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

FORM 10-Q

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the Quarterly Period Ended June 30, 2020

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

Commission file number 001-33887

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

Wisconsin	**39-1847269**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification number)**
2210 Woodland Drive, Manitowoc, Wisconsin	**54220**
(Address of principal executive offices)	**(Zip code)**

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

Securities registered pursuant to Section 12(b) of the act:

Title of Each Class	Trading Symbol (s)	Name of Each Exchange on Which Registered
Common stock, no par value	**OESX**	The Nasdaq Stock Market LLC (NASDAQ Capital Market)
Common stock purchase rights		The Nasdaq Stock Market LLC (NASDAQ Capital Market)

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405) during the preceding 12 months (or for shorter period that the registrant was required to submit such files). Yes ☒ No ☐

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

Large accelerated filer	☐	Accelerated filer	☐
Non-accelerated filer	☒	Smaller reporting company	☒
		Emerging growth company	☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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

There were 30,624,889 shares of the Registrant's common stock outstanding on July 31, 2020.

ORION ENERGY SYSTEMS, INC.

QUARTERLY REPORT ON FORM 10-Q

FOR THE QUARTER ENDED June 30, 2020

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PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

	June 30, 2020	March 31, 2020
Assets		
Cash and cash equivalents	$ 10,784	$ 28,751
Accounts receivable, net	5,704	10,427
Revenue earned but not billed	2,379	560
Inventories, net	17,070	14,507
Prepaid expenses and other current assets	570	723
Total current assets	36,507	54,968
Property and equipment, net	11,688	11,817
Other intangible assets, net	2,161	2,216
Long-term accounts receivable	—	760
Other long-term assets	3,008	2,802
Total assets	$ 53,364	$ 72,563
Liabilities and Shareholders' Equity		
Accounts payable	$ 13,660	$ 19,834
Accrued expenses and other	5,796	7,228
Deferred revenue, current	92	107
Current maturities of long-term debt	14	35
Total current liabilities	19,562	27,204
Revolving credit facility	—	10,013
Long-term debt, less current maturities	46	50
Deferred revenue, long-term	696	715
Other long-term liabilities	4,011	3,546
Total liabilities	24,315	41,528
Commitments and contingencies		
Shareholders' equity:		
Preferred stock, $0.01 par value: Shares authorized: 30,000,000 at June 30, 2020 and March 31, 2020; no shares issued and outstanding at June 30, 2020 and March 31, 2020	—	—
Common stock, no par value: Shares authorized: 200,000,000 at June 30, 2020 and March 31, 2020; shares issued: 40,092,349 at June 30, 2020 and 39,729,569 at March 31, 2020; shares outstanding: 30,624,889 at June 30, 2020 and 30,265,997 at March 31, 2020	—	—
Additional paid-in capital	156,752	156,503
Treasury stock, common shares: 9,467,460 at June 30, 2020 and 9,463,572 at March 31, 2020	(36,179)	(36,163)
Retained deficit	(91,524)	(89,305)
Total shareholders' equity	29,049	31,035
Total liabilities and shareholders' equity	$ 53,364	$ 72,563

The accompanying notes are an integral part of these Condensed Consolidated Statements.

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

	Three Months Ended June 30,	
	2020	2019
Product revenue	$ 9,701	$ 32,339
Service revenue	1,110	10,039
Total revenue	10,811	42,378
Cost of product revenue	7,229	23,825
Cost of service revenue	947	8,270
Total cost of revenue	8,176	32,095
Gross profit	2,635	10,283
Operating expenses:		
General and administrative	2,411	3,007
Sales and marketing	1,854	2,706
Research and development	415	411
Total operating expenses	4,680	6,124
(Loss) income from operations	(2,045)	4,159
Other income (expense):		
Other income	9	12
Interest expense	(49)	(136)
Amortization of debt issue costs	(61)	(61)
Interest income	0	2
Total other expense	(101)	(183)
(Loss) income before income tax	(2,146)	3,976
Income tax expense	73	8
Net (loss) income	$ (2,219)	$ 3,968
Basic net (loss) income per share attributable to common shareholders	$ (0.07)	$ 0.13
Weighted-average common shares outstanding	30,352,217	29,723,472
Diluted net (loss) income per share	$ (0.07)	$ 0.13
Weighted-average common shares and share equivalents outstanding	30,352,217	30,550,892

The accompanying notes are an integral part of these Condensed Consolidated Statements.

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

	Shareholders' Equity				
	Common Stock				
	Shares	Additional Paid-in Capital	Treasury Stock	Retained Deficit	Total Shareholders' Equity
Balance, March 31, 2020	30,265,997	$ 156,503	$ (36,163)	$ (89,305)	$ 31,035
Exercise of stock options for cash	20,000	41	—	—	41
Shares issued under Employee Stock Purchase Plan	458	—	2	—	2
Stock-based compensation	342,780	208	—	—	208
Employee tax withholdings on stock-based compensation	(4,346)	—	(18)	—	(18)
Net loss	—	—	—	(2,219)	(2,219)
Balance, June 30, 2020	30,624,889	156,752	(36,179)	(91,524)	29,049

	Shareholders' Equity				
	Common Stock				
	Shares	Additional Paid-in Capital	Treasury Stock	Retained Deficit	Total Shareholders' Equity
Balance, March 31, 2019	29,600,158	$ 155,828	$ (36,091)	$ (101,767)	$ 17,970
Exercise of stock options for cash	10,000	16	—	—	16
Shares issued under Employee Stock Purchase Plan	613	—	2	—	2
Stock-based compensation	535,344	171	—	—	171
Employee tax withholdings on stock-based compensation	(24,628)	—	(64)	—	(64)
Net income	—	—	—	3,968	3,968
Balance, June 30, 2019	30,121,487	156,015	(36,153)	(97,799)	22,063

The accompanying notes are an integral part of these Condensed Consolidated Statements.

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

	Three Months Ended June 30,	
	2020	2019
Operating activities		
Net (loss) income	$ (2,219)	$ 3,968
Adjustments to reconcile net (loss) income to net cash (used in) provided by operating activities:		
Depreciation	292	315
Amortization of intangible assets	78	94
Stock-based compensation	208	171
Amortization of debt issue costs	61	61
Provision for inventory reserves	27	80
Other	9	21
Changes in operating assets and liabilities:		
Accounts receivable, current and long-term	5,483	(9,199)
Revenue earned but not billed	(1,819)	238
Inventories	(2,590)	(1,610)
Prepaid expenses and other assets	236	(5)
Accounts payable	(6,119)	7,106
Accrued expenses and other	(1,322)	777
Deferred revenue, current and long-term	(34)	(21)
Net cash (used in) provided by operating activities	(7,709)	1,996
Investing activities		
Purchases of property and equipment	(221)	(200)
Additions to patents and licenses	(23)	—
Net cash used in investing activities	(244)	(200)
Financing activities		
Payment of long-term debt	(25)	(21)
Proceeds from revolving credit facility	—	31,100
Payments of revolving credit facility	(10,013)	(31,329)
Payments to settle employee tax withholdings on stock-based compensation	(19)	(63)
Net proceeds from employee equity exercises	43	18
Net cash used in financing activities	(10,014)	(295)
Net (decrease) increase in cash and cash equivalents	(17,967)	1,501
Cash and cash equivalents at beginning of period	28,751	8,729
Cash and cash equivalents at end of period	$ 10,784	$ 10,230
Supplemental disclosure of non-cash investing and financing activities:		
Operating lease assets obtained in exchange for new operating lease liabilities	$ 355	$ —

The accompanying notes are an integral part of these Condensed Consolidated Statements.

