

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

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of
the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): February 5, 2014

ORION ENERGY SYSTEMS, INC.
(Exact name of registrant as specified in its charter)

Wisconsin
(State or other
jurisdiction of
incorporation)

01-33887
(Commission File
Number)

39-1847269
(IRS Employer
Identification No.)

2210 Woodland Drive, Manitowoc, Wisconsin
(Address of principal executive offices, including zip code)

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

Not Applicable
(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Item 2.02. Results of Operations and Financial Condition.

On February 5, 2014, Orion Energy Systems, Inc. (the “Company”) issued a press release announcing its quarterly financial results for its fiscal 2014 third quarter ended December 31, 2013. A copy of the press release is furnished as Exhibit 99.1 to this Current Report on Form 8-K. Also furnished as Exhibit 99.2 is certain supplemental information posted on the Company’s website at www.oesx.com.

Item 9.01(d). Financial Statements and Exhibits.

Exhibit 99.1 Press Release of Orion Energy Systems, Inc. dated February 5, 2014.

Exhibit 99.2 Supplemental Financial Information.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

Date: February 5, 2014

ORION ENERGY SYSTEMS, INC.

By: /s/ Scott R. Jensen

Scott R. Jensen

Chief Financial Officer



Orion Energy Systems Announces Fiscal 2014 Third Quarter Results

Adjusted EPS of \$0.06; National Account Wins Position Company for Growth

MANITOWOC, Wis. — February 5, 2014 (BUSINESS WIRE) -- Orion Energy Systems, Inc. (NYSE MKT: OESX) (“Orion” or the “Company”), a leading power technology enterprise, today announced financial results for its fiscal 2014 third quarter ended December 31, 2013.

“The third quarter was one in which we continued to focus on market development, cash flow generation, and earnings growth,” said John Scribante, Chief Executive Officer of Orion Energy Systems. “While revenue in the period was slightly impacted by the government shutdown and some end-of-year order slippage, as well as declining revenue from our large solar project, we saw signs of strengthening LED demand going forward. Orion’s value proposition has resulted in traction across several new national accounts including a leading financial services firm, an international food conglomerate, a major automotive OEM and a North American-based retail food chain. Overall, the retrofit market continues to show attractive industry trends that we expect to support top line growth both this year and next.

“The integration of Harris is complete, and all manufacturing operations have been moved to Manitowoc. With this behind us, we will pursue additional synergies and operational efficiencies while focusing on our expanded LDR product line - which we anticipate should help drive earnings growth in the quarters to come. We are also looking for strategic acquisition opportunities to enhance our revenue and earnings growth, strengthen our market leadership position and bolster our LED product portfolio. We remain dedicated to increasing shareholder returns, and we will accomplish this by building on our technology, our people, and expanding our reputation in the energy management industry.”

Third Quarter of Fiscal 2014

For the fiscal 2014 third quarter ended December 31, 2013, the Company reported revenue of \$27.7 million compared to \$29.1 million for the third quarter of fiscal 2013. The slight decline in revenue year-over-year reflects the impact of the federal government shutdown and some national account order delays which, in aggregate, amounted to approximately \$2 million of lower revenue. Revenue from solar renewable energy projects was \$6.8 million for the fiscal 2014 third quarter compared to \$9.6 million for the fiscal 2013 third quarter, as the Company continues to deemphasize its focus on solar prospects. The Company reported income from operations of \$0.9 million for the third quarter of fiscal 2014, including the impact of \$(0.2) million in Harris integration-related expenses, versus \$0.6 million for the three months ended December 31, 2012.

For the third quarter of fiscal 2014, the Company reported net income of \$1.0 million, or \$0.05 per share, versus net income of \$0.7 million, or \$0.03 per share, in the prior-year period. The fiscal 2014 third quarter included the impact of the aforementioned Harris integration-related expenses, which had a \$(0.02) impact on EPS, and a Harris-related

tax benefit of \$0.1 million, which had a \$0.01 impact on EPS. There were no unusual expenses or benefits in the prior-year period.

Total order backlog as of December 31, 2013 was \$4.1 million compared to \$13.0 million as of September 30, 2013, as the Company's solar backlog was reduced as a result of construction progress at the Brick Township project. Orion currently expects that all but \$1.2 million of the current backlog to be converted into revenue during the remainder of fiscal 2014.

First Nine Months of Fiscal 2014

For the nine months ended December 31, 2013, the Company reported revenue of \$76.0 million, up 19% versus revenue of \$63.8 million in the prior-year period. The Company reported income from operations of \$0.3 million for the first three quarters of fiscal 2014, versus a loss from operations of \$7.1 million for the same period in fiscal 2013. Along with the previously noted items impacting the third quarter, fiscal 2014 was also impacted by non-recurring expenses in the first quarter totaling \$0.4 million, or \$(0.02) per share, related to the liquidation of slow moving inventory and, in the second quarter, by an acquisition-related tax benefit of \$2.3 million, or \$0.11 per share. In addition, the second quarter included \$0.4 million or \$(0.02) per share in non-cash purchase accounting charges for marking-to-market the then existing earn-out provision for the Harris acquisition and acquisition-related legal, accounting and integration expenses.

For the first three quarters of fiscal 2014, the Company reported net income of \$2.6 million, or \$0.12 per diluted share, versus a net loss of \$10.9 million, or \$(0.51) per share, in the prior-year period. Year-to-date results included the previously noted tax and expense items for fiscal 2014 and fiscal 2013; in addition, the fiscal 2013 first quarter included a tax benefit of \$1.6 million, or \$0.07 per share, and the fiscal 2013 second quarter included a tax expense of \$5.6 million, or \$(0.27) per share, to record a full valuation allowance against deferred tax assets.

