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 1, 2011

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

Wisconsin	**01-33887**	**39-1847269**
(State or other jurisdiction of incorporation)	(Commission File Number)	(IRS Employer Identification No.)

2210 Woodland Drive, Manitowoc, Wisconsin	**54220**
(Address of principal executive offices)	(Zip Code)

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

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:

o Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

o Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

o Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

o 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 1, 2011, Orion Energy Systems, Inc. (the "Company") issued a press release announcing its quarterly financial results for its fiscal 2011 third quarter ended December 31, 2010. 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 financial information posted on the Company's website at www.oriones.com.

Item 9.01. Financial Statements and Exhibits.

(a) Not applicable.

(b) Not applicable.

(c) Not applicable.

(d) Exhibits. The following exhibits are being furnished herewith:

(99.1)	Press Release of Orion Energy Systems, Inc., dated February 1, 2011.
(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.

ORION ENERGY SYSTEMS, INC.

Date: February 1, 2011

By: /s/ Scott R. Jensen
Scott R. Jensen
Chief Financial Officer and Treasurer

ORION ENERGY SYSTEMS, INC.
FORM 8-K
EXHIBIT INDEX

Exhibit Number	
(99.1)	Press Release of Orion Energy Systems, Inc., dated February 1, 2011.
(99.2)	Supplemental Financial Information.

Orion Energy Systems, Inc. Announces Fiscal 2011 Third Quarter Results

Achieves Record Quarter for Revenues and Operating Income

MANITOWOC, Wis. — February 1, 2011 — Orion Energy Systems, Inc. (NYSE Amex: OESX), a leading power technology enterprise, announced today the full details on its financial results for its fiscal 2011 third quarter and fiscal year-to-date period ended December 31, 2010. The Company previously announced on January 24, 2011 its preliminary financial results for its fiscal 2011 third quarter ended December 31, 2010 in anticipation of President Obama's visit to Orion's headquarters on January 26, 2011.

Third Quarter of Fiscal 2011

As previously announced, for the third quarter of fiscal 2011, Orion reported a record level of revenues of $29.7 million under generally accepted accounting principles (GAAP), a 54% increase compared to $19.3 million for the third quarter of fiscal 2010. Total backlog at the end of the third quarter of fiscal 2011 was $8.6 million, which included $3.9 million of solar PV orders, compared to $5.1 million at the end of the third quarter fiscal 2010 and $13.7 million at the end of the second quarter of fiscal 2011. Orion generally expects this backlog to be recognized as GAAP revenue in the fourth quarter of fiscal 2011, with the portion of backlog relating to solar PV orders recognized within the fourth quarter of fiscal 2011 and first quarter of fiscal 2012.

Orion also reported contracted revenues of $26.7 million for the third quarter of fiscal 2011, a 25% increase versus the prior year fiscal 2010 third quarter total of $21.4 million. Included in the $26.7 million were $23.3 million in cash orders and $3.4 million in financed contracts from Orion Throughput Agreements (OTAs). Prior year contracted revenues included $18.0 million in cash orders and $3.4 million in financed contracts from OTA agreements and solar technology power purchase agreements (PPAs). See the section below titled "Definition and Reconciliation of Contracted Revenues" for details on how Orion defines contracted revenues.

For the third quarter of fiscal 2011, the Company reported GAAP net income of $0.6 million, or $0.03 per share, which includes the impact of a 74.8% effective income tax rate. For the third quarter of fiscal 2010, GAAP net income was $0.8 million, or $0.04 per share, which included the impact of a 44.6% effective income tax benefit. Orion is no longer reporting figures for non-GAAP net income and non-GAAP earnings per share due to its evolving customer finance program offerings and recent changes to the structure of its OTAs. These changes are expected to ultimately result in more timely recognition of GAAP revenue from OTAs and a better matching with the upfront selling, general and administrative expenses from these contracts that are required to be expensed immediately under GAAP.

Nine Months Ended — Year-to-Date Fiscal 2011

For the first nine months of fiscal 2011, GAAP revenues were $58.1 million, an increase of 25% compared to $46.5 million for the same period in fiscal 2010. For the first nine months of fiscal 2011, Orion also reported contracted revenues of $74.8 million, a 31% increase compared to $57.2 million for the same period in fiscal 2010. Included in the $74.8 million were $61.9 million in cash orders and $12.8 million in financed contracts from OTA and PPA agreements. Contracted revenues for the first nine months of fiscal 2010 included $49.1 million in cash orders and $8.2 million in financed contracts from OTAs and PPAs.

For the first nine months of fiscal 2011, the Company reported a GAAP net loss of $(0.6 million), or $(0.03) per share, compared to a GAAP net loss of $(3.4 million), or $(0.15) per share for the same period of fiscal 2010.