NOTE 1 — DESCRIPTION OF BUSINESS

Organization

Orion includes Orion Energy Systems, Inc., a Wisconsin corporation, and all consolidated subsidiaries. Orion is a developer, manufacturer and seller of lighting and energy management systems to commercial and industrial businesses, and federal and local governments, predominantly in North America

Orion's corporate offices and leased primary manufacturing operations are located in Manitowoc, Wisconsin. Orion also leases office space in Jacksonville, Florida.

NOTE 2 — IMPACT OF COVID-19

The COVID-19 pandemic has disrupted business, trade, commerce, and financial and credit markets in the U.S. and globally. Orion's business has been adversely impacted by measures taken by government entities and others to control the spread of the virus beginning in March 2020, the last month of its fiscal 2020 year. As a deemed essential business, Orion provides products and services to ensure energy and lighting infrastructure and Orion therefore continues to operate throughout the pandemic. Orion has implemented a number of safety protocols, including limiting travel, restricting access to our facilities along with monitoring processes, physical distancing, physical barriers, enhanced cleaning procedures, and requiring face coverings. Nonetheless, Orion did experience a material adverse effect from the COVID-19 pandemic due to the curtailment of activity in the last few weeks of the 2020 fiscal year and during the first quarter of fiscal 2021, including the delay of project installations for a major national account customer. Orion now expects this project to resume during the second quarter of fiscal 2021.

As part of Orion's response to the impacts of the COVID-19 pandemic, during the fourth quarter of fiscal 2020, Orion implemented a number of cost reduction and cash conservation measures, including reducing headcount. Orion recognized $0.4 million in restructuring expense during the fourth quarter of fiscal 2020. As of June 30, 2020, substantially all of the restructuring accrual had been paid.

While certain restrictions began to initially lessen in certain jurisdictions during Orion's fiscal 2021 first quarter, stay-at-home, face mask or lockdown orders remain in effect in others, with employees asked to work remotely if possible. Certain areas of the country have seen a spike of COVID-19 cases, which could result in renewed restrictions and lockdown orders. Some customers and projects are in areas where travel restrictions have been imposed, certain customers have either closed or reduced on-site activities, and timelines for the completion of multiple projects have been extended. At this time, it is not possible to predict the overall impact the COVID-19 pandemic will have on Orion's business, liquidity, capital resources or financial results. However, Orion does expect that the economic and regulatory impacts of COVID-19 will materially and adversely impact revenue and profitability in fiscal 2021. If there is prolonged adverse impact, Orion's business, liquidity, capital resources, financial results, and the carrying values of Orion's property, plant and equipment and intangible assets may be impacted negatively. Orion will continue to actively monitor the situation and may take further actions that alter business operations.

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security (CARES) Act was signed into law and includes certain income tax provisions relevant to businesses. Orion is required to recognize the effect on the consolidated financial statements in the period the law was enacted, which is the period ended March 31, 2020. For the fiscal year ended March 31, 2020, and three months ended June 30, 2020, the CARES Act did not have a material impact on Orion's consolidated financial statements. See Note 14 – Income Taxes.

NOTE 3 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The Condensed Consolidated Financial Statements include the accounts of Orion Energy Systems, Inc. and its wholly owned subsidiaries.

Basis of Presentation

The accompanying unaudited Condensed Consolidated Financial Statements of Orion have been prepared in accordance with accounting principles generally accepted in the United States (GAAP) for interim financial information and with the rules and regulations of the Securities and Exchange Commission ("SEC"). Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments, consisting of normal recurring adjustments, considered necessary for a fair presentation have been included. Interim results are not necessarily indicative of results that may be expected for the fiscal year ending March 31, 2021 or other interim periods.

The Condensed Consolidated Balance Sheet at March 31, 2020 has been derived from the audited consolidated financial statements at that date but does not include all of the information required by GAAP for complete financial statements.

The accompanying unaudited Condensed Consolidated Financial Statements should be read in conjunction with the audited consolidated financial statements and footnotes thereto included in Orion's Annual Report on Form 10-K for the fiscal year ended March 31, 2020 filed with the SEC on June 5, 2020.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during that reporting period. Areas that require the use of significant management estimates include revenue recognition, inventory obsolescence and allowance for doubtful accounts, accruals for warranty and loss contingencies, income taxes, impairment analyses, and certain equity transactions. Accordingly, actual results could differ from those estimates.

Concentration of Credit Risk and Other Risks and Uncertainties

Orion's cash is deposited with two financial institutions. At times, deposits in these institutions exceed the amount of insurance provided on such deposits. Orion has not experienced any losses in such accounts and believes that it is not exposed to any significant financial institution viability risk on these balances.

Orion purchases components necessary for its lighting products, including ballasts, lamps and LED components, from multiple suppliers. For the three months ended June 30, 2020, three suppliers accounted for 16.1%, 12.5% and 10.0% of total cost of revenue, respectively. For the three months ended June 30, 2019, one supplier accounted for 13.7% of total cost of revenue.

For the three months ended June 30, 2020, one customer accounted for 32.9% of total revenue. For the three months ended June 30, 2019, one customer accounted for 77.0% of total revenue.

As of June 30, 2020, two customers accounted for 35.7% and 13.6% of accounts receivable, respectively. As of March 31, 2020, two customers accounted for 37.3% and 13.0% of accounts receivable, respectively.

Recent Accounting Pronouncements

Issued: Not Yet Adopted

In June 2016, the FASB issued ASU No. 2016-13, Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments ("ASU 2016-13"), which requires an entity to assess impairment of its financial instruments based on its estimate of expected credit losses. Since the issuance of ASU 2016-13, the FASB released several amendments to improve and clarify the implementation guidance. The provisions of ASU 2016-13 and the related amendments are effective for Orion for fiscal years (and interim reporting periods within those years) beginning after December 15, 2022. Entities are required to apply these changes through a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is effective. Orion is currently evaluating the impact of adoption of this standard on its consolidated statements of operations, cash flows, and the related footnote disclosures.

In December 2019, the FASB issued ASU No. 2019-12, Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes, which simplifies the accounting for income taxes by removing certain exceptions to the general rules of Topic 740. The provisions of ASU 2019-12 are effective for Orion for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2020. Orion is currently evaluating the impact of adoption on this standard on its consolidated statements of operations, cash flows, and the related footnote disclosures.