Cash, Debt and Liquidity Position

Orion had \$18.3 million in cash and cash equivalents and \$1.0 million in short-term investments as of December 31, 2013, compared to \$14.4 million and \$1.0 million, respectively, as of March 31, 2013. The Company generated \$10.8 million of net cash from operations during the first nine months of fiscal 2014 compared to a slight use of cash from operations during the first nine months of fiscal 2013.

On July 1, 2013, the Company completed its acquisition of Harris Manufacturing, Inc. and Harris LED, LLC. The purchase price was paid through a combination of \$5.0 million in cash, \$3.1 million of a seller-financed three-year unsecured subordinated note and 856,997 shares of unregistered Orion common stock, representing a fair value on the date of issuance of \$2.1 million. In October 2013, the Company completed an amendment to modify the purchase agreement with Harris to fix the value of future earn-out consideration at \$1.4 million. Pursuant to the amendment, the Company issued an aggregate of 83,943 unregistered shares of its common stock on January 1, 2014, and will pay \$0.8 million in cash on January 1, 2015.

Total debt was \$7.4 million as of December 31, 2013 compared with \$6.7 million as of March 31, 2013. The Company issued \$3.1 million of a seller-financed note during the fiscal 2014 second quarter to complete the acquisition of Harris. There were no borrowings outstanding under the Company's revolving credit facility as of December 31, 2013, which has availability of \$13.3 million.

Outlook

For the fourth quarter of fiscal 2014, the Company anticipates revenue in the range of \$21.0 to \$24.0 million and earnings of \$(0.02) to \$0.01 per diluted share, reflecting the impact of declining solar revenue and certain delayed orders tied to the 2013 federal government shutdown.

Supplemental Information

In conjunction with this press release, Orion has posted supplemental information on its website which further discusses the financial performance of the Company for the three and nine months ended December 31, 2013. The purpose of the supplemental information is to provide further discussion and analysis of the Company's financial results for the third quarter and nine months ended December 31, 2013, as well as certain non-GAAP reconciliations. The supplemental information can be found in the Investor Relations section of Orion's Web site at <http://investor.oriones.com/events.cfm>.

Conference Call

Orion will host a conference call on Wednesday, February 5, 2014 at 5:00 p.m. Eastern (4:00 p.m. Central/2:00 p.m. Pacific) to discuss details regarding its fiscal 2014 third quarter performance. Domestic callers may access the earnings conference call by dialing 877-754-5294 (international callers, dial 678-894-3013). Investors and other interested parties may also go to the Investor Relations section of Orion's Web site at <http://investor.oriones.com/events.cfm> for a live webcast of the conference call. To ensure a timely connection, it is recommended that users register at least 15 minutes prior to the scheduled webcast.

About Orion Energy Systems

Orion Energy Systems Inc. (NYSE MKT:OESX) is a leading power technology enterprise that designs, manufactures and deploys energy management systems - consisting primarily of high-performance, energy-efficient lighting platforms, intelligent wireless control systems and direct renewable solar technology for commercial and industrial customers - without compromising their quantity and quality of light. For more information, visit www.oesx.com.

Safe Harbor Statement

Certain matters discussed in this press release, including under our "Outlook" section, are "forward-looking statements" intended to qualify for the safe harbors from liability established by the Private Securities Litigation Reform Act of 1995. These forward-looking statements may generally be identified as such because the context of such statements will include words such as "anticipate," "believe," "could," "estimate," "expect," "intend," "may," "plan," "potential," "predict," "project," "should," "will," "would" or words of similar import. Similarly, statements that describe the Company's financial guidance or future plans, objectives or goals are also forward-looking statements. Such forward-looking statements are subject to certain risks and uncertainties that could cause results to differ materially from those expected, including, but not limited to, the following: (i) deterioration of market conditions, including customer capital expenditure budgets; (ii) our ability to compete and execute our growth strategy in a highly competitive market and our ability to respond successfully to market competition; (iii) increasing duration of customer sales cycles; (iv) any material changes to our inventory obsolescence reserves; (v) our ability to recruit and hire sales talent to increase our in-market direct sales; (vi) our development of, and participation in, new product and technology offerings or applications, including customer acceptance of our LED product lines; (vii) the substantial cost of our various legal proceedings and our ongoing SEC inquiry; (viii) price fluctuations, shortages or interruptions of component supplies and raw materials used to manufacture our products; (ix) loss of one or more key customers or suppliers, including key contacts at such customers; (x) our ability to effectively manage our product inventory to provide our products to customers on a timely basis; (xi) our ability to effectively manage the credit risk associated with our debt funded OTA contracts; (xii) a reduction in the price of electricity; (xiii) the cost to comply with, and the effects of, any current and future government regulations, laws and policies; (xiv) increased competition from government subsidies and utility incentive programs; (xv) dependence on customers' capital budgets for sales of products and services; (xvi); the availability of additional debt financing and/or equity capital; (xvii) potential warranty claims; (xviii) potential acquisitions; (xix) our ability to effectively integrate the acquisition of Harris Manufacturing, Inc. and Harris LED, LLC.; and (xx) our decreasing emphasis on obtaining new solar photovoltaic construction projects. Shareholders, potential investors and other readers are urged to consider these factors carefully in evaluating the forward-looking statements and are cautioned not to place undue reliance on such forward-looking statements. The forward-looking statements made herein are made only as of the date of this press release and the Company undertakes no obligation to publicly update any forward-looking statements, whether as a result of new information, future events or otherwise. More detailed information about factors that may affect our performance may be found in our filings with the Securities and Exchange Commission, which are available at <http://www.sec.gov> or at <http://www.oesx.com> in the Investor Relations section of the Company's Web site.

