,070,435	\$ 3.32	787,686
Not approved by security holders			
<b>Total</b>	<b>3,070,435</b>	<b>\$ 3.32</b>	<b>787,686</b>

**RECOMMENDATION OF THE BOARD: The board of directors recommends a vote FOR approval of the 2016 Plan.**

#### DIRECTOR COMPENSATION

During fiscal 2016, we offered the following compensation program for our non-employee directors: (a) an annual retainer of \$40,000, payable in cash or shares of our Common Stock at the election of the recipient; (b) an annual restricted stock grant, vesting ratably over three years, with a grant date fair value of \$45,000, that may be paid 60% in three-year pro rata vesting restricted stock and 40% of three-year pro rata vesting restricted cash that vests in tandem with the restricted stock at the election of the recipient; (c) an annual retainer of \$40,000 for the chairman of our board of directors, payable in cash or shares of Common Stock at the election of the recipient; (d) an annual retainer of \$20,000 for the chairmen of our ad hoc litigation committee, payable in cash or shares of Common Stock at the election of the recipient; (e) an annual retainer of \$30,000 for the chairman of our audit and finance committee of our board of directors, payable in cash or shares of Common Stock at the election of the recipient; (f) an annual retainer of \$20,000 for the chairmen of the compensation committee, payable in cash or

shares of Common Stock at the election of the recipient; and (g) an annual retainer of \$10,000 for the chairmen of the nominating and corporate governance committee of our board of directors, payable in cash or shares of Common Stock at the election of the recipient.

In fiscal 2017, the compensation program for our non-employee directors is unchanged from fiscal 2016. However, during fiscal 2017, our compensation committee approved the deferral of the annual restricted stock grant of \$45,000 due to an insufficient number of shares being available for issuance under the Prior Plan. The compensation committee intends to reconsider the advisability of this annual restricted stock grant in connection with the annual meeting and after taking into account the anticipated results of the vote to approve the 2016 Plan and the say-on-pay proposal.

In addition, pursuant to our director retirement program implemented in fiscal 2016, upon the recommendation of our compensation committee and the approval of our board of directors, any non-employee director who voluntarily retires from the board prior to the end of his or her stated term or who voluntarily decides not to stand for re-election at the end of his or her stated term will be entitled to (i) continued vesting of up to all of his or her then outstanding unvested restricted stock and options on the dates when such vesting would otherwise occur if such director remained on the board on such dates and/or (ii) a services fee of \$200 per hour for any time spent at our request on company-related matters, plus reimbursement for all out-of-pocket expenses, in each instance, subject to such additional terms and conditions, if any, as may be determined necessary or appropriate by our compensation committee and our board of directors. Our board, upon the recommendation of the compensation committee, pre-approved the application of our director retirement program to each of the directors retiring at our 2016 annual meeting (Messrs. Schueller, Jacobson and Leslie), and elected to continue the vesting of all unvested restricted stock for each of our retiring directors.

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

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

**Director Compensation for Fiscal 2016**

The following table summarizes the compensation of our non-employee directors for fiscal 2016. Directors who are also employees did not receive any compensation for their service as directors and they are therefore omitted from the table. We reimbursed each of our directors, including our employee directors, for expenses incurred in connection with attendance at meetings of our board and its committees.

<b>Name</b>	<b>Fees Earned or Paid in Cash \$(1)</b>	<b>Stock Awards \$(2)(3)</b>	<b>All Other Compensation (\$)</b>	<b>Total (\$)</b>
Michael W. Altschaefl	70,000	45,000		115,000
Kenneth L. Goodson, Jr.	40,000	27,000		67,000
Tryg C. Jacobson	40,000	27,000		67,000
James D. Leslie	40,000	45,000		85,000
Anthony L. Otten	30,000	0		30,000
James R. Kackley	80,000	27,000		107,000
Elizabeth Gamsky Rich	40,000	27,000		67,000
Thomas N. Schueller	50,000	27,000		77,000
Mark C. Williamson	80,000	27,000		107,000