NOTE 4 — REVENUE

General Information

Orion generates revenues primarily by selling commercial LED lighting fixtures and components, including controls and integrated IoT capabilities, and by installing these fixtures in its customer's facilities on a turnkey basis via a dedicated installation and support team. Orion recognizes revenue in accordance with the guidance in ASC 606 when control of the goods or services being provided (which Orion refers to as a performance obligation) is transferred to a customer at an amount that reflects the consideration that management expects to receive in exchange for those goods or services. Prices are generally fixed at the time of order confirmation. The amount of expected consideration includes estimated deductions and early payment discounts calculated based on historical experience, customer rebates based on agreed upon terms applied to actual and projected sales levels over the rebate period, and any amounts paid to customers in conjunction with fulfilling a performance obligation.

If there are multiple performance obligations in a contract, the contract's total sales price is allocated to each individual performance obligation based on their relative standalone selling price. A performance obligation's standalone selling price is the price at which Orion would sell such promised good or service separately to a customer. Orion uses an observable price to determine the stand-alone selling price for separate performance obligations or a cost-plus margin approach when one is not available. The cost-plus margin approach is used to determine the stand-alone selling price for the installation performance obligation and is based on average historical installation margin.

Revenue derived from customer contracts which include only performance obligation(s) for the sale of lighting fixtures and components is classified as Product revenue in the Condensed Consolidated Statements of Operations. The revenue for these transactions is recorded at the point in time when management believes that the customer obtains control of the products, generally either upon shipment or upon delivery to the customer's facility. This point in time is determined separately for each contract and requires judgment by management of the contract terms and the specific facts and circumstances concerning the transaction.

Revenue from a customer contract which includes both the sale of fixtures and the installation of such fixtures (which Orion refers to as a turnkey project) is allocated between each lighting fixture and the installation performance obligation based on relative standalone selling prices.

Revenue from turnkey projects that is allocated to the sale of the lighting fixtures is recorded at the point in time when management believes the customer obtains control of the product(s) and is reflected in Product revenue. This point in time is determined separately for each customer contract based upon the terms of the contract and the nature and extent of Orion's control of the light fixtures during the installation. Product revenue associated with turnkey projects can be recorded (a) upon shipment or delivery, (b) subsequent to shipment or delivery and upon customer payments for the light fixtures, (c) when an individual light fixture is installed and working correctly, or (d) when the customer acknowledges that the entire installation project is substantially complete. Determining the point in time when a customer obtains control of the lighting fixtures in a turnkey project can be a complex judgment and is applied separately for each individual light fixture included in a contract. In making this judgment, management considers the timing of various factors, including, but not limited to, those detailed below:

- when there is a legal transfer of ownership;
- when the customer obtains physical possession of the products;
- when the customer starts to receive the benefit of the products;
- the amount and duration of physical control that Orion maintains on the products after they are shipped to, and received at, the customer's facility;
- whether Orion is required to maintain insurance on the lighting fixtures when they are in transit and after they are delivered to the customer's facility;
- when each light fixture is physically installed and working correctly;
- when the customer formally accepts the product; and
- when Orion receives payment from the customer for the light fixtures.

Revenue from turnkey projects that is allocated to the single installation performance obligation is reflected in Service revenue. Service revenue is recorded over-time as Orion fulfills its obligation to install the light fixtures. Orion measures its performance toward fulfilling its performance obligations for installations using an output method that calculates the number of light fixtures removed and installed as of the measurement date in comparison to the total number of light fixtures to be removed or installed under the contract.

Most products are manufactured in accordance with Orion's standard specifications. However, some products are manufactured to a customer's specific requirements with no alternative use to Orion. In such cases, and when Orion has an enforceable right to payment, Product revenue is recorded on an over-time basis measured using an input methodology that calculates the costs incurred to date as compared to total expected costs. There was no over-time revenue related to custom products recognized in the three months ended June 30, 2020 and June 30, 2019.

Orion also records revenue in conjunction with several limited power purchase agreements ("PPAs") still outstanding. Those PPAs are supply-side agreements for the generation of electricity. Orion's last PPA expires in 2031. Revenue associated with the sale of energy generated by the solar facilities under these PPAs is within the scope of ASC 606. Revenues are recognized over-time and are equal to the amount billed to the customer, which is calculated by applying the fixed rate designated in the PPAs to the variable amount of electricity generated each month. This approach is in accordance with the "right to invoice" practical expedient provided for in ASC 606. Orion also recognizes revenue upon the sale to third parties of tax credits received from operating the solar facilities and from amortizing a grant received from the federal government during the period starting when the power generating facilities were constructed until the expiration of the PPAs; these revenues are not derived from contracts with customers and therefore not under the scope of ASC 606.

When shipping and handling activities are performed after a customer obtains control of the product, Orion has elected to treat shipping and handling costs as an activity necessary to fulfill the performance obligation to transfer product to the customer and not as a separate performance obligation. Any shipping and handling costs charged to customers are recorded in Product revenue. Shipping and handling costs are accrued and included in Cost of product revenue.

See Note 11 – Accrued Expenses and Other for a discussion of Orion's accounting for the warranty it provides to customers for its products and services.

Sales taxes collected from customers and remitted to governmental authorities are accounted for on a net (excluded from revenues) basis.

Contract Fulfillment Costs

Costs associated with product sales are accumulated in inventory as the fixtures are manufactured and are transferred to Cost of product revenue at the time revenue is recorded. See Note 6 – Inventories, Net. Costs associated with installation sales are expensed as incurred.

Disaggregation of Revenue

Orion's Product revenue includes revenue from contracts with customers accounted for under the scope of ASC 606 and revenue which is accounted for under other guidance. For the three months ended June 30, 2020, Product revenue included $0.8 million derived from sales-type leases for light fixtures, $0.1 million derived from the sale of tax credits generated from Orion's legacy operation for distributing solar energy, and $19 thousand derived from the amortization of federal grants received in 2010 and 2011 as reimbursement for a portion of the costs to construct the legacy solar facilities which are not under the scope of ASC 606.

For the three months ended June 30, 2019, Product revenue included $0.4 million derived from sales-type leases for light fixtures, $0.1 million derived from the sale of tax credits generated from Orion's legacy operation for distributing solar energy, and $19 thousand derived from the amortization of federal grants received in 2010 and 2011 as reimbursement for a portion of the costs to construct the legacy solar facilities which are not under the scope of ASC 606. All remaining Product revenue, and all Service revenue, are derived from contracts with customers as defined in ASC 606.

The primary end-users of Orion's lighting products and services are (a) commercial or industrial companies, and (b) the federal government.

Commercial or industrial end-users obtain Orion products and services through turnkey project sales or by purchasing products either direct from Orion or through distributors or energy service companies ("ESCOs"). Revenues associated with commercial and industrial end-users are included within each of Orion's segments, dependent on the sales channel.

The federal government obtains Orion products and services primarily through turnkey project sales that Orion makes to a select group of contractors who focus on the federal government. Revenues associated with government end-users are primarily included in the Orion Engineered Systems Division segment.

See Note 18 – Segments, for additional discussion concerning Orion's reportable segments.