Investor Relations Contacts:

Darrow Associates

Chris Witty

(646) 438-9385

cwitty@darrowir.com

or

Orion Energy Systems

Scott Jensen

Chief Financial Officer

(920) 892-9340

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

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2012	2013	2012	2013
Product revenue	\$ 22,660	\$ 22,380	\$ 53,171	\$ 61,084
Service revenue	6,427	5,312	10,634	14,955
Total revenue	29,087	27,692	63,805	76,039
Cost of product revenue	15,708	15,742	37,172	44,264
Cost of service revenue	4,798	3,800	7,874	10,073
Total cost of revenue	20,506	19,542	45,046	54,337
Gross profit	8,581	8,150	18,759	21,702
Operating expenses:				
General and administrative	2,848	3,277	10,788	9,134
Acquisition and integration related expenses	—	88	—	519
Sales and marketing	4,730	3,397	13,243	10,344
Research and development	427	478	1,834	1,416
Total operating expenses	8,005	7,240	25,865	21,413
Income (loss) from operations	576	910	(7,106)	289
Other income (expense):				
Interest expense	(138)	(123)	(441)	(378)
Interest income	213	132	656	459
Total other income	75	9	215	81
Income (loss) before income tax	651	919	(6,891)	370
Income tax (benefit) expense	—	(99)	4,057	(2,270)
Net income (loss)	\$ 651	\$ 1,018	\$ (10,948)	\$ 2,640
Basic net income (loss) per share	\$ 0.03	\$ 0.05	\$ (0.51)	\$ 0.13
Weighted-average common shares outstanding	20,191,547	21,219,946	21,271,465	20,830,247
Diluted net income (loss) per share	\$ 0.03	\$ 0.05	\$ (0.51)	\$ 0.12
Weighted-average common shares outstanding	20,245,194	22,328,766	21,271,465	21,562,526

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

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2012	2013	2012	2013
Cost of product revenue	\$ 21	\$ 11	\$ 78	\$ 48
General and administrative	43	199	461	650
Sales and marketing	78	83	357	266
Research and development	3	4	18	9
Total	\$ 145	\$ 297	\$ 914	\$ 973

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

	March 31, 2013	December 31, 2013
Assets		
Cash and cash equivalents	\$ 14,376	\$ 18,339
Short-term investments	1,021	1,025
Accounts receivable, net	18,397	20,328
Inventories, net	15,230	13,517
Deferred contract costs	2,118	669
Prepaid expenses and other current assets	2,465	4,795
Total current assets	53,607	58,673
Property and equipment, net	27,947	25,254
Long-term inventory	11,491	9,544
Goodwill	—	4,676
Other intangible assets, net	1,709	7,705
Deferred tax assets	—	145
Long-term accounts receivable	5,069	2,841
Other long-term assets	2,274	2,246
Total assets	\$ 102,097	\$ 111,084
Liabilities and Shareholders' Equity		
Accounts payable	\$ 7,773	\$ 11,197
Accrued expenses	5,457	4,717
Deferred revenue	2,946	1,182
Current maturities of long-term debt	2,597	3,677
Total current liabilities	18,773	20,773
Long-term debt, less current maturities	4,109	3,762
Deferred revenue	1,258	1,336
Other long-term liabilities	188	874
Total liabilities	24,328	26,745
Shareholders' equity:		
Additional paid-in capital	128,104	129,797
Treasury stock	(38,378)	(36,354)
Shareholder notes receivable	(265)	(52)
Retained deficit	(11,692)	(9,052)
Total shareholders' equity	77,769	84,339
Total liabilities and shareholders' equity	\$ 102,097	\$ 111,084

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

	Nine Months Ended December 31,	
	2012	2013
Operating activities		
Net (loss) income	\$ (10,948)	\$ 2,640
Adjustments to reconcile net (loss) income to net cash (used in) provided by operating activities:		
Depreciation	3,258	2,987
Amortization of long-term assets	156	355
Stock-based compensation expense	914	973
Accretion of fair value of deferred and contingent purchase price consideration related to acquisition	—	11
Deferred income tax expense (benefit)	3,945	(2,335)
Loss on sale of property and equipment	38	112
Provision for bad debts	712	87
Other	44	101
Changes in operating assets and liabilities:		
Accounts receivable, current and long-term	(330)	2,384
Inventories, current and long-term	823	5,293
Deferred contract costs	466	1,449
Prepaid expenses and other assets	(805)	(2,225)
Accounts payable	(941)	1,905
Accrued expenses	3,737	(1,202)
Deferred revenue	(1,130)	(1,686)
Net cash (used in) provided by operating activities	(61)	10,849
Investing activities		
Cash paid for acquisition, net of cash acquired	—	(4,992)
Purchase of property and equipment	(1,848)	(357)
Purchase of short-term investments	(4)	(4)
Additions to patents and licenses	(97)	(23)
Proceeds from sales of property, plant and equipment	30	68
Net cash used in investing activities	(1,919)	(5,308)
Financing activities		
Payment of long-term debt	(2,194)	(2,391)
Proceeds from long-term debt	156	—
Proceeds from repayment of shareholder notes	7	213
Repurchase of common stock into treasury	(6,007)	—
Excess tax benefits from stock-based compensation	21	19
Deferred financing costs	—	(19)
Proceeds from issuance of common stock	60	600
Net cash used in financing activities	(7,957)	(1,578)
Net (decrease) increase in cash and cash equivalents	(9,937)	3,963
Cash and cash equivalents at beginning of period	23,011	14,376
Cash and cash equivalents at end of period	\$ 13,074	\$ 18,339

Orion Energy Systems, Inc.
Supplemental Information
Fiscal 2014 Third Quarter and Nine Months Ended December 31, 2013
February 5, 2014

On February 5, 2014, Orion Energy Systems, Inc. issued a press release announcing our financial results for our fiscal 2014 third quarter and nine month period ended December 31, 2013. The purpose of the supplemental information included below is to provide further discussion and analysis of our financial results for the third quarter and nine months ended December 31, 2013. Therefore, the accompanying information provided below should be read in conjunction with our press release.