Key Business Highlights

During the third quarter of fiscal 2011:

- Orion increased the number of facilities retrofitted with its Compact Modular high-intensity fluorescent lighting technology to 6,517 as of the end of the third quarter fiscal 2011 (compared to 6,128 as of the end of the second quarter of fiscal 2011), surpassing over 1 billion square feet of installed facilities.
- Total deployments of the InteLite® wireless controls increased to 532 customer locations, consisting of 65,839 transceivers and 551 control panels (compared to 49,324 transceivers and 486 control panels as of the end of the second quarter of fiscal 2011). The deployments represent 29.6 million square feet of installed facilities as of the end of the third quarter of fiscal 2011 (compared to 22.2 million square feet as of the end of the second quarter of fiscal 2011).
- Total Apollo® solar light pipes installed increased to 8,952 total units (compared to 7,581 total units as of the end of the second quarter 2011), representing 4.0 million square feet of installed facilities as of the end of the third quarter of fiscal 2011 (compared to 3.4 million square feet of installed facilities as of the end of the second quarter of fiscal 2011).
- Orion reported operating income of $2.7 million for the third quarter compared to $0.6 million in the comparable prior-year period, representing the highest quarterly operating income in the Company’s history.

- As previously announced in December, Orion received a commitment for an additional $1.3 million tranche of financing for an OTA project. The financing will provide funding to support the equipment and purchases underlying a specific OTA contract with a key customer, involving the retrofitting of Orion's Compact Modular lighting system and the new installation of InteLite® wireless controls. The debt agreement will bear interest at approximately 7% with a five-year term, and is expected to close in February 2011.
- Orion's line of exterior lighting fixtures, which continue to gain acceptance in the marketplace after being introduced within the past two years, were approved as "Dark Sky" compliant by the International Dark-Sky Association (IDA). Customers and local government are requesting that outdoor lighting fixtures be compliant with IDA standards for reduction of night time light pollution.

Neal Verfuerth, Chief Executive Officer of Orion commented, "It was a privilege and an honor to have President Obama visit Orion's headquarters last week, along with showcasing our facility and telling our story to the numerous media organizations. The event provided a wonderful opportunity to demonstrate how Orion's integrated system of energy-efficient lighting systems, wireless controls and direct renewable technologies enable customers to run their facilities at grid parity or even at a lower cost per kilowatt hour than the electrical grid can provide. The President's visit also gave further visibility to the increasing need in this country for more deployment of clean energy technologies at the point of the end user."

Mr. Verfuerth continued, "We are pleased to report results for the third quarter that not only represents a record level of quarterly revenue, but also the highest quarterly operating income in our history. We have commented over the past several quarters that one of the biggest challenges Orion faced was capital expenditure budgets being tied up and the resulting delays in deploying our energy-efficient lighting systems. While the headwinds from a very tough economic environment have not completely abated, we are seeing a number of encouraging indicators in recent months. We are cautiously optimistic heading into calendar 2011 when looking at our building pipeline of potential cash and OTA projects, along with the increased optimism from discussions with existing and potential customers on their willingness to invest in their facilities. Orion continued to invest in several strategic areas of its business during the downturn, which we believe position the company to demonstrate some significant operating leverage with a sustainable recovery in capital spending within corporate America."

Fiscal 2011 Outlook

The Company is reaffirming its previously stated fiscal 2011 guidance for contracted revenue and GAAP revenue, and is narrowing its range of guidance for GAAP earnings per share. For fiscal 2011 (ending March 31, 2011), contracted revenues are still anticipated to be between $100 million and $110 million. The Company currently expects between 15% to 20% of its anticipated fiscal 2011 contracted revenues to be driven by projects completed through its OTAs and PPAs, which previously was expected to be between 20% to 25%. Orion still expects its fiscal 2011 GAAP revenues to be within the range of $78 million and $84 million.

On a GAAP basis, the Company's expectation of earnings per share for fiscal 2011 is between $0.01 and $0.03 per diluted share, which is a narrowing of the previously-expected range of between $0.02 and $0.10. As mentioned above, Orion is no longer reporting figures for non-GAAP net income and non-GAAP earnings per share and, therefore, is no longer providing guidance on these financial metrics.

The Company currently expects the forecasted ranges for other key financial-statement line items and metrics for fiscal 2011 to be as follows:

- Gross margin — 33.5% to 34.5%
- Operating margin — 1.0% to 2.0%
- Effective tax rate — 55.0% to 60.0%
- Diluted share count — 22.7 to 23.3 million
- Capital spending (excluding operating leases) — $3.2 to $3.7 million
- Capital spending for equipment held under OTAs and PPAs — $8.7 to $9.7 million
- Depreciation and amortization — $4.4 to $5.0 million
- Stock-based compensation expense — $1.1 to $1.4 million

Historically, Orion has tended to experience its highest quarterly revenue amount within the third quarter of any given fiscal year. As a result, on a historical basis, the Company tends to experience a sequential decline in revenue during the fourth quarter of a fiscal year relative to the third quarter.

The above guidance is based on the Company's current expectations. These statements are forward-looking and actual results may differ materially. The Company assumes no obligation to publicly update or revise its outlook. Investors are reminded that actual results may differ, and may differ materially, from these estimates for the reasons described below under the caption "Safe Harbor Statement" and in the Company's filings with the Securities and Exchange Commission.