The following tables provide detail of Orion's total revenues for the three months ended June 30, 2020 and June 30, 2019 (dollars in thousands):

	Three Months Ended June 30, 2020		
	Product	Services	Total
Revenue from contracts with customers:			
Lighting revenues, by end user			
Federal government	$ 50	$ —	$ 50
Commercial and industrial	8,709	1,110	9,819
Total lighting	8,759	1,110	9,869
Solar energy related revenues	22	—	22
Total revenues from contracts with customers	8,781	1,110	9,891
Revenue accounted for under other guidance	920	—	920
Total revenue	$ 9,701	$ 1,110	$ 10,811

	Three Months Ended June 30, 2019		
	Product	Services	Total
Revenue from contracts with customers:			
Lighting revenues, by end user			
Federal government	$ 658	$ 246	$ 904
Commercial and industrial	31,184	9,793	40,977
Total lighting	31,842	10,039	41,881
Solar energy related revenues	19	—	19
Total revenues from contracts with customers	31,861	10,039	41,900
Revenue accounted for under other guidance	478	—	478
Total revenue	$ 32,339	$ 10,039	$ 42,378

Cash Flow Considerations

Customer payments for material-only orders are due shortly after shipment.

Turnkey projects where the end-user is a commercial or industrial company typically span between one week to three months. Customer payment requirements for these projects vary by contract. Some contracts provide for customer payments for products and services as they are delivered, other contracts specify that the customer will pay for the project in its entirety upon completion of the installation.

Turnkey projects where the end-user is the federal government typically span a three to six-month period. The contracts for these sales often provide for monthly progress payments equal to ninety percent (90%) of the value provided by Orion during the month.

Orion provides long-term financing to one customer who frequently engages Orion in large turnkey projects that span between three and nine months. The customer executes an agreement providing for monthly payments of the contract price, plus interest, over a five-year period. The total transaction price in these contracts is allocated between product and services in the same manner as all other turnkey projects. The portion of the transaction associated with the installation is accounted for consistently with all other installation related performance obligations. The portion of the transaction associated with the sale of the multiple individual light fixtures is accounted for as sales-type leases in accordance with the guidance for leases. Revenues associated with the sales-type leases are included in Product revenue and recorded for each fixture separately based on the customer's monthly acknowledgment that specified fixtures have been installed and are operating as specified.

The payments associated with these transactions that are due during the twelve months subsequent to June 30, 2020 are included in Accounts receivable, net in Orion's Condensed Consolidated Balance Sheets. The remaining amounts due that are associated with these transactions are included in Other long-term assets in Orion's Condensed Consolidated Balance Sheets.

The customer's monthly payment obligation commences after completion of the turnkey project. Orion generally sells the receivable from the customer to an independent financial institution either during, or shortly after completion of, the installation period. Upon execution of the receivables purchase / sales agreement, all amounts due from the customer are included in Revenues earned but not billed on Orion's Condensed Consolidated Balance Sheets until cash is received from the financial institution. The financial institution releases funds to Orion based on the customer's monthly acknowledgment of the progress Orion has achieved in fulfilling its installation obligation. Orion provides the progress certifications to the financial institution one month in arrears.

The total amount received from the sales of these receivables during the three months ended June 30, 2020, was $0.2 million. Orion's gains on these sales were $9 thousand for the three months ended June 30, 2020 and are included in Interest expense in the Condensed Consolidated Statements of Operations.

The total amount received from the sales of these receivables during the three months ended June 30, 2019 was $2.8 million. Orion's losses on these sales were $47 thousand for the three months ended June 30, 2019 and are included in Interest expense in the Condensed Consolidated Statement of Operations.

Practical Expedients and Exemptions

Orion expenses sales commissions when incurred because the amortization period is one year or less. These costs are recorded within Sales and marketing expense. There are no other capitalizable costs associated with obtaining contracts with customers.

Orion's performance obligations related to lighting fixtures typically do not exceed nine months in duration. As a result, Orion has elected the practical expedient that provides an exemption to the disclosure requirements regarding information about value assigned to remaining performance obligations on contracts that have original expected durations of one year or less.

Orion also elected the practical expedient that permits companies to not disclose quantitative information about the future revenue when revenue is recognized as invoices are issued to customers for services performed.

Other than the turnkey projects which result in sales-type leases discussed above, Orion generally receives full payment for satisfied performance obligations in less than one year. Accordingly, Orion does not adjust revenues for the impact of any potential significant financing component as permitted by the practical expedients provided in ASC 606.

Contract Balances

A receivable is recognized when Orion has an enforceable right to payment in accordance with contract terms and an invoice has been issued to the customer. Payment terms on invoiced amounts are typically 30 days from the invoice date.

Revenue earned but not billed represents revenue that has been recognized in advance of billing the customer, which is a common practice in Orion turnkey contracts. Once Orion has an unconditional right to consideration under a turnkey contract, Orion typically bills the customer accordingly and reclassifies the amount to Accounts receivable, net. Revenue earned but not billed as of June 30, 2020, and March 31, 2020, includes $0.7 million and $39 thousand, respectively, which was not derived from contracts with customers and therefore not classified as a contract asset as defined by ASC 606.

Deferred revenue, current as of June 30, 2020, and March 31, 2020, includes $16 thousand and $31 thousand, respectively, of contract liabilities which represent consideration received from customers prior to the point that Orion has fulfilled the promises included in a performance obligation and recorded revenue.

Deferred revenue, long-term consists of the unamortized portion of the funds received from the federal government in 2010 and 2011 as reimbursement for the costs to build the two facilities related to the PPAs. As the transaction is not considered a contract with a customer, this value is not a contract liability as defined by ASC 606.

The following chart shows the balance of Orion’s receivables arising from contracts with customers, contract assets and contract liabilities as of June 30, 2020 and March 31, 2020 (dollars in thousands):

	June 30, 2020	March 31, 2020
Accounts receivable, net	$ 5,704	$ 10,427
Contract assets	$ 1,649	$ 1,082
Contract liabilities	$ 16	$ 31

There were no significant changes in the contract assets outside of standard reclassifications to Accounts receivable, net upon billing. There were no significant changes to contract liabilities.

NOTE 5 — ACCOUNTS RECEIVABLE, NET

As of June 30, 2020, and March 31, 2020, Orion's Accounts receivable and Allowance for doubtful accounts balances were as follows (dollars in thousands):

	June 30, 2020	March 31, 2020
Accounts receivable, gross	$ 5,732	$ 10,455
Allowance for doubtful accounts	(28)	(28)
Accounts receivable, net	$ 5,704	$ 10,427

NOTE 6 — INVENTORIES, NET

As of June 30, 2020, and March 31, 2020, Orion's Inventory balances were as follows (dollars in thousands):

	Cost	Excess and Obsolescence Reserve	Net
As of June 30, 2020			
Raw materials and components	$ 11,635	$ (1,073)	$ 10,562
Work in process	679	(492)	187
Finished goods	7,126	(805)	6,321
Total	$ 19,440	$ (2,370)	$ 17,070
As of March 31, 2020			
Raw materials and components	$ 9,639	$ (1,244)	$ 8,395
Work in process	699	(305)	394
Finished goods	6,598	(880)	5,718
Total	$ 16,936	$ (2,429)	$ 14,507

NOTE 7 — PREPAID EXPENSES AND OTHER CURRENT ASSETS

Prepaid expenses and other current assets consist primarily of prepaid insurance premiums, debt issue costs, and sales tax receivable.