Statement of Operations

Revenue. Product revenue decreased from \$22.7 million for the fiscal 2013 third quarter to \$22.4 million for the fiscal 2014 third quarter, a decrease of \$0.3 million, or 1%. The decrease in product revenue was a result of decreased sales of solar photovoltaic, or PV, systems of \$1.0 million versus the fiscal 2013 third quarter. Offsetting a portion of this decline, sales of energy efficient lighting retrofits during the fiscal 2014 third quarter increased due to our acquisition of Harris Manufacturing, Inc. and Harris LED on July 1, 2013. Service revenue decreased from \$6.4 million for the fiscal 2013 third quarter to \$5.3 million for the fiscal 2014 third quarter, a decrease of \$1.1 million, or 17%. The decrease in service revenue was a result of a decrease in the number of solar projects currently under construction. Total revenue from PV systems was \$6.8 million for the fiscal 2014 third quarter compared to \$9.6 million for the fiscal 2013 third quarter. The decrease in revenue from PV systems was due to fewer solar projects under construction as compared to several projects under construction during fiscal 2013. We expect this trend of decreasing solar PV systems revenue to continue through the remainder of fiscal 2014 and into fiscal 2015 as we continue to deemphasize our focus on pursuing new solar PV projects.

Product revenue increased from \$53.2 million for the fiscal 2013 first nine months to \$61.1 million for the fiscal 2014 first nine months, an increase of \$7.9 million, or 15%. Total revenue from PV systems was \$15.0 million for the fiscal 2013 first nine months compared to \$20.8 million for the fiscal 2014 first nine months, an increase of \$5.8 million, or 39%.

Backlog. Total cash order backlog as of December 31, 2013 was \$4.1 million, which included \$2.2 million of solar PV orders, compared to a backlog of \$13.0 million as of September 30, 2013, which included \$8.9 million of solar PV orders. We currently expect approximately \$2.9 million of our backlog to be recognized as revenue during the fiscal 2014 fourth quarter and the remainder in future years. We typically expect the non-solar portion of our backlog to be recognized as revenue within 90 days from receipt of order. Our solar PV orders are typically longer-term construction type projects and we expect revenue to be recognized over a period of between three and 24 months

from receipt of order, depending upon the size and complexity of the project. The roll-forward of cash backlog from September 30, 2013 to December 31, 2013 is as follows (in millions):

Backlog – September 30, 2013	\$	13.0
Q3 – Plus: Cash orders and OTA contracts at net present value of future cash flows		18.6
Q3 – Less: Revenue recognized during the quarter		(27.7)
Q3 – Plus: Portion of revenue recognized from PPAs		0.1
Q3 – Plus: Other miscellaneous and project change orders		0.1
Backlog – December 31, 2013	<u>\$</u>	<u>4.1</u>

Cost of Revenue and Gross Margin. Our cost of product revenue was relatively unchanged at \$15.7 million for both the fiscal 2013 and fiscal 2014 third quarters. Our cost of service revenue decreased from \$4.8 million for the fiscal 2013 third quarter to \$3.8 million for the fiscal 2014 third quarter, a decrease of \$1.0 million, or 21%. Total gross margin was 29.4% for the fiscal 2014 third quarter compared to 29.5% for the fiscal 2013 third quarter. Our gross margin on PV revenue was 34.6% during the fiscal 2014 third quarter compared to 23.7% during the fiscal 2013 third quarter. Our gross margins from renewable solar PV projects were positively impacted by favorable product costs on our solar landfill project and by the completion of higher margin service projects. Gross margin from sales of our integrated lighting systems for the fiscal 2014 third quarter was 27.8% compared to 32.3% for the fiscal 2013 third quarter. Our gross margin was unfavorably impacted by severance expenses related to the reduction of Harris' workforce as we transitioned Harris' production to our Manitowoc operations and the addition of Harris products into our sales mix, which historically have resulted in gross margins in the mid-20 percent range.

Total cost of product revenue increased from \$37.2 million for the fiscal 2013 first nine months to \$44.3 million for the fiscal 2014 first nine months, an increase of \$7.1 million, or 19%. Total gross margin decreased from 29.4% for the fiscal 2013 first nine months to 28.5% for the fiscal 2014 first nine months. For the fiscal 2014 first nine months, our gross margin declined due to the increased mix of lower margin solar projects compared to the prior year. Our gross margin on renewable revenues was 26.4% during the fiscal 2013 first nine months compared to 25.8% during the fiscal 2014 first nine months. Gross margin from our HIF integrated systems revenue for the fiscal 2013 first nine months was 30.3% compared to 29.6% during the fiscal 2014 first nine months.

General and Administrative Expenses. Our general and administrative expenses increased from \$2.8 million for the fiscal 2013 third quarter to \$3.3 million for the fiscal 2014 third quarter, an increase of \$0.5 million, or 15%. The increase was due to the acquisition of Harris and incremental expenses of \$0.2 million, which included compensation expense related to the initial earn-out attributed to Harris shareholders who became Orion employees, intangible amortization expense of \$0.1 million as a result of the acquisition of Harris and \$0.2 million in increased stock

compensation expenses. These amounts were partially offset by decreased legal expenses and other discretionary spending reductions during the quarter.