Cash, Debt and Liquidity Position

Orion had $9.9 million in cash and cash equivalents and $1.0 million in short-term investments as of December 31, 2010, compared to $13.3 million and $1.0 million, respectively, at September 30, 2010. Total short and long-term debt was $5.9 million as of December 31, 2010, compared to $6.1 million at September 30, 2010. There were no borrowings outstanding under the Company's revolving credit facility as of December 31, 2010, which has an availability of $13.3 million.

Orion currently has been funding the system costs of its OTA and PPA financing contracts through a combination of its own cash and debt agreements with financial institutions. To ensure long-term capital support for the expected growth of these financing programs, the Company continues to pursue several debt financing alternatives in order to provide funding to specifically support the equipment and purchases that underlie the OTAs and PPAs. The Company believes the additional $1.3 million financing commitment received during the third quarter is further validation of the Company's ability to finance its OTA and PPA projects. Management continues to remain focused on obtaining additional financing at a reasonable cost of capital.

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, 2010. The purpose of the supplemental information is to provide further discussion and analysis of the Company's financial results for the third quarter and first nine months of fiscal 2011. 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 Tuesday, February 1, 2011 at 5:00 p.m. Eastern (4:00 p.m. Central/2:00 p.m. Pacific) to discuss details regarding its fiscal 2011 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 webcast.

Definition and Reconciliation of Contracted Revenues

Orion defines contracted revenues, which is a financial measurement not recognized under GAAP, as contracted 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 discounted potential future revenues under PPAs. These contracts are expected to be paid by the Company's customers over the life of the OTAs and solar PPAs. For OTA and cash contracted revenues, Orion generally expects that it will begin to recognize GAAP revenue under the terms of the agreements within 90 days from the firm contract date. For PPA contracted revenues, Orion generally expects that it will begin to recognize GAAP revenue under the terms of the PPAs within 180 days from the firm contract date. Orion believes that total contracted revenues are a key financial metric for evaluating and measuring the Company's performance because the measure is an indicator of the Company's success in its customers' adoption and acceptance of the Company's energy products and services as it measures firm contracted revenue value, regardless of the contract's cash or deferred financing structure and the related different GAAP revenue recognition treatment.

Orion’s management uses the foregoing non-GAAP financial measurement to evaluate its ongoing operations and for internal planning, budgeting, forecasting and business management purposes. Accordingly, Orion believes it is useful for its investors to review, as applicable, information that both includes and excludes the expected future revenue from its OTAs and PPAs in order to assess the relative performance of Orion’s business. Management includes within the Company’s reported contracted revenues the impact of the future potential gross revenue from OTAs and the discounted future potential revenue from PPAs because management believes that these adjustments reflect the increasing shift of customer purchasing decisions from cash purchases to the Company’s OTA and PPA product purchase financing solution. A schedule that reconciles the Company’s GAAP revenue and Non-GAAP contracted revenue is set forth below. 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 Orion’s earnings releases, conference calls, slide presentations and/or webcasts, it 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 below. These non-GAAP financial measures are not prepared in accordance with GAAP. These measures may differ from the non-GAAP information, even where similarly titled, used by other companies and, therefore, should not be used to compare the Company’s performance to that of other companies. There are significant limitations associated with the use of non-GAAP financial measures. The additional non-GAAP financial information presented below should be considered in conjunction with, and not as a substitute for or superior to, the financial information presented in accordance with GAAP.

Included below is a reconciliation of contracted revenues to revenues recognized under GAAP for the fiscal 2011 third quarter and fiscal year-to-date period ended December 31, 2010 (in millions).

	Three months ended December 31, 2010	Nine months ended December 31, 2010
Total contracted revenues	$ 26.7	$ 74.8
Change in backlog (1)	5.1	(5.4)
Contracted revenue from OTAs and PPAs (2)	(3.4)	(12.8)
OTA and PPA GAAP revenue	0.7	1.7
Other miscellaneous	0.6	(0.2)
Revenue — GAAP basis	$ 29.7	$ 58.1

(1) Change in backlog reflects the (increase) or 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, typically within 90 days from the end of the period.

(2) Contracted revenues from OTAs and PPAs are subtracted to reconcile the GAAP revenue as recognition of GAAP revenue will occur in future periods.

About Orion Energy Systems

Orion Energy Systems, Inc. (NYSE Amex: 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 or quality of light. Since December 2001, Orion’s technology has benefitted its customers and the environment by reducing its customers:

- Energy demand by 607,247 kilowatts, or 14.3 billion kilowatt-hours;
- Energy costs by more than $1.1 billion; and
- Indirect carbon dioxide emission by more than 9.5 million tons.