NOTE 8 — PROPERTY AND EQUIPMENT, NET

As of June 30, 2020, and March 31, 2020, Property and equipment, net, included the following (dollars in thousands):

	June 30, 2020	March 31, 2020
Land and land improvements	$ 433	$ 433
Buildings and building improvements	9,470	9,470
Furniture, fixtures and office equipment	7,250	7,270
Leasehold improvements	324	324
Equipment leased to customers	4,997	4,997
Plant equipment	12,191	12,021
Construction in Progress	3	15
Gross property and equipment	34,668	34,530
Less: accumulated depreciation	(22,980)	(22,713)
Total property and equipment, net	$ 11,688	$ 11,817

Orion recorded depreciation expense of $0.3 million for both the three months ended June 30, 2020, and June 30, 2019.

NOTE 9 — LEASES

From time to time, Orion leases assets from third parties. Orion also leases certain assets to third parties.

Whether it is the lessee or the lessor, Orion’s determination of whether a contract includes a lease, and assessing how the lease should be accounted for, is a matter of judgment based on whether the risks and rewards, as well as substantive control of the assets specified in the contract, have been transferred from the lessor to the lessee. The judgment considers matters such as whether the assets are transferred from the lessor to the lessee at the end of the contract, the term of the agreement in relation to the asset’s remaining economic useful life, and whether the assets are of such a specialized nature that the lessor will not have an alternative use for such assets at the termination of the agreement. Other matters requiring judgment are the lease term when the agreement includes renewal or termination options and the interest rate used when initially determining the right of use (“ROU”) asset and lease liability.

ROU assets represent Orion's right to use an underlying asset for the lease term and lease liabilities represent Orion's obligation to make lease payments arising from the lease. Under ASC 842, both finance and operating lease ROU assets and lease liabilities for leases with initial terms in excess of 12 months are recognized at the commencement date based on the present value of lease payments over the lease term. When available, Orion uses the implicit interest rate in the lease when completing this calculation. However, as most of Orion's operating lease agreements generating ROU assets do not provide the implicit rate, Orion's incremental borrowing rate under its line of credit, adjusted for differences in duration and the relative collateral value in relation to the payment obligation, at the commencement of the lease is generally used in this calculation. The lease term includes options to extend or renew the agreement, or for early termination of the agreement, when it is reasonably certain that Orion will exercise such option. ROU assets are depreciated using the straight-line method over the lease term.

Orion recognizes lease expense for leases with an initial term of 12 months or less, referred to as short term leases, on a straight-line basis over the lease term.

One of Orion's frequent customers purchases products and installation services under agreements that provide for monthly payments, at a fixed monthly amount, of the contract price, plus interest, typically over a five-year period. While Orion retains ownership of the light fixtures during the financing period, the transaction terms and the underlying economics associated with used lighting fixtures results in Orion essentially ceding ownership of the lighting fixtures to the customer after completion of the agreement. The portions of the transaction associated with the sale of the light fixtures is accounted for as a sales-type lease. The total transaction price in these contracts is allocated between the lease and non-lease components in the same manner as the total transaction price of other turnkey projects containing lighting fixtures and installation services.

Orion leases portions of its corporate headquarters to third parties; all such agreements have been, and continue to be, classified as operating leases under the applicable authoritative accounting guidance. The assets being leased continue to be included in Property and equipment, net. Lease payments earned are recorded as a reduction in administrative expenses.

Assets Orion Leases from Other Parties

On January 31, 2020, Orion entered into the current lease for its approximately 266,000 square foot primary manufacturing and distribution facility in Manitowoc, WI. The lease has a 10-year term, with the option to terminate after six years. Orion is responsible for the costs of insurance and utilities for the facility. These costs are considered variable lease costs. The agreement is classified as an operating lease.

The prior lease agreement for this facility provided the lessor the right to terminate the lease agreement at any time with 12 months' notice to Orion. As a result, the agreement was previously classified as a short-term lease.

In February 2014, Orion entered into a multi-year lease agreement for use of approximately 10,500 square feet of office space in a multi-use office building in Jacksonville Florida. The lease has since been extended, most recently during the first quarter of fiscal 2021, and presently terminates on June 30, 2023. The agreement is classified as an operating lease.

Orion has leased other assets from third parties, principally office and production equipment. The terms of our other leases vary from contract to contract and expire at various dates through 2020.

A summary of Orion's assets leased from third parties follows (dollars in thousands):

	Balance sheet classification	June 30, 2020	March 31, 2020
Assets			
Operating lease assets	Other long-term assets	$ 2,956	$ 2,745
Liabilities			
Current liabilities			
Operating lease liabilities	Accrued expenses and other	599	691
Non-current liabilities			
Operating lease liabilities	Other long-term liabilities	3,123	2,830
Total lease liabilities		$ 3,722	$ 3,521

Orion had operating lease costs of $0.2 million for both the three months ended June 30, 2020 and June 30, 2019.

The estimated maturity of lease liabilities for each of the next five years is shown below (dollars in thousands):

Maturity of Lease Liabilities	Operating Leases	
Fiscal 2021 (period remaining)	$	588
Fiscal 2022		798
Fiscal 2023		820
Fiscal 2024		746
Fiscal 2025		735
Thereafter		628
Total lease payments	$	4,315
Less: Interest		(593)
Present value of lease liabilities	$	3,722

Assets Orion Leases to Other Parties

Orion provides long-term financing to one customer who frequently engages Orion in large turnkey projects that span between three and nine months. The customer executes an agreement providing for monthly payments, at a fixed monthly amount, of the contract price, plus interest, over typically a five-year period. The total transaction price in these contracts is allocated between product and services in the same manner as all other turnkey projects. The portion of the transaction associated with the installation is accounted for consistently with all other installation related performance obligations under ASC 606.

While Orion retains ownership of the light fixtures during the financing period, the transaction terms and the underlying economics associated with used lighting fixtures results in Orion essentially ceding ownership of the lighting fixtures to the customer after completion of the agreement. Therefore, the portions of the transaction associated with the sale of the multiple individual light fixtures is accounted for as a sales-type lease under ASC 842.

Revenues, and production and acquisition costs, associated with sales-type leases are included in Product revenue and Costs of product revenues in the Condensed Consolidated Statement of Operations. These amounts are recorded for each fixture separately based on the customer’s monthly acknowledgment that specified fixtures have been installed and are operating as specified. The execution of the acknowledgement is considered the commencement date as defined in ASC 842.

The following chart shows the amount of revenue and cost of sales arising from sales-type leases during the three months ended June 30, 2020 and June 30, 2019 (dollars in thousands):

	Three Months Ended June 30,			
	2020		2019	
Product revenue	$	444	$	395
Cost of product revenue	$	438	$	360

The Condensed Consolidated Balance Sheets as of June 30, 2020 does not include a net investment in sales-type leases as all amounts due from the customer associated with lighting fixtures that were acknowledged to be installed and working correctly prior to period end were transferred to the financing institution prior to the respective balance sheet dates. The Condensed Balance Sheet as of March 31, 2020 includes an immaterial amount related to the net investment in sales-type leases.