Our general and administrative expenses decreased from \$10.8 million for the fiscal 2013 first nine months to \$9.1 million for the fiscal 2014 first nine months, a decrease of \$1.7 million, or 15%. The decrease for the first nine months was due to prior year expenses of \$1.2 million resulting from our reorganization, \$0.5 million in reduced compensation and benefit expenses resulting from headcount reductions, \$0.2 million in reduced legal expenses and \$0.2 million in other reductions in discretionary spending. These increases were partially offset by increased insurance expenses of \$0.2 million and \$0.2 million for the amortization of intangible assets resulting from the acquisition of Harris.

Acquisition and Integration Related Expenses. Our Harris acquisition related expenses for the fiscal 2014 third quarter were \$0.1 million and for the fiscal 2014 first nine months were \$0.5 million. We incurred no acquisition expenses in the first nine months of fiscal 2013. The expenses were due to the acquisition of Harris during the fiscal 2014 second quarter and included \$0.3 million for variable mark-to-market purchase accounting expenses related to the contingent consideration earn-out for the acquisition of Harris, and \$0.2 million for legal, accounting and integration related costs.

Sales and Marketing Expenses. Our sales and marketing expenses decreased from \$4.7 million for the fiscal 2013 third quarter to \$3.4 million for the fiscal 2014 third quarter, a decrease of \$1.3 million, or 28%. The decrease was due to a \$0.6 million reduction in bad debt expense on uncollectable receivables, reduced compensation and benefit expense of \$0.4 million resulting from headcount reductions and discretionary spending reductions of \$0.7 million, offset by \$0.4 million in incremental expenses resulting from the acquisition of Harris.

Our sales and marketing expenses decreased from \$13.2 million for the fiscal 2013 first nine months to \$10.3 million for the fiscal 2014 first nine months, a decrease of \$2.9 million, or 22%. The decrease was due to reduced compensation and benefit expense of \$1.4 million resulting from headcount reductions, reduced bad debt expense of \$0.6 million, reorganization expenses incurred in fiscal 2013 of \$0.3 million and discretionary spending reductions of \$1.5 million, offset by an increase in our sales commission expense of \$0.1 million resulting from the revenue increase and incremental expenses of \$0.8 million resulting from the acquisition of Harris.

Total sales and marketing employee headcount was 96 and 87 at December 31, 2012 and 2013, respectively.

Research and Development Expenses. Our research and development, or R&D, expenses increased from \$0.4 million for the fiscal 2013 third quarter to \$0.5 million for the fiscal 2014 third quarter, an increase of \$0.1 million, or 12%. Our R&D expenses decreased from \$1.8 million for the fiscal

2013 first nine months to \$1.4 million for the fiscal 2014 first nine months, a decrease of \$0.4 million, or 23%. Our R&D expenses decreased during the first nine months of fiscal 2014 due to a reduction in compensation expenses, consulting expenses and product testing costs related to our energy management controls initiatives.

Interest Expense. Our interest expense decreased from \$138,000 for the fiscal 2013 third quarter to \$123,000 for the fiscal 2014 third quarter, a decrease of \$15,000, or 11%. Our interest expense decreased from \$441,000 for the fiscal 2013 first nine months to \$378,000 for the fiscal 2014 first nine months, a decrease of \$63,000 or 14%. The decrease in interest expense was due to the reduction in financed contract debt for our Orion Throughput Agreements, or OTAs, compared to the prior year first half.

Interest Income. Our interest income decreased from \$213,000 for the fiscal 2013 third quarter to \$132,000 for the fiscal 2014 third quarter, a decrease of \$81,000, or 38%. Our interest income decreased from \$656,000 for the fiscal 2013 first nine months to \$459,000 for the fiscal 2014 first nine months, a decrease of \$197,000, or 30%. Our interest income decreased as we increased the utilization of third party finance providers for a majority of our financed projects. In the future, we expect our interest income to decrease as we continue to utilize third party finance providers for our OTA projects.

Income Taxes. Our income tax benefit increased from income tax expense of \$0 for the fiscal 2013 third quarter to an income tax benefit of \$0.1 million for the fiscal 2014 third quarter. Our income tax expense decreased from \$4.1 million for the fiscal 2013 first nine months to an income tax benefit of \$2.3 million for the fiscal 2014 first nine months, a decrease of \$6.3 million, or 156%. During our fiscal 2013 first nine months, we recorded a valuation reserve against our deferred tax assets in the amount of \$4.1 million due to uncertainty over the realization value of these assets in the future. During our fiscal 2014 first nine months, we reversed \$2.3 million of our valuation reserve to offset deferred tax liabilities created by the acquisition of Harris. Our effective income tax rate for the fiscal 2014 first nine months was 613.5%, compared to 58.9% for the fiscal 2013 first nine months. The change in effective rate was due primarily to the changes in the valuation reserve and expected minimum state tax liabilities.

Statement of Cash Flows

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

Cash provided from operating activities for the fiscal 2014 first nine months was \$10.8 million and consisted of net cash provided by changes in operating assets and liabilities of \$5.9 million and net

income adjusted for non-cash expense items of \$4.9 million. Cash provided by changes in operating assets and liabilities consisted of a decrease of \$5.3 million in inventory on decreased purchases of lighting components, predominantly fluorescent ballasts and lamps, wireless controls and LED components, an increase in accounts payable of \$1.9 million due to the timing of vendor payments for solar project materials and construction installation costs, a decrease in deferred contract costs of \$1.4 million due to the timing of project completions and a decrease in accounts receivable of \$2.4 million related to customer collections. Cash used from changes in operating assets and liabilities included a \$2.2 million increase in prepaid expenses and other for unbilled revenue related to solar projects where construction progress is billed to the customer at the beginning of the month following the month in which the work was performed, a decrease in deferred revenue due to the timing of project completions and a decrease in accrued expenses due to the timing of project billing for a large solar project under construction.