- (1) As permitted under our compensation program for non-employee directors, the following directors elected to receive the following portions of their fiscal 2016 retainer in shares of our Common Stock: Michael W. Altschaefl \$26,251 (12,580 shares) and James D. Leslie \$40,000 (22,710 shares).
- (2) Represents the grant date fair value of the awards pursuant to ASC Topic 718. Additional information about the assumptions that we used when valuing equity awards is set forth in our Annual Report on Form 10-K in the Notes to Consolidated Financial Statements for our fiscal year ended March 31, 2016.
- (3) The option awards outstanding as of March 31, 2016 for each non-employee director were as follows: Mr. Altschaefl held options to purchase 110,462 shares of our Common Stock; Mr. Jacobson held options to purchase 85,259 shares of our Common Stock; Mr. Kackley held options to purchase 175,605 shares of our Common Stock; Ms. Gamsky Rich held options to purchase 105,171 shares of our Common Stock; Mr. Schueller held options to purchase 105,171 shares of our Common Stock; and Mr. Williamson held options to purchase 115,754 shares of our Common Stock, Mr. Goodson held options to purchase 36,568 shares of our Common Stock; and Mr. Leslie held options to purchase 36,568 shares of our Common Stock. All options vest ratably over a three-year continued board service period, subject to the application of the director retirement program.

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

The following table sets forth certain information regarding the beneficial ownership of our Common Stock as of June 9, 2016, by:

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

each of our named executive officers;

each of our directors; and

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

Beneficial ownership is determined in accordance with the rules of the SEC and includes any shares over which a person exercises sole or shared voting or investment power. Under these rules, beneficial ownership also includes any shares as to which the individual or entity has the right to acquire beneficial ownership of within 60 days of June 9, 2016, through the exercise of any warrant, stock option or other right. Except as noted by footnote, and subject to community property laws where applicable, we believe that the shareholders named in the table below have sole voting and investment power with respect to all shares of Common Stock shown as beneficially owned by them. Information is based on 28,059,351 shares outstanding as of June 9, 2016.

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

	Shares Beneficially Owned	
	Number	Percentage of Outstanding
<b>Directors and executive officers</b>		
John Scribante(1)	803,702	2.8%
Michael J. Potts(2)	662,876	2.4%
William T. Hull(3)	102,552	*
Marc Meade(4)	115,465	*
James R. Kackley(5)	456,939	1.6%
Michael W. Altschaefl(6)	223,458	*
Kenneth L. Goodson, Jr.(7)	80,929	*
Tryg C. Jacobson(8)	135,910	*
James D. Leslie(9)	103,796	*
Anthony L. Otten	3,000	*
Elizabeth G. Rich(10)	122,555	*
Thomas N. Schueller(11)	129,882	*
Mark C. Williamson(12)	151,969	*
<b>All current directors and executive officers as a group (13 individuals)(13)</b>	<b>3,103,033</b>	<b>10.5%</b>
<b>Principal shareholders</b>		
Ariel Investments, LLC(14)	4,302,052	15.3%
North Star Investment Management Corp.(15)	1,978,895	7.0%
PVAM Perlus Microcap Fund, L.P.(16)	2,042,118	7.3%

\* Indicates less than 1%.

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- (1) Consists of (i) 264,112 shares of Common Stock owned directly; (ii) 20,000 shares of Common Stock held in an IRA; (iii) 84,648 shares of Common Stock held in the TMS Trust; (iv) 5,000 shares of restricted Common Stock vesting on June 18, 2016 and (v) 429,942 shares of Common Stock issuable upon the exercise of options. The number does not include (i) 70,000 shares of Common Stock subject to options that will not become exercisable within 60 days of June 9, 2016 and (ii) 361,869 shares of restricted Common Stock that do not vest within 60 days of June 9, 2016.