Safe Harbor Statement

Certain matters discussed in this press release 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) further deterioration of market conditions, including customer capital expenditure budgets; (ii) Orion's ability to compete in a highly competitive market and its ability to respond successfully to market competition; (iii) increasing duration of customer sales cycles; (iv) the market acceptance of Orion's products and services, including the increasing customer preferences to purchase the Company's products through its OTAs and PPAs rather than through cash purchases; (v) price fluctuations, shortages or interruptions of component supplies and raw materials used to manufacture Orion's products; (vi) loss of one or more key customers or suppliers, including key contacts at such customers; (vii) the increasing relative volume of the Company's product sales through its wholesale channel; (viii) a reduction in the price of electricity; (ix) the cost to comply with, and the effects of, any current and future government regulations, laws and policies; (x) increased competition from government subsidies and utility incentive programs; (xi) dependence on customers' capital budgets for sales of products and services; (xii) Orion's development of, and participation in, new product and technology offerings or applications; (xiii) legal proceedings, including the securities litigation pending against Orion; and (xiv) potential warranty claims. 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 Orion 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.oriones.com in the Investor Relations section of our Web site.

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,	
	2009	2010	2009	2010
Product revenue	$ 17,205	$ 27,663	$ 41,645	$ 54,080
Service revenue	2,090	2,008	4,897	3,994
Total revenue	19,295	29,671	46,542	58,074
Cost of product revenue	10,633	18,784	27,727	35,566
Cost of service revenue	1,568	1,674	3,455	3,089
Total cost of revenue	12,201	20,458	31,182	38,655
Gross profit	7,094	9,213	15,360	19,419
Operating expenses:				
General and administrative	3,051	2,709	9,357	8,642
Sales and marketing	3,063	3,235	9,176	10,124
Research and development	404	614	1,315	1,797
Total operating expenses	6,518	6,558	19,848	20,563
Income (loss) from operations	576	2,655	(4,488)	(1,144)
Other income (expense):				
Interest expense	(67)	(99)	(197)	(223)
Dividend and interest income	49	3	248	19
Total other income (expense)	(18)	(96)	51	(204)
Income (loss) before income tax	558	2,559	(4,437)	(1,348)
Income tax expense (benefit)	(249)	1,915	(1,072)	(777)
Net income (loss)	$ 807	$ 644	$ (3,365)	$ (571)
Basic net income (loss) per share	$ 0.04	$ 0.03	$ (0.15)	$ (0.03)
Weighted-average common shares outstanding	21,792,175	22,726,426	21,709,799	22,629,776
Diluted net income (loss) per share	$ 0.04	$ 0.03	$ (0.15)	$ (0.03)
Weighted-average common shares outstanding	22,567,575	23,110,633	21,709,799	22,629,776

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

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2009	2010	2009	2010
Cost of product revenue	$ 51	$ 42	$ 163	$ 116
General and administrative	135	147	400	417
Sales and marketing	205	123	472	377
Research and development	10	9	29	21
Total	$ 401	$ 321	$ 1,064	$ 931

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

	March 31, 2010	December 31, 2010
Assets		
Cash and cash equivalents	$ 23,364	$ 9,858
Short-term investments	1,000	1,010
Accounts receivable, net of allowances of $382 and $467	14,617	24,326
Inventories, net	25,991	32,230
Deferred tax assets	—	502
Prepaid expenses and other current assets	2,974	3,140
Total current assets	67,946	71,066
Property and equipment, net	30,500	37,741
Patents and licenses, net	1,590	1,634
Deferred tax assets	2,610	2,662
Other long-term assets	975	2,963
Total assets	$ 103,621	$ 116,066
Liabilities and Shareholders' Equity		
Accounts payable	$ 7,761	$ 15,363
Accrued expenses and other	3,844	4,190
Deferred tax liabilities	44	—
Current maturities of long-term debt	562	1,261
Total current liabilities	12,211	20,814
Long-term debt, less current maturities	3,156	4,618
Deferred revenue, long-term	186	1,599
Other long-term liabilities	398	399
Total liabilities	15,951	27,430
Additional paid-in capital	122,515	123,965
Shareholder notes receivable	—	(157)
Treasury stock	(32,011)	(31,767)
Accumulated deficit	(2,834)	(3,405)
Total shareholders' equity	87,670	88,636
Total liabilities and shareholders' equity	$ 103,621	$ 116,066

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

	Nine Months Ended December 31,	
	2009	**2010**
Operating activities		
Net loss	$ (3,365)	$ (571)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	1,956	3,145
Stock-based compensation expense	1,064	931
Deferred income tax benefit	(1,234)	(597)
Change in allowance for notes and accounts receivable	384	85
Other	15	25
Changes in operating assets and liabilities:		
Accounts receivable	(1,950)	(9,794)
Inventories	(4,285)	(6,239)
Prepaid expenses and other current assets	1,414	(350)
Accounts payable	5,193	7,602
Accrued expenses	633	346
Net cash used in operating activities	(175)	(5,417)
Investing activities		
Purchase of property and equipment	(4,268)	(2,885)
Purchase of property and equipment leased to customers under operating leases	(5,328)	(7,375)
Purchase of short-term investments	—	(10)
Sale of short-term investments	5,522	—
Additions to patents and licenses	(186)	(158)
Proceeds from sales of long-term assets	6	1
Long-term assets	—	(330)
Net cash used in investing activities	(4,254)	(10,757)
Financing activities		
Payment of long-term debt	(640)	(528)
Proceeds from long-term debt	200	2,689
Proceeds from shareholder notes	—	1
Repurchase of common stock into treasury	(400)	—
Excess tax benefits from stock-based compensation	95	193
Deferred financing costs and offering costs	—	(61)
Proceeds from issuance of common stock	947	374
Net cash provided by financing activities	202	2,668
Net decrease in cash and cash equivalents	(4,227)	(13,506)
Cash and cash equivalents at beginning of period	36,163	23,364
Cash and cash equivalents at end of period	$ 31,936	$ 9,858