Cash used in operating activities for the first nine months of fiscal 2013 was \$0.1 million and consisted of net cash provided by changes in operating assets and liabilities of \$1.8 million and a net loss adjusted for non-cash expense items of \$1.9 million. Cash provided by changes in operating assets and liabilities consisted of a decrease of \$0.8 million in inventory on decreased purchases of lighting components, predominantly fluorescent lamps and ballasts, and an increase in accrued expenses of \$3.7 million due to the timing of reorganization expenses, the timing of accrued project installation expenses and increased accrued legal expenses. Cash used from changes in operating assets and liabilities included a \$0.3 million increase in accounts receivable on higher revenues, an increase in prepaid and other assets of \$0.8 million for unbilled revenue related to solar projects where construction progress is billed to the customer at the beginning of the month following the month in which the work was performed, a \$0.5 million decrease in deferred contract costs related to the timing of revenue recognition, a \$0.9 million decrease in accounts payable due to the timing of vendor terms and payments and a decrease in deferred revenue of \$1.1 million due to the timing of advanced billings and the achievement of performance criteria for revenue recognition.

Cash Flows Related to Investing Activities. For the fiscal 2014 first nine months, cash used in investing activities was \$5.3 million. This included \$5.0 million related to the acquisition of Harris and \$0.4 million for capital improvements related to product development tooling and information technology systems. Cash provided by investing activities included \$0.1 million in proceeds from asset sales.

For the first nine months of fiscal 2013, cash used in investing activities was \$1.9 million. This included \$1.8 million for capital improvements related to our product development, information technology systems, manufacturing improvements and facility investments and \$0.1 million for investment in patent activities.

Cash Flows Related to Financing Activities. For the fiscal 2014 first nine months, cash flows used in financing activities were \$1.6 million which included \$2.4 million used for repayment of long-term debt, offset by \$0.8 million received from stock option exercises and stock note repayments.

For the first nine months of fiscal 2013, cash flows used in financing activities were \$8.0 million. This included \$6.0 million used for common share repurchases and \$2.2 million for repayment of long-term debt. Cash flows provided by financing activities included \$0.2 million in debt proceeds and \$0.1 million received from stock option exercises and for excess tax benefits from stock-based compensation.

Working Capital

Our net working capital as of December 31, 2013 was \$37.9 million, consisting of \$58.7 million in current assets and \$20.8 million in current liabilities. Our net working capital as of March 31, 2013 was \$34.8 million, consisting of \$53.6 million in current assets and \$18.8 million in current liabilities. Our current accounts receivables increased from fiscal 2013 year-end by \$1.9 million due to higher revenue within the fiscal 2014 third quarter. Our current inventory decreased by \$1.7 million on reduced inventory spending, which was net of \$1.0 million of incremental Harris inventory. Our prepaid and other expenses increased by \$2.3 million due to an increase in unbilled revenue related to the timing of billing on solar projects. Our accounts payable increased from our fiscal 2013 year end by \$3.4 million due to increased solar inventory purchases and contracted project installation activities. Our accrued expenses decreased from our fiscal 2013 year end by \$0.7 million due to the payment of \$1.0 million in accrued settlement expenses and a decrease of \$0.3 million in accrued legal and other expenses, offset by a \$0.6 million increase in accrued project installation costs. Our deferred revenue decreased from our fiscal 2013 year end by \$1.8 million as we continued to progress through the construction of our solar landfill project.

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

Capital Spending

Capital expenditures totaled \$0.4 million during the fiscal 2014 first nine months due to investments in new product development tooling and information systems technologies. We expect to incur a total of approximately \$0.1 to \$0.2 million in capital expenditures during the remainder of fiscal 2014. Our capital spending plans predominantly consist of investments related to our manufacturing operations to improve efficiencies and reduce costs and for investments in information technology systems. We expect to finance these capital expenditures primarily through our existing cash,

equipment secured loans and leases, to the extent needed, long-term debt financing, or by using our available capacity under our credit facility.

Additionally, a key part of our strategic growth plans are to pursue potential acquisition opportunities.

Liquidity and Capital Resources

We had approximately \$18.3 million in cash and cash equivalents and \$1.0 million in short-term investments as of December 31, 2013, compared to \$14.4 million and \$1.0 million at March 31, 2013. Additionally, as of December 31, 2013, we had \$13.3 million of borrowing availability under our revolving credit agreement. We completed an amendment to our credit agreement in August 2013 which extended its term to August 2014. On July 1, 2013, we completed the acquisition of Harris. The purchase price was paid through a combination of \$5.0 million in cash, \$3.1 million in a three-year unsecured subordinated note bearing interest at the rate of 4% per annum and 856,997 unregistered shares of common stock, representing a fair value on the date of issuance of \$2.1 million. We also agreed to issue up to \$1.0 million of our unregistered common stock if Harris met certain financial earn-out targets through December 31, 2014. In October 2013, we amended the earn-out section of the Harris purchase agreement to fix the future consideration for the earn-out at \$1.4 million. We agreed to settle the \$0.6 million due under the earn-out on January 1, 2014, by issuing an aggregate of 83,943 unregistered shares of our common stock, and by paying \$0.8 million on January 1, 2015 in cash. In July 2013, we paid \$975,000, net of insurance proceeds, to settle claims filed against us by a former senior vice president.