- (2) Consists of (i) 528,045 shares of Common Stock; (ii) 129,831 shares of Common Stock issuable upon the exercise of options and (iii) 5,000 shares of restricted Common Stock vesting on June 18, 2015. The number does not include (i) 10,000 shares of Common Stock subject to options that will not become exercisable within 60 days of June 9, 2016 and (ii) 207,582 shares of restricted Common Stock that do not vest within 60 days of June 9, 2016.
- (3) Consists of 102,552 shares of Common Stock. The number does not include 304,189 shares of restricted Common Stock that do not vest within 60 days of June 9, 2016.
- (4) Consists of (i) 61,465 shares of Common Stock and (ii) 54,000 shares of Common Stock issuable upon the exercise of options. The number does not include (i) 16,000 shares of Common Stock subject to options that will not become exercisable within 60 days of June 9, 2016 and (ii) 156,884 shares of restricted Common Stock that do not vest within 60 days of June 9, 2016.
- (5) Consists of (i) 231,334 shares of Common Stock; (ii) 175,605 shares of Common Stock issuable upon the exercise of options; and (iii) 50,000 shares of Common Stock beneficially owned by Mr. Kackley's grandchildren. The number does not include 11,717 shares of restricted Common Stock that do not vest within 60 days of June 9, 2016.
- (6) Consists of (i) 122,996 shares of Common Stock; and (ii) 110,462 shares of Common Stock issuable upon the exercise of options. The number does not include 17,147 shares of restricted Common Stock that do not vest within 60 days of June 9, 2016.
- (7) Consists of (i) 44,361 shares of Common Stock; and (ii) 36,568 shares of Common Stock issuable upon the exercise of options. The number does not include 11,717 shares of restricted Common Stock that do not vest within 60 days of June 9, 2016.
- (8) Consists of (i) 50,651 shares of Common Stock; and (ii) 85,259 shares of Common Stock issuable upon the exercise of options. The number does not include 11,717 shares of restricted Common Stock that do not vest within 60 days of June 9, 2016.
- (9) Consists of (i) 67,228 shares of Common Stock; and (ii) 36,568 shares of Common Stock issuable upon the exercise of options. The number does not include 17,147 shares of restricted Common Stock that do not vest within 60 days of June 9, 2016.
- (10) Consists of (i) 17,384 shares of Common Stock and (ii) 105,171 shares of Common Stock issuable upon the exercise of options. The number does not include 11,717 shares of restricted Common Stock that do not vest within 60 days of June 9, 2016.
- (11) Consists of (i) 11,215 shares of Common Stock, (ii) 13,496 shares held as trustee of a living trust and (iii) 105,171 shares of Common Stock issuable upon the exercise of options. The number does not include 11,717 shares of restricted Common Stock that do not vest within 60 days of June 9, 2016.
- (12) Consists of (i) 36,215 shares of Common Stock and (ii) 115,754 shares of Common Stock issuable upon the exercise of options. The number does not include 11,717 shares of restricted Common Stock that do not vest within 60 days of June 9, 2016.
- (13) Includes 1,384,331 shares of Common Stock issuable upon the exercise of options and 10,000 shares of restricted Common Stock. The number does not include (i) 96,000 shares of Common Stock subject to options that will not become exercisable within 60 days of June 9, 2016 and (ii) 1,135,120 shares of restricted Common Stock that do not vest within 60 days of June 9, 2016.
- (14)

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The address of Ariel Investments, LLC, which we refer to as Ariel, is 200 E. Randolph Street, Suite 2900, Chicago, Illinois 60601. Other than share ownership percentage information, the information set forth is as of December 31, 2015, as reported by Ariel in its Amendment No. 5 to Schedule 13G filed with us and the SEC. Ariel has sole voting power as to 3,119,825 shares and sole dispositive power over 4,302,052 shares.

- (15) Based on Amendment No. 1 to Schedule 13G filed by PVAM Perlus Microcap Fund L.P., PVAM Holdings Ltd. and Pacific View Asset Management (UK) LLP (collectively, PVAM ) The address of PVAM Perlus Microcap Fund L.P. is 5th Floor, 37 Esplanade, St. Helier, Jersey, Channel Islands JE1 2TR, the address of PVAM Holdings Ltd. is 600 Montgomery Street, 6th Floor, San Francisco, California 94111 and the address of Pacific View Asset Management (UK) LLP is North Hall Farm Road, North Hall Road, Quendon, Essex, United Kingdom CB113XP. Other than share ownership percentage information, the information set forth is



as of December 31, 2016, as reported by PVAM in its Amendment No. 1 to Schedule 13G filed with us and the SEC. PVAM has shared voting power and shared dispositive power over 1,978,895 shares.

(16) The address of North Star Investment Management Corporation, which we refer to as North Star, is 20 N. Wacker Drive, Suite 1416, Chicago, Illinois 60606. Other than share ownership percentage information, the information set forth is as of December 31, 2015, as reported by North Star in its Schedule 13G filed with us and the SEC. North Star has sole voting power as to 1,714,294 shares, sole dispositive power over 1,714,294 shares and shared dispositive power over 327,824 shares.