<u>Other Agreements where Orion is the Lessor</u>

Orion has leased unused portions of its corporate headquarters to third parties. The length and payment terms of the leases vary from contract to contract and, in some cases, include options for the tenants to extend the lease terms. Annual lease payments are recorded as a reduction in administrative operating expenses and were not material in the three months ended June 30, 2020 or June 30, 2019. Orion accounts for these transactions as operating leases.

NOTE 10 — OTHER INTANGIBLE ASSETS, NET

As of June 30, 2020, and March 31, 2020, the components of, and changes in, the carrying amount of Other intangible assets, net, were as follows (dollars in thousands):

	June 30, 2020			March 31, 2020		
	Gross Carrying Amount	Accumulated Amortization	Net	Gross Carrying Amount	Accumulated Amortization	Net
Patents	$ 2,785	$ (1,743)	$ 1,042	$ 2,766	$ (1,700)	$ 1,066
Licenses	58	(58)	—	58	(58)	—
Trade name and trademarks (indefinite lived)	1,017	—	1,017	1,014	—	1,014
Customer relationships	3,600	(3,560)	40	3,600	(3,545)	55
Developed technology	900	(838)	62	900	(819)	81
Total	$ 8,360	$ (6,199)	$ 2,161	$ 8,338	$ (6,122)	$ 2,216

Amortization expense on intangible assets was $0.1 million for the three months ended June 30, 2020 and 2019.

As of June 30, 2020, the weighted average remaining useful life of intangible assets was 4.7 years.

The estimated amortization expense for the remainder of fiscal 2021, the next five fiscal years and beyond is shown below (dollars in thousands):

Fiscal 2021 (period remaining)	$ 218
Fiscal 2022	201
Fiscal 2023	109
Fiscal 2024	106
Fiscal 2025	95
Fiscal 2026	85
Thereafter	330
Total	$ 1,144

NOTE 11 — ACCRUED EXPENSES AND OTHER

As of June 30, 2020, and March 31, 2020, Accrued expenses and other included the following (dollars in thousands):

	June 30, 2020	March 31, 2020
Compensation and benefits	$ 1,128	$ 2,594
Sales tax	375	513
Accrued project costs	1,395	1,173
Legal and professional fees	227	312
Warranty	568	708
Sales returns reserve	35	98
Credits due to customers	1,061	932
Other accruals	1,007	898
Total	$ 5,796	$ 7,228

Orion generally offers a limited warranty of one to ten years on its lighting products, including the pass through of standard warranties offered by major original equipment component manufacturers. The manufacturers’ warranties cover lamps, ballasts, LED modules, chips and drivers, control devices, and other fixture related items, which are significant components in Orion's lighting products.

Changes in Orion's warranty accrual (both current and long-term) were as follows (dollars in thousands):

	For the Three Months Ended June 30,	
	2021	2020
Beginning of period	$ 1,069	$ 657
Accruals	(31)	110
Warranty claims (net of vendor reimbursements)	(173)	(77)
End of period	$ 865	$ 690

NOTE 12 — NET INCOME (LOSS) PER COMMON SHARE

For the three months ended June 30, 2020, Orion was in a net loss position; therefore, the Basic and Diluted weighted-average shares outstanding are equal because any increase to the basic shares would be anti-dilutive. Basic and Diluted net income (loss) per common share was calculated based upon the following:

	For the Three Months Ended June 30,	
	2020	2019
Numerator:		
Net (loss) income (in thousands)	$ (2,219)	$ 3,968
Denominator:		
Weighted-average common shares outstanding	30,352,217	29,723,472
Weighted-average common shares and common share equivalents outstanding	30,352,217	30,550,892
Net (loss) income per common share:		
Basic	$ (0.07)	$ 0.13
Diluted	$ (0.07)	$ 0.13

Orion uses the treasury stock method to calculate the effect of outstanding dilutive equity incentive instruments, which requires Orion to compute total proceeds as the sum of the amount the employee must pay upon exercise of the award and the amount of unearned stock-based compensation costs attributable to future services. Equity incentive instruments for which the total employee proceeds from exercise exceed the average fair value of the same equity incentive instrument over the period have an anti-dilutive effect on net income per common share during periods with net income, and accordingly, Orion excludes them from the calculation. Due to the net loss incurred during the three months ended June 30, 2020, the assumed exercise of all equity incentive instruments was anti-dilutive and, therefore, was not included in the diluted loss per common share calculation for those periods.

NOTE 13 — LONG-TERM DEBT

Long-term debt consisted of the following (dollars in thousands):

	June 30, 2020	March 31, 2020
Revolving credit facility	$ —	$ 10,013
Equipment debt obligations	60	85
Total long-term debt	60	10,098
Less current maturities	(14)	(35)
Long-term debt, less current maturities	$ 46	$ 10,063

Revolving Credit Agreement

On October 26, 2018, Orion and its subsidiaries entered into a new secured revolving Business Financing Agreement with Western Alliance Bank, as lender (the "Credit Agreement"). On June 3, 2019, Orion and certain of its subsidiaries entered into an amendment to the Credit Agreement, which increased the maximum borrowing base credit available for certain of the customer receivables included in Orion’s borrowing base and provided for a borrowing base credit of up to $3.0 million based on inventory, in each case, subject to certain conditions. On August 2, 2019, Orion and certain of its subsidiaries entered into a second amendment to the Credit Agreement, which established a rent reserve in an amount equal to three months’ rent payable at any leased location where Orion maintains inventory included in its borrowing base and provided for a reduction of the borrowing base credit that Orion may receive for inventory if Orion defaults under the lease for any such location. On November 21, 2019, Orion and certain of its subsidiaries entered into a third amendment to the Credit Agreement, which extended the maturity date from October 26, 2020 to October 26, 2021; increased the sublimit under the Credit Agreement for advances under business credit cards from $1.5 million to $3 million; created a new $2 million sublimit permitting entry into foreign currency forward contracts with the lender; expanded Orion’s ability to make capital expenditures and incur other debt from time to time; and permitted the lender to amend the financial covenant included in the Credit Agreement (which requires the maintenance of a certain amount of unrestricted cash on deposit with the lender at the end of each month) upon receipt of Orion’s annual projections.

The Credit Agreement, as amended, provides for a revolving credit facility (the “Credit Facility”) maturing on October 26, 2021. Borrowings under the Credit Facility are currently limited to $20.15 million, subject to a borrowing base requirement based on eligible receivables and inventory. The Credit Agreement, as amended, includes a $2.0 million sublimit for the issuance of letters of credit. As of June 30, 2020, Orion’s borrowing base was $6.5 million, and Orion had no borrowings outstanding. Orion had no outstanding letters of credit leaving total borrowing availability of $6.5 million.

The Credit Agreement is secured by a security interest in substantially all of Orion's and its subsidiaries’ personal property.