We believe that our existing cash and cash equivalents, our anticipated cash flows from operating activities and our borrowing capacity under our revolving credit facility will be sufficient to meet our anticipated normal operating cash needs for the next 12 months, dependent upon our growth opportunities with our cash and finance customers and our future potential acquisition opportunities. Any future potential acquisitions would likely be funded by our existing cash resources, our credit facility, seller financing and/or the issuance of additional equity or debt securities.

On January 17, 2014, we filed a universal shelf registration statement with the Securities and Exchange Commission. Under our shelf registration statement, we have the flexibility to publicly offer and sell from time to time up to \$75 million of debt and/or equity securities. The filing of the shelf registration statement will help facilitate our ability to raise public equity or debt capital to expand existing businesses, fund potential acquisitions, invest in other growth opportunities, or repay existing debt.

Definition of Adjusted Earnings

We define adjusted earnings, which is a financial measurement not recognized under Generally Accepted Accounting Principles, or GAAP, as net income adjusted for certain income tax

adjustments and certain purchase accounting expenses resulting from acquisition and integration. These expenses are predominantly non-cash charges. We believe that adjusting for these expenses provides management with an indication of the successes and failures related to the execution of our strategic initiatives.

Included below is a reconciliation of adjusted earnings per share to earnings per share under GAAP for the three and nine months ended December 31, 2013 (in millions):

	<u>Three months ended December 31, 2013</u>	<u>Nine months ended December 31, 2013</u>
Net income (GAAP)	\$ 1.02	\$ 2.64
<i>Items to subtract from Net Income:</i>		
Income tax benefits from the acquisition of Harris	(0.10)	(2.30)
<i>Items to add to Net Income</i>		
Severance expenses related to integration activities	0.13	0.13
Acquisition and integration expenses	0.01	0.24
Accretion of fair value of deferred and contingent purchase price consideration	0.14	0.57
Amortization of Harris Intangible assets acquired	0.14	0.23
Adjusted Earnings	<u>\$ 1.34</u>	<u>\$ 1.51</u>
Diluted Shares	22.3	21.6
Adjusted Earnings Per Diluted Share	<u>\$ 0.06</u>	<u>\$ 0.07</u>

Definition of Contracted Revenues

We define contracted revenues, which is a financial measurement not recognized under GAAP as expected future revenue from firm customer purchase orders received, including both purchase orders payable immediately in cash and for potential future revenues expected to be realized under firm OTAs and solar Power Purchase Agreements, or PPAs. For OTA and cash contracted revenues for sales of our energy management systems, we generally expect that we will begin to recognize GAAP revenue under the terms of the agreements within 90 days from the firm contract date. For cash contracted revenues for sales of solar PV systems and for PPA contracted revenue, we generally expects that we will recognize GAAP revenue within three to 24 months from the firm contract. We believe that total contracted revenues are a key financial metric for evaluating and measuring

our performance because the measure is an indicator of our success in our customers' adoption and acceptance of our energy products and services as it measures firm contracted revenue value, regardless of the contract's cash or deferred financing structure and the GAAP revenue recognition treatment.

Included below is a reconciliation of contracted revenue to revenue recognized under GAAP for our fiscal 2014 first nine months ended December 31, 2013 (in millions).

	<u>Nine months ended December 31, 2013</u>	
Total contracted revenues	\$	53.8
Decrease in backlog (1)		17.8
Change in solar contracts (2)		0.4
PPA GAAP revenue recognized (3)		0.4
Other miscellaneous (4)		<u>3.6</u>
Revenue – GAAP basis	<u>\$</u>	<u>76.0</u>

(1) Change in backlog reflects the decrease in cash orders at the end of the respective period where product delivery or service performance has not yet occurred. GAAP revenue will be recognized when the performance conditions have been satisfied.

(2) Reflects change orders due to system size on solar contracts.

(3) Reflects GAAP revenue recognized on solar PPAs contracted in prior fiscal years.

(4) Includes \$2.6 million of existing backlog from the acquisition of Harris.

Use of Non-GAAP Financial Measures

We report all financial information required in accordance with GAAP and also provide certain non-GAAP financial measures. A non-GAAP financial measure refers to a numerical measure of our historical or future financial performance, financial position or cash flows that includes (or excludes) amounts that are included in (or excluded from) the most directly comparable measure calculated and presented in accordance with GAAP in our financial statements. We present these non-GAAP financial measures as a complement to results provided in accordance with GAAP because management believes that these non-GAAP financial measures help reflect underlying trends in our business and are important in comparing current results with prior period results. The presentation of this additional information is not meant to be considered in isolation or as a substitute for revenue prepared in accordance with GAAP.

Our management uses the foregoing non-GAAP financial measurement to evaluate our ongoing operations and for internal planning, budgeting, forecasting and business management purposes. A schedule that reconciles our GAAP and non-GAAP financial measures is included with this release. Investors are encouraged to review this reconciliation to ensure that they have a thorough understanding of the reported non-GAAP financial measures and their most directly comparable GAAP financial measures.

In our earnings releases, conference calls, slide presentations and/or webcasts, we may use or discuss non-GAAP financial measures as defined by SEC Regulation G. The GAAP financial measure most directly comparable to each non-GAAP financial measure used or discussed and a reconciliation of the differences between each non-GAAP financial measure and the comparable GAAP financial measure are included in this press release after the condensed consolidated financial statements.