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

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

To our knowledge, based solely upon our review of the copies of these forms received by us, or written representations from certain reporting persons that no additional forms were required for those persons, we believe that all of our executive officers and directors complied with their reporting obligations during fiscal 2016, except for an inadvertent late Form 4 filed by each of Michael Altschaeffl and James Leslie reporting the receipt of shares of common stock in lieu of directors' fees.

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

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

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

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

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

#### **Related Person Transactions**

We had no reportable related person transactions that occurred in fiscal years 2015 or 2016.

## AUDIT AND FINANCE COMMITTEE MATTERS

### Report of the Audit and Finance Committee

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

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

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

1. As required by our charter, we reviewed the company's financial statements for the fiscal year 2016 and met with management, as well as representatives of BDO USA, LLP, the company's independent registered public accounting firm (which we refer to as BDO) for fiscal year 2016, to discuss the financial statements.
2. We also discussed with members of BDO the matters required to be discussed by the Statement on Auditing Standards 61, *Communications with Audit Committees*, as amended.
3. In addition, we received the written disclosures and the letter from BDO required by applicable requirements of the Public Company Accounting Oversight Board regarding BDO's communications with the audit and finance committee concerning independence, and discussed with members of BDO their independence from management and the company.
4. Based on these discussions, the financial statement review and other matters we deemed relevant, we recommended to the company's board of directors that the company's audited financial statements for the fiscal year 2016 be included in the company's Annual Report on Form 10-K for the year ended March 31, 2016.

Respectfully submitted by the audit and finance committee:

Michael W. Altschaefl, Chair

Kenneth L. Goodson, Jr.

James R. Kackley

Anthony L. Otten

Thomas N. Schueller

Mark C. Williamson

### Principal Accountant Services and Fees

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

The following table presents fees billed by BDO for professional services rendered for the audit of our annual financial statements for fiscal 2016 and fiscal 2015 and fees billed for other services rendered during fiscal 2016 and fiscal 2015:

	Fiscal 2016	Fiscal 2015
Audit fees(1)	\$ 366,548	\$ 403,682

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Audit-related fees	4,956	
Tax fees		
All other		
Total fees	\$ 371,504	\$ 403,682

- (1) Represents the aggregate fees billed for the integrated audit of our fiscal 2016 and 2015 financial statements, respectively, review of quarterly financial statements and attendance at audit committee meetings and shareholder meetings.

**Audit Committee Pre-Approval Policy**

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

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

**PROPOSAL FOUR:**

**RATIFICATION OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

Our audit and finance committee has selected BDO USA, LLP (which we refer to as "BDO") to be our independent registered public accounting firm for our fiscal year 2017. In selecting BDO to be our independent registered public accounting firm for the fiscal year 2017, our audit and finance committee considered the results from its review of BDO's independence, including (i) all relationships between BDO and our company and any disclosed relationships or services that may impact BDO's objectivity and independence; (ii) BDO's performance and qualification as an independent registered public accounting firm; and (iii) the fact that the BDO engagement audit partner is rotated on a regular basis as required by applicable laws and regulations.

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

**RECOMMENDATION OF THE BOARD: The board recommends a vote FOR the approval of the ratification of BDO USA, LLP as our independent registered public accounting firm for our fiscal year 2017.**

**ANNUAL REPORT ON FORM 10-K**

We will provide without charge to each person to whom a copy of this proxy statement has been delivered, upon written or oral request, a copy of our Annual Report on Form 10-K for our fiscal year ended March 31, 2016. Requests should be made to our board secretary at our principal executive offices located at 2210 Woodland Drive, Manitowoc, Wisconsin 54220; telephone number (800) 660-9340.

**SHAREHOLDER PROPOSALS**

We did not receive any shareholder proposals for inclusion in this year's proxy statement. All shareholder proposals pursuant to Rule 14a-8 under the Securities Exchange Act of 1934 ( "Rule 14a-8" ) for presentation at our 2017 annual meeting of shareholders must be received at our offices located at 2210 Woodland Drive, Manitowoc, Wisconsin 54220, by March 1, 2017, for inclusion in our proxy statement for our 2017 annual meeting.