Investor Relations Contact
Mike Harris
Vice President — Investor Relations
Orion Energy Systems
(920) 892-5412
mharris@oesx.com

Orion Energy Systems, Inc
Supplemental Information
Fiscal 2011 Third Quarter and Nine Months Ended December 31, 2010
February 1, 2011

On February 1, 2011, Orion Energy Systems, Inc. issued an earnings press release announcing financial results for its fiscal 2011 third quarter and year-to-date period ended December 31, 2010. The purpose of the supplemental information included below is to provide further discussion and analysis of the Company's financial results for the third quarter and nine months ended fiscal 2011. Therefore, the accompanying information provided below should be read in conjunction with the earnings press release issued by the Company.

Statement of Operations

Contracted Revenue. Total contracted revenue increased from $21.4 million for the fiscal 2010 third quarter (which included $1.7 million of future potential revenue streams associated with OTAs and $1.7 million of future potential revenue streams associated with PPAs) to $26.7 million for the fiscal 2011 third quarter (which included $3.4 million of future potential revenue streams associated with OTAs), an increase of $5.3 million, or 25%. The increase in contracted revenues was due to increased order activity for our integrated lighting systems, increased orders for renewable technologies through our Orion Engineered Systems division and an increase in new customer OTA contracts completed.

Total contracted revenue increased from $57.2 million for the first nine months of fiscal 2010 (which included $6.4 million of future potential revenue streams associated with OTAs and $1.7 million of future potential revenue streams associated with PPAs) to $74.8 million for the first nine months of fiscal 2011 (which included $10.9 million of future potential revenue streams associated with OTAs and $1.9 million of future potential revenue streams associated with PPAs), an increase of $17.6 million, or 31%. We attribute this improvement in contracted revenue to an increase in the number of OTAs and renewable project sales through our Orion Engineered Systems division, along with an improved economic environment during the third quarter of fiscal 2011.

For the third quarter and first nine months of fiscal 2011, we recognized $0.6 million and $1.3 million, respectively, of revenue from completed OTAs. As of December 31, 2010, we had signed 167 customers to OTAs representing future potential gross revenue streams of $16.6 million. In the future, we expect an increase in the volume of OTAs as our customers continue to take advantage of our value proposition without incurring up-front capital cost.

The total amount of potential future gross GAAP revenue to be recognized from the OTAs and the discounted potential future value of PPAs as of December 31, 2010 was $20.0 million, an increase of 16% compared to the $17.3 million as of September 30, 2010. The roll-forward of potential future gross GAAP revenue from these financed contracts from September 30, 2010 to December 31, 2010 is as follows (in thousands):

Future GAAP revenue expected to be recognized — September 30, 2010	$ 17,280
Q3 — New OTA (gross) and PPA (discounted) contracted revenue	3,385
Q3 — GAAP revenue recognized from OTAs and PPAs	(697)
Future GAAP revenue expected to be recognized — December 31, 2010	$ 19,968

The timing of expected future GAAP revenue recognition from OTAs and PPAs (and resulting operating cash inflows), assuming that all renewal periods will be exercised over the term of the contracts, was as follows as of December 31, 2010 (in thousands):

Fiscal 2011 (remaining)	$ 865
Fiscal 2012	4,603
Fiscal 2013	4,487
Fiscal 2014	3,878
Thereafter	6,135
	$ 19,968

Revenue. Product revenue increased from $17.2 million for the fiscal 2010 third quarter to $27.7 million for the fiscal 2011 third quarter, an increase of $10.5 million, or 61%. The increase in product revenue was a result of $8.0 million of revenue from sales of renewable solar PV systems through our Orion Engineered Systems division and increased sales of our HIF lighting systems to both our national account and wholesale customers. Product revenue increased from $41.6 million for the first nine months of fiscal 2010 to $54.1 million for the first nine months of fiscal 2011, an increase of $12.5 million, or 30%.

Service revenue decreased from $2.1 million for the fiscal 2010 third quarter to $2.0 million for the fiscal 2011 third quarter, a decrease of $0.1 million, or 5%. Service revenue decreased from $4.9 million for the first nine months of fiscal 2010 to $4.0 million for the first nine months of fiscal 2011, a decrease of $0.9 million, or 18%. The decrease in service revenue was a result of the continued percentage increase of total revenue to our wholesale channels where services are not provided.