Borrowings under the Credit Agreement generally bear interest at floating rates based upon the prime rate (but not less than 5.00% per year) plus an applicable margin determined by reference to Orion’s quick ratio (defined as the aggregate amount of unrestricted cash, unrestricted marketable securities and, with certain adjustments, receivables convertible into cash divided by total current liabilities, including the obligations under the Credit Agreement). As of June 30, 2020, the applicable interest rate was 5.25%. Among other fees, Orion is required to pay an annual facility fee equal to 0.45% of the credit limit under the Credit Agreement, which was paid at commencement (October 26, 2018) and is due on each anniversary thereof.

The Credit Agreement requires Orion to maintain nine months’ of “RML” as of the end of each month. For purposes of the Credit Agreement, RML is defined as, as of the applicable determination date, unrestricted cash on deposit with the lender plus availability under the Credit Agreement divided by an amount equal to, for the applicable trailing three-month period, consolidated net profit before tax, plus depreciation expense, amortization expense and stock-based compensation, minus capital lease principal payments, tested as of the end of each month. As of June 30, 2020, Orion was in compliance with this RML requirement.

The Credit Agreement also contains customary events of default and other covenants, including certain restrictions on Orion’s ability to incur additional indebtedness, consolidate or merge, enter into acquisitions, pay any dividend or distribution on Orion’s stock, redeem, retire or purchase shares of Orion’s stock, make investments or pledge or transfer assets. If an event of default under the Credit Agreement occurs and is continuing, then the lender may cease making advances under the Credit Agreement and declare any outstanding obligations under the Credit Agreement to be immediately due and payable. In addition, if Orion becomes the subject of voluntary or involuntary proceedings under any bankruptcy or similar law, then any outstanding obligations under the Credit Agreement will automatically become immediately due and payable.

Equipment Debt Obligations

In June 2015, Orion entered into an agreement with a financing company in the principal amount of $0.4 million to fund the purchase of certain equipment. The debt was secured by the related equipment. The debt incurred interest at a rate of 5.94% and matured in June 2020.

In February 2019, Orion entered into additional debt agreements with a financing company in the principal amount of $44 thousand and $30 thousand to fund the purchase of certain equipment. The debts are secured by the related equipment. The debts bear interest at a rate of 6.43% and 8.77%, respectively, and both debts mature in January 2024.

NOTE 14 — INCOME TAXES

Orion’s income tax provision was determined by applying an estimated annual effective tax rate based upon the facts and circumstances known to book income (loss) before income tax, adjusting for discrete items. Orion’s actual effective tax rate is adjusted each interim period, as appropriate, for changes in facts and circumstances. For the three-month period ended June 30, 2020 and 2019, Orion recorded income tax expense of $73 thousand and $8 thousand, respectively, using this methodology.

As of June 30, 2020 and March 31, 2020, Orion had a full valuation allowance recorded against its deferred tax assets. Orion considers future taxable income and ongoing prudent and feasible tax planning strategies in assessing the need for the valuation allowance. In the event that Orion determines that the deferred tax assets are able to be realized, an adjustment to the valuation allowance would increase income in the period such determination is made.

The CARES Act includes significant business tax provisions that, among other things, temporarily eliminate the taxable income limit for certain NOLs, allow businesses to carry back tax year 2018-2020 NOLs to the five prior tax years, accelerate refunds of corporate AMT credits, and generally decrease the amount of disallowed business interest expense. Because of Orion’s loss carryforwards, Orion does not anticipate the income tax provisions of the CARES Act to result in a material cash or financial statement impact during fiscal 2021.

Uncertain Tax Positions

As of June 30, 2020, Orion’s balance of gross unrecognized tax benefits was approximately $0.3 million, $0.2 million of which would reduce Orion’s effective tax rate if recognized.

Orion has classified the amounts recorded for uncertain tax benefits in the balance sheet as Other long-term liabilities to the extent that payment is not anticipated within one year. Orion recognizes penalties and interest related to uncertain tax liabilities in Income tax expense. Penalties and interest are included in the unrecognized tax benefits.

NOTE 15 — COMMITMENTS AND CONTINGENCIES

Litigation

Orion is subject to various claims and legal proceedings arising in the ordinary course of business. Orion does not believe the final resolution of any of such claims or legal proceedings will have a material adverse effect on Orion’s future results of operations or financial condition.

State Tax Assessment

During fiscal 2018, Orion was notified of a pending sales and use tax audit by the Wisconsin Department of Revenue for the period covering April 1, 2013 through March 31, 2017. Although the final resolution of Orion's sales and use tax audit is uncertain, the ultimate disposition of this matter is not expected to have a material adverse effect on Orion's future results of operations or financial conditions.

NOTE 16 — SHAREHOLDERS’ EQUITY

Shareholder Rights Plan

On January 3, 2019, Orion entered into Amendment No. 1 to the Rights Agreement, which amended the Rights Agreement dated as of January 7, 2009 and extended its terms by three years to January 7, 2022. Under the amendment, each common share purchase right (a “Right”), if exercisable, will initially represent the right to purchase from Orion, one share of Orion’s common stock, no par value per share, for a purchase price of $7.00 per share.

The Rights will not be exercisable (and will be transferable only with Orion's common stock) until a "Distribution Date" occurs (or the Rights are earlier redeemed or expire). A Distribution Date generally will occur on the earlier of a public announcement that a person or group of affiliated or associated persons ("Acquiring Person") has acquired beneficial ownership of 20% or more of Orion's outstanding common stock ("Shares Acquisition Date") or 10 business days after the commencement of, or the announcement of an intention to make, a tender offer or exchange offer that would result in any such person or group of persons acquiring such beneficial ownership.

If a person becomes an Acquiring Person, holders of Rights (except as otherwise provided in the Rights Agreement) will have the right to receive upon exercise that number of shares of Orion's common stock having a market value of two times the then-current purchase price, and all Rights beneficially owned by an Acquiring Person, or by certain related parties or transferees, will be null and void. If, after a Shares Acquisition Date, Orion is acquired in a merger or other business combination transaction or 50% or more of its consolidated assets or earning power are sold, proper provision will be made so that each holder of a Right (except as otherwise provided in the Rights Agreement) will thereafter have the right to receive upon exercise that number of shares of the acquiring company's common stock which at the time of such transaction will have a market value of two times the then-current purchase price.

Until a Right is exercised, the holder thereof, as such, will have no rights as a shareholder of Orion. At any time prior to a person becoming an Acquiring Person, the Board of Directors of Orion may redeem the Rights in whole, but not in part, at a price of $0.001 per Right. Unless they are extended or earlier redeemed or exchanged, the Rights will expire on January 7, 2022.

Employee Stock Purchase Plan

In August 2010, Orion's Board of Directors approved a non-compensatory employee stock purchase plan, or "ESPP". In the three months ended June 30, 2020, Orion issued 458 shares under the ESPP plan at a closing market price of $3.46.