A shareholder who intends to present business, other than a shareholder proposal pursuant to Rule 14a-8, or nominate a director at our 2017 annual meeting must comply with the requirements set forth in our bylaws. Among other things, a shareholder must give written notice to our board secretary on or before December 31, 2016, unless our 2017 annual meeting is on or after May 1, 2017, in which case notice must be received not later than the close of business on the day which is determined by adding to December 31, 2016 the number of days starting with May 1, 2017 and ending on the date of the 2017 annual meeting. By way of example, if our 2017 annual meeting takes place on August 5, 2017, then such notice to be timely must be received not later than the close of business on April 7, 2017.

If the notice is not timely received in accordance with the foregoing, then we are not required to present such proposal at the 2017 annual meeting because the notice will be considered untimely. If our board of directors chooses to present such a shareholder proposal submitted after its due date at the 2017 annual meeting, then the persons named in proxies solicited by our board of directors for the 2017 annual meeting may exercise discretionary voting power with respect to such proposal.

**SHAREHOLDER COMMUNICATIONS WITH THE BOARD OF DIRECTORS**

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

**MAILINGS TO HOUSEHOLDS**

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

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

**PROXY SOLICITATION**

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

**YOUR VOTE IS IMPORTANT.**

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

Shareowner Services

P.O. Box 64945  
St. Paul, MN 55164-0945

**Vote by Internet, Telephone or Mail**

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

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

**INTERNET/MOBILE**

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

Use the Internet to vote your proxy until 12:00 p.m. (CT) on August 2, 2016.

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

Use a touch-tone telephone to vote your proxy until 12:00 p.m. (CT) on August 2, 2016.

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

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

*Please detach here*

**The Board of Directors Recommends a Vote FOR Items 1, 2, 3 and 4.**

1. Election of directors
- |                      |                     |              |                    |
|----------------------|---------------------|--------------|--------------------|
| 01 John H. Scribante | 02 James R. Kackley | Vote FOR     | Vote WITHHELD      |
|                      |                     | all nominees | from all nominees  |
|                      |                     |              | (except as marked) |

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

- |   |       |           |         |
|---|-------|-----------|---------|
| 2. Advisory vote on the approval of the compensation of the Company's named executive officers as disclosed in the proxy statement.             | “ For | “ Against | Abstain |
| 3. Approval of the Orion Energy Systems, Inc. 2016 Omnibus Incentive Plan.  | “ For | “ Against | Abstain |
| 4. Ratification of BDO USA, LLP to serve as the Company's independent registered public accounting firm for fiscal year 2017.                   | “ For | “ Against | Abstain |
| 5. On such other matters that may properly come before the annual meeting in accordance with the best judgment of the persons named as proxies. |       |           |         |

**THIS PROXY WHEN PROPERLY EXECUTED WILL BE VOTED AS DIRECTED OR, IF NO DIRECTION IS GIVEN, WILL BE VOTED FOR THE TWO DIRECTOR NOMINEES INDICATED ABOVE AND FOR ITEMS 2, 3 AND 4. IT WILL ALSO BE VOTED IN ACCORDANCE WITH THE BEST JUDGMENT OF THE PROXIES NAMED HEREIN ON ANY OTHER MATTERS THAT MAY PROPERLY COME BEFORE THE ANNUAL MEETING.**

Date \_\_\_\_\_  
\_\_\_\_\_

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

Signature(s) in Box

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



**ORION ENERGY SYSTEMS, INC.**

**ANNUAL MEETING OF SHAREHOLDERS**

**Wednesday, August 3, 2016**

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

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

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

**777 East Wisconsin Avenue**

**Milwaukee, Wisconsin 53202**

**ORION ENERGY SYSTEMS, INC.**

**2210 Woodland Drive**

**Manitowoc, Wisconsin 54220**

**proxy**

**This proxy is solicited by the Board of Directors for use at the Annual Meeting on August 3, 2016.**

The undersigned hereby appoints John H. Scribante and William T. Hull, and each of them, proxies with full power of substitution to vote all shares of Common Stock of Orion Energy Systems, Inc. of record in the name of the undersigned at the close of business on June 9, 2016 at the Annual Meeting of Shareholders of Orion Energy Systems, Inc. to be held on August 3, 2016, or at any adjournment or postponement thereof.

I further acknowledge receipt of the Notice of the Annual Meeting, the Proxy Statement and the Annual Report on Form 10-K, and I hereby revoke any other proxy I may have executed previously for the 2016 Annual Meeting of Shareholders.

*See reverse for voting instructions.*