Backlog. Total cash order backlog as of December 31, 2010 was $8.6 million, which included $3.9 million of solar PV orders, compared to a backlog of $13.7 million as of September 30, 2010. We generally expect this level of firm purchase order backlog related to HIF lighting systems to be converted into GAAP revenue within the following quarter and our firm purchase order backlog related to solar PV systems to be recognized within the following two quarters. The roll-forward of cash backlog from September 30, 2010 to December 31, 2010 is as follows (in millions):

Backlog — September 30, 2010	$	13.7
Q3 — Plus: Cash orders		23.4
Q3 — Less: GAAP revenue recognized		(29.7)
Q3 — Plus: Portion of GAAP revenue recognized from OTAs and PPAs		0.7
Q3 — Plus: Other miscellaneous		0.5
Backlog — December 30, 2010	$	8.6

Cost of Revenue and Gross Margin. Our cost of product revenue increased from $10.6 million for the fiscal 2010 third quarter to $18.8 million for the fiscal 2011 third quarter, an increase of $8.2 million, or 77%. Our cost of product revenue increased from $27.7 million for the first nine months of fiscal 2010 to $35.6 million for the first nine months of fiscal 2011, an increase of $7.9 million, or 29%.

Our cost of service revenues increased from $1.6 million for the fiscal 2010 third quarter to $1.7 million for the fiscal 2011 third quarter, an increase of $0.1 million, or 6%. Our cost of service revenue decreased from $3.5 million for the first nine months of fiscal 2010 to $3.1 million for the first nine months of fiscal 2011, a decrease of $0.4 million, or 11%.

Total gross margin decreased from 36.8% for the fiscal 2010 third quarter to 31.1% for the fiscal 2011 third quarter and increased from 33.0% for the first nine months of fiscal 2010 to 33.4% for the first nine months of fiscal 2011. For the fiscal 2011 third quarter, our gross margins declined due to a higher mix of renewable product revenue from our Orion Engineered Systems division. Gross margin percentage for the fiscal 2011 third quarter on renewable product revenue from this division was 17.2%. Gross margin from our HIF integrated systems revenue for the fiscal 2011 third quarter was 38.2%. For the first nine months of fiscal 2011, our increase in gross margin on product revenues versus the first nine months of fiscal 2010 was attributable to cost containment efforts through the reduction of direct and indirect headcounts, improved production efficiencies resulting from the reengineering of our assembly process, negotiated price decreases on raw materials and reductions in discretionary spending.

General and Administrative Expenses. Our general and administrative expenses decreased from $3.1 million for the fiscal 2010 third quarter to $2.7 million for the fiscal 2011 third quarter, a decrease of $0.4 million, or 13%. The decrease was a result of $0.2 million for reduced litigation-related and other legal expenses, $0.1 million in reduced compensation costs resulting from headcount reductions and $0.1 million in discretionary spending reductions.

General and administrative expenses decreased from $9.4 million for the first nine months of fiscal 2010 to $8.6 million for the first nine months of fiscal 2011, a decrease of $0.8 million, or 9%. The decrease was a result of $0.4 million in reduced compensation costs resulting from headcount reductions and reduced severance payments, a $0.3 million decrease in consulting and auditing services, a $0.2 million reduction in bad debt expense from the prior year and $0.2 million in discretionary spending reductions. These reductions were partially offset by increased legal expenses of $0.3 million related to the settlement efforts of the class action litigation and general corporate matters.

Sales and Marketing Expenses. Our sales and marketing expenses increased from $3.1 million for the fiscal 2010 third quarter to $3.2 million for the fiscal 2011 third quarter, an increase of $0.1 million, or 3%. The increase was a result of increased costs for headcount additions and increased travel for customer site visits.

Sales and marketing expenses increased from $9.2 million for the first nine months of fiscal 2010 to $10.1 million for the first nine months of fiscal 2011, an increase of $0.9 million, or 10%. The increase was a result of $0.2 million for advertising and marketing expenses and $0.2 million in business development expenses related to our efforts to expand our partner channels, $0.3 million in increased travel costs for customer site visits and $0.1 million for additional technology costs, including depreciation, for improvements to our customer relationship management system and computer investments to improve our sales presentation process. Total sales and marketing headcount as of December 31, 2010 was 87 compared to 78 at December 31, 2009.

Research and Development Expenses. Our research and development expenses increased from $0.4 million for the fiscal 2010 third quarter to $0.6 million for the fiscal 2011 third quarter, an increase of $0.2 million, or 50%. Research and development expenses increased from $1.3 million for the first nine months of fiscal 2010 to $1.8 million for the first nine months of fiscal 2011, an increase of $0.5 million, or 38%. The increase was a result of headcount additions in our engineering and product development group and materials for new product development and testing. Expenses incurred within the fiscal 2011 third quarter related to compensation costs for the development and support of new products, depreciation expenses for lab and research equipment and sample and testing costs related to our new exterior lighting and our light emitting diode, or LED, product initiatives.

Interest Expense. Our interest expense increased from $67,000 for the fiscal 2010 third quarter to $99,000 for the fiscal 2011 third quarter, an increase of $32,000, or 48%. Our interest expense increased from $197,000 for the first nine months of fiscal 2010 to $223,000 for the first nine months of fiscal 2011, an increase of $26,000, or 13%. The increase in interest expense for the fiscal 2011 third quarter was due to the additional debt funding completed during our fiscal 2011 second quarter for the purpose of financing our OTA projects. For the first nine months of fiscal 2010 and fiscal 2011, we capitalized $21,000 and $0 of interest for construction in progress, respectively.