Statistical Data

The following table presents certain statistical data, cumulative from December 1, 2001 through December 31, 2013, regarding sales of our HIF and LED lighting systems, total units sold (including HIF and LED lighting systems), customer kilowatt demand reduction, customer kilowatt hours saved, customer electricity costs saved, indirect carbon dioxide emission reductions from customers' energy savings, and square footage we have retrofitted. The assumptions behind our calculations are described in the footnotes to the table below.

	Cumulative From December 1, 2001 Through December 31, 2013
	(in thousands, unaudited)
HIF and LED lighting systems sold (1)	2,700
Total units sold (including HIF and LED lighting systems)	3,861
Customer kilowatt demand reduction (2)	874
Customer kilowatt hours saved (2)(3)	31,038,221
Customer electricity costs saved (4)	\$ 2,388,819
Indirect carbon dioxide emission reductions from customers' energy savings (tons) (5)	19,033
Square footage retrofitted (6)	1,407,550

(1) "HIF and LED lighting systems" includes all HIF units sold under the brand name "Compact Modular" and its predecessor, "Illuminator."

(2) A substantial majority of our HIF lighting systems, which generally operate at approximately 224 watts per six-lamp fixture, are installed in replacement of HID fixtures, which generally operate at approximately 465 watts per fixture in commercial and industrial applications. We calculate that each six-lamp HIF lighting system we install in replacement of an HID fixture generally reduces electricity consumption by approximately 241 watts (the difference between 465 watts and 224 watts). In retrofit projects where we replace fixtures other than HID fixtures, or where we replace fixtures with products other than our HIF lighting systems (which other products generally consist of products with lamps similar to those used in our HIF systems, but with varying frames, ballasts or power packs), we generally achieve similar wattage reductions (based on an analysis of the operating wattages of each

of our fixtures compared to the operating wattage of the fixtures they typically replace). We calculate the amount of kilowatt demand reduction by multiplying (i) 0.241 kilowatts per six-lamp equivalent unit we install by (ii) the number of units we have installed in the period presented, including products other than our HIF lighting systems (or a total of approximately 3.9 million units).

- (3) We calculate the number of kilowatt hours saved on a cumulative basis by assuming the demand (kW) reduction for each fixture and assuming that each such unit has averaged 7,500 annual operating hours since its installation.
- (4) We calculate our customers' electricity costs saved by multiplying the cumulative total customer kilowatt hours saved indicated in the table by \$0.077 per kilowatt hour. The national average rate for the year-to-date period ended August 2013, which is the most current data for which this information is available, was \$0.1009 per kilowatt hour according to the United States Energy Information Administration.
- (5) We calculate this figure by multiplying (i) the estimated amount of carbon dioxide emissions that result from the generation of one kilowatt hour of electricity (determined using the Emissions and Generation Resource Integration Database, or EGrid, prepared by the United States Environmental Protection Agency), by (ii) the number of customer kilowatt hours saved as indicated in the table.
- (6) Based on 3.9 million total units sold, which contain a total of approximately 19.3 million lamps. Each lamp illuminates approximately 75 square feet. The majority of our installed fixtures contain six lamps and typically illuminate approximately 450 square feet.

Safe Harbor Statement

Certain matters discussed in this supplemental information are "forward-looking statements" intended to qualify for the safe harbors from liability established by the Private Securities Litigation Reform Act of 1995. These forward-looking statements may generally be identified as such because the context of such statements will include words such as "anticipate," "believe," "could," "estimate," "expect," "intend," "may," "plan," "potential," "predict," "project," "should," "will," "would" or words of similar import. Similarly, statements that describe our financial guidance or future plans, objectives or goals are also forward-looking statements. Such forward-looking statements are subject to certain risks and uncertainties that could cause results to differ materially from those expected, including, but not limited to, the following: (i) deterioration of market conditions, including customer capital expenditure budgets; (ii) our ability to compete and execute our growth and profitability strategy in a highly competitive market and our ability to respond successfully to market competition; (iii) increasing duration of customer sales cycles; (iv) any material changes to our inventory obsolescence reserves; (v) our ability to recruit and hire sales talent to increase our in-market direct sales; (vi) our development of, and participation in, new product and technology offerings or applications, including customer acceptance of our LED product lines; (vii) the substantial cost of our various legal proceedings and our ongoing SEC inquiry; (viii) price fluctuations, shortages or interruptions of component supplies and raw materials used to manufacture our products; (ix) loss of one or more key customers or suppliers, including key contacts at such customers; (x) our ability to effectively manage our product inventory to provide our products to customers on a timely basis; (xi) our ability to effectively manage the credit risk associated with our debt funded OTA contracts; (xii) a reduction in the price of electricity; (xiii) the cost to comply with, and the effects of, any current and future government regulations, laws and policies; (xiv) increased competition from government subsidies and utility incentive programs; (xv) dependence on customers' capital budgets for sales of products and services; (xvi) the availability of additional debt financing and/or equity capital; (xvii) potential warranty claims; (xviii) potential acquisitions;

and (xix) our ability to effectively integrate the acquisition of Harris Manufacturing, Inc. and Harris LED, LLC.; and (xx) our decreasing emphasis on obtaining new solar photovoltaic construction projects. Shareholders, potential investors and other readers are urged to consider these factors carefully in evaluating the forward-looking statements and are cautioned not to place undue reliance on such forward-looking statements. The forward-looking statements made herein are made only as of the date of this supplemental information and we undertake no obligation to publicly update any forward-looking statements, whether as a result of new information, future events or otherwise. More detailed information about factors that may affect our performance may be found in our filings with the Securities and Exchange Commission, which are available at <http://www.sec.gov> or at <http://www.oesx.com> in the Investor Relations section of our Web site.