Interest Income. Interest income decreased from $49,000 for the fiscal 2010 third quarter to $3,000 for the fiscal 2011 third quarter, a decrease of $46,000 or 94%. Interest income decreased from $0.2 million for the first nine months of fiscal 2010 to $19,000 for the first nine months of fiscal 2011, a decrease of $0.2 million or 91%. The decrease in investment income was a result of less cash invested and a decrease in interest rates on our short-term investments.

Income Taxes. Our income tax expense increased from a benefit of $0.2 million for the fiscal 2010 third quarter to income tax expense of $1.9 million for the fiscal 2011 third quarter. Our income tax benefit decreased from a benefit of $1.1 million for the first nine months of fiscal 2010 to a benefit of $0.8 million for the first nine months of fiscal 2011. Our effective income tax rate for the first nine months of fiscal 2010 was a benefit rate of 24.2%, compared to a benefit rate of 57.6% for the first nine months of fiscal 2011.

The change in tax rate versus the prior year is due to the difference between expected taxable losses during fiscal 2010 and expected taxable income during fiscal 2011, along with the impact of non-deductible expenses incurred for stock compensation expense. Our estimated annual effective tax rate decreased from a benefit rate of 68.9% for our fiscal 2011 second quarter to the benefit rate of 57.6% for our fiscal 2011 third quarter. The effective tax rate is based upon estimates of annualized temporary and permanent tax differences along with our estimated annualized taxable income. The decrease in our estimated effective tax rate as of the end of our fiscal 2011 third quarter was due to additional federal research and development credits made available to us with the passage of the tax bill by Congress during December 2010. As a result of this decrease in our estimated annual tax rate and based upon our taxable loss as of the end of our fiscal 2011 third quarter, our third quarter income tax expense included the impact of this reduced benefit on a cumulative year-to-date basis which resulted in a higher than expected income tax expense for the fiscal 2011 third quarter.

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 used in operating activities for the first nine months of fiscal 2011 was $5.4 million and consisted of net cash of $8.4 million used for working capital purposes offset by a net loss adjusted for non-cash expense items of $3.0 million. Cash used for working capital consisted of an increase of $9.7 million in accounts receivable due to the increase in revenue and a $6.2 million increase in inventory for purchases described in the section below titled "Working Capital." Cash provided by working capital included a $7.6 million increase in accounts payable related to payment terms on inventory purchases during the fiscal 2011 third quarter.

Cash used in operating activities for the first nine months of fiscal 2010 was $0.2 million and consisted of net cash of $1.0 million provided from working capital purposes, offset by net loss adjusted non-cash expense items of $1.2 million. Cash used for working capital purposes consisted of an increase of $1.9 million in trade receivables and a $4.3 million increase in inventories resulting from purchases of ballast and wireless component inventories. We increased our level of inventory for these components due to longer lead times and supply availability concerns for inventory components shipping out of Asia. These amounts were offset by an increase of $5.2 million in accounts payable for inventory purchases with payment terms, a $1.4 million decrease in prepaids resulting from refunds of deposits held under construction projects and for operating leases and the amortization of expenses and a $0.6 million increase in accrued expenses resulting from increases in accrued severance costs, increases in accrued legal expenses and increased deposit payments for OTA contracts.

Cash Flows Related to Investing Activities. For the first nine months of fiscal 2011, cash used in investing activities was $10.8 million. This included $7.4 million invested in equipment related to our OTA and PPA finance programs, $2.9 million for capital improvements related to our information technology systems, renewable technologies, manufacturing and tooling improvements and facility investments, $0.3 million for long-term investments and $0.2 million for patent investments.

For the first nine months of fiscal 2010, cash used in investing activities was $4.3 million. This included $4.3 million for capital expenditures related to the technology center, operating software systems, and processing equipment for capacity and cost improvement measures, $5.3 million for equipment related to our OTA and PPA finance programs and $0.2 million for investment into patents. These amounts were partially offset by cash provided from the maturation of short-term investments of $5.5 million.

Cash Flows Related to Financing Activities. For the first nine months of fiscal 2011, cash flows provided by financing activities was $2.7 million. This included $2.7 million in new debt borrowings to fund OTA and capital projects, $0.4 million received from stock option and warrant exercises and $0.2 million for excess tax benefits from stock based compensation. Cash flows used in financing activities included $0.5 million for repayment of long-term debt and $0.1 million for costs related to our new Credit Agreement.

For the first nine months of fiscal 2010, cash flows provided by financing activities was $0.2 million. This included proceeds of $0.9 million received from stock option and warrant exercises, $0.2 million for proceeds from long-term debt and $0.1 million for excess tax benefits from stock based compensation, offset by cash flows used in financing activities, which included $0.4 million for common share repurchases and $0.6 million used for the repayment of long-term debt.

Working Capital

Our net working capital as of December 31, 2010 was $50.3 million, consisting of $71.1 million in current assets and $20.8 million in current liabilities. Our net working capital as of March 31, 2010 was $55.7 million, consisting of $67.9 million in current assets and $12.2 million in current liabilities. Our accounts receivables have increased from our prior fiscal year-end by $9.7 million as a result of our increased revenues during our fiscal 2011 third quarter. Our inventories have increased from our fiscal 2010 year-end by $6.2 million due to an increase in the level of our wireless control inventories of $1.8 million based upon our Phase 2 initiatives and a $4.4 million increase in ballast component inventories to avoid potential supply disruptions. The vast majority of our wireless components are assembled overseas and require longer delivery lead times. In addition, overseas suppliers require deposit payments at time of purchase order. As of August 2010, we had completed our initial purchase and investment in wireless component inventories. Since that period, we have been reducing our wireless inventories as we sell the products to our customers.

During the first nine months of fiscal 2011, we continued to increase our inventory levels of key electronic components, specifically electronic ballasts, to avoid potential shortages and customer service issues as a result of lengthening supply lead times and product availability issues. We continue to monitor supply side concerns within the electronic components market and believe that our current inventory levels are sufficient to protect us against the risk of being unable to deliver product as specified by our customers' requirements. We are continually monitoring supply side concerns through conversations with our key vendors and currently believe that supply availability concerns, previously thought to be improving, have not diminished to the point where we anticipate reducing safety stock to the levels that existed prior to the electrical components supply issues. Accordingly, we expect to reduce inventories by approximately $4.0 million during the remainder of fiscal 2011 by selling wireless control inventory and through the shipment of our remaining solar panel inventories to customers during our fiscal 2011 fourth quarter. 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

We expect to incur approximately $0.3 million in capital expenditures during the remainder of fiscal 2011, excluding capital to support expected OTA growth. We spent approximately $2.9 million of capital expenditure in the first nine months of fiscal 2011 on information technologies, renewable energy-related investments and other tooling and equipment for new products and cost improvements in our manufacturing facility. Our capital spending plans predominantly consist of the completion of projects that have been in place for several months and for which we have already invested significant capital. We consider the completion of our information systems critical to our long-term success and our ability to ensure a strong control environment over financial reporting and operations. 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.

Definition of Contracted Revenues

Orion defines contracted revenues, which is a financial measurement not recognized under GAAP, as contracted 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 discounted potential future revenues under PPAs. These contracts are expected to be paid by the Company’s customers over the life of the OTAs and solar PPAs. For OTA and cash contracted revenues, Orion generally expects that it will begin to recognize GAAP revenue under the terms of the agreements within 90 days from the firm contract date. For PPA contracted revenues, Orion generally expects that it will begin to recognize GAAP revenue under the terms of the PPAs within 180 days from the firm contract date. Orion believes that total contracted revenues are a key financial metric for evaluating and measuring the Company’s performance because the measure is an indicator of the Company’s success in its customers’ adoption and acceptance of the Company’s energy products and services as it measures firm contracted revenue value, regardless of the contract’s cash or deferred financing structure and the related different GAAP revenue recognition treatment.

Included below is a reconciliation of contracted revenues to revenues recognized under GAAP for the fiscal 2011 second quarter and fiscal year-to-date period ended September 30, 2010 (in millions).

	Three months ended December 31, 2010	Nine months ended December 31, 2010
Total contracted revenues	$ 26.7	$ 74.8
Change in backlog (1)	5.1	(5.4)
Contracted revenue from OTAs and PPAs (2)	(3.4)	(12.8)
OTA and PPA GAAP revenue	0.7	1.7
Other miscellaneous	0.6	(0.2)
Revenue — GAAP basis	$ 29.7	$ 58.1

(1) Change in backlog reflects the (increase) or 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, typically within 90 days from the end of the period.

(2) Contracted revenues from OTAs and PPAs are subtracted to reconcile the GAAP revenue as recognition of GAAP revenue will occur in future periods.

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 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) further deterioration of market conditions, including customer capital expenditure budgets; (ii) Orion’s ability to compete in a highly competitive market and its ability to respond successfully to market competition; (iii) increasing duration of customer sales cycles; (iv) the market acceptance of Orion’s products and services, including the increasing customer preferences to purchase the Company’s products through its OTAs and PPAs rather than through cash purchases; (v) price fluctuations, shortages or interruptions of component supplies and raw materials used to manufacture Orion’s products; (vi) loss of one or more key customers or suppliers, including key contacts at such customers; (vii) the increasing relative volume of the Company’s product sales through its wholesale channel; (viii) a reduction in the price of electricity; (ix) the cost to comply with, and the effects of, any current and future government regulations, laws and policies; (x) increased competition from government subsidies and utility incentive programs; (xi) dependence on customers’ capital budgets for sales of products and services; (xii) Orion’s development of, and participation in, new product and technology offerings or applications; (xiii) legal proceedings, including the securities litigation pending against Orion; and (xiv) potential warranty claims. 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 Orion 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.oriones.com in the Investor Relations section of our Web site.