NOTE 17 — STOCK OPTIONS AND RESTRICTED SHARES

At Orion's 2019 annual meeting of shareholders held on August 7, 2019, Orion's shareholders approved the Orion Energy Systems, Inc. 2016 Omnibus Incentive Plan, as amended and restated (the "Amended 2016 Plan"). Approval of the Amended 2016 Plan increased the number of shares of Orion's common stock available for issuance under the Amended 2016 Plan from 1,750,000 shares to 3,500,000 shares (an increase of 1,750,000 shares); added a minimum vesting period for all awards granted under the Amended 2016 Plan (with limited exceptions); and added a specific prohibition on the payment of dividends and dividend equivalents on unvested awards.

The Amended 2016 Plan authorizes grants of equity-based and incentive cash awards to eligible participants designated by the Plan's administrator. Awards under the Amended 2016 Plan may consist of stock options, stock appreciation rights, performance shares, performance units, common stock, restricted stock, restricted stock units, incentive awards or dividend equivalent units.

Prior to the 2016 Omnibus Incentive Plan, Orion maintained its 2004 Stock and Incentive Awards Plan, as amended, which authorized the grant of cash and equity awards to employees (the "2004 Plan"). No new awards are being granted under the 2004 Plan; however, all awards granted under the 2004 Plan that are outstanding will continue to be governed by the 2004 Plan. Forfeited awards originally issued under the 2004 Plan are canceled and are not available for subsequent issuance under the 2004 Plan or under the Amended 2016 Plan. The Amended 2016 Plan and the 2004 Plan also permit accelerated vesting in the event of certain changes of control of Orion as well as under other special circumstances.

Certain non-employee directors have from time to time elected to receive stock awards in lieu of cash compensation pursuant to elections made under Orion's non-employee director compensation program.

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

	For the Three Months Ended June 30,	
	2020	2019
Cost of product revenue	$ 1	$ 1
Cost of service revenue	—	(1)
General and administrative	198	163
Sales and marketing	1	8
Research and development	8	—
Total	$ 208	$ 171

During the first three months of fiscal 2021, Orion had the following activity related to its stock-based compensation:

	Restricted Shares	Stock Options
Awards outstanding at March 31, 2020	772,720	396,300
Awards granted	261,793	—
Awards vested or exercised	(337,380)	(20,000)
Awards forfeited	—	(96,982)
Awards outstanding at June 30, 2020	697,133	279,318
Per share price on grant date	$ 3.92	—

As of June 30, 2020, the amount of deferred stock-based compensation expense to be recognized, over a remaining period of 2.8 years, was approximately $1.7 million.

NOTE 18 — SEGMENTS

Orion has the following business segments: Orion Engineered Services Division ("OES"), Orion Distribution Services Division ("ODS"), and Orion U.S. Markets Division ("USM"). The accounting policies are the same for each business segment as they are on a consolidated basis.

Orion Engineered Systems Division

The OES segment develops and sells lighting products and provides construction and engineering services for Orion's commercial lighting and energy management systems. OES provides engineering, design, lighting products and in many cases turnkey solutions for large national accounts, governments, municipalities, schools and other customers.

Orion Distribution Services Division

The ODS segment sells lighting products through manufacturer representative agencies and a network of North American broadline electrical distributors and contractors.

Orion U.S. Markets Division

The USM segment sells commercial lighting systems and energy management systems to the wholesale contractor markets. USM customers include ESCOs and contractors.

Corporate and Other

Corporate and Other is comprised of operating expenses not directly allocated to Orion's segments and adjustments to reconcile to consolidated results (dollars in thousands).

	Revenues		Operating Income (Loss)	
	For the Three Months Ended June 30,		For the Three Months Ended June 30,	
	2020	2019	2020	2019
Segments:				
Orion Engineered Systems	$ 2,256	$ 34,787	$ (1,850)	$ 4,856
Orion Distribution Services	6,629	3,704	752	(337)
Orion U.S. Markets	1,926	3,887	81	901
Corporate and Other	—	—	(1,028)	(1,261)
	$ 10,811	$ 42,378	$ (2,045)	$ 4,159

NOTE 19 — SUBSEQUENT EVENTS

Subsequent events are events or transactions that occur after the balance sheet date but before financial statements are issued. Recognized subsequent events are events or transactions that provide additional evidence about conditions that existed at the date of the balance sheet, including the estimates inherent in the process of preparing financial statements. Non-recognized subsequent events are events that provide evidence about conditions that did not exist at the date of the balance sheet but arose after that date.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of our financial condition and results of operations should be read together with our unaudited Condensed Consolidated Financial Statements and related notes included in this Form 10-Q, as well as our audited Consolidated Financial Statements and related notes included in our Annual Report on Form 10-K for the fiscal year ended March 31, 2020.

Cautionary Note Regarding Forward-Looking Statements

Any statements in this Quarterly Report on Form 10-Q about our expectations, beliefs, plans, objectives, prospects, financial condition, assumptions or future events or performance are not historical facts and are "forward-looking statements" as that term is defined under the federal securities laws. These statements are often, but not always, made through the use of words or phrases such as "believe", "anticipate", "should", "intend", "plan", "will", "expects", "estimates", "projects", "positioned", "strategy", "outlook" and similar words. You should read the statements that contain these types of words carefully. Such forward-looking statements are subject to a number of risks, uncertainties and other factors that could cause actual results to differ materially from what is expressed or implied in such forward-looking statements. There may be events in the future that we are not able to predict accurately or over which we have no control. Potential risks and uncertainties include, but are not limited to, those discussed in "Part I, Item 1A. Risk Factors" in our Annual Report on Form 10-K for the fiscal year ended March 31, 2020. We urge you not to place undue reliance on these forward-looking statements, which speak only as of the date of this report. We do not undertake any obligation to release publicly any revisions to such forward-looking statements to reflect events or uncertainties after the date hereof or to reflect the occurrence of unanticipated events.

Overview

We provide state-of-the-art LED lighting, wireless Internet of Things ("IoT") enabled control solutions, and energy project management. We research, design, develop, manufacture, market, sell, install, and implement energy management systems consisting primarily of high-performance, energy-efficient commercial and industrial interior and exterior lighting systems and related services. Our products are targeted for applications in three primary market segments: commercial office and retail, area lighting, and industrial applications, although we do sell and install products into other markets. Virtually all of our sales occur within North America.

Our lighting products consist primarily of light emitting diode ("LED") lighting fixtures, many of which include IoT enabled control systems. Our principal customers include large national account end-users, federal and state government facilities, large regional account end-users, electrical distributors, electrical contractors and energy service companies ("ESCOs"). Currently, substantially all of our products are manufactured at our leased production facility located in Manitowoc, Wisconsin, although as the LED and related IoT market continues to evolve, we are increasingly sourcing products and components from third parties in order to provide versatility in our product development.

We have experienced recent success offering our comprehensive project management services to national account customers to retrofit their multiple locations. Our comprehensive services include initial site surveys and audits, utility incentive and government subsidy management, engineering design, and project management from delivery through to installation and controls integration.

We believe the market for LED lighting products and related controls continues to grow. Due to their size and flexibility in application, we also believe that LED lighting systems can address opportunities for retrofit applications that cannot be satisfied by other lighting technologies. Our LED lighting technologies have become the primary component of our revenue as we continue to strive to be a leader in the LED market.

In fiscal 2020, we began to successfully capitalize on our capability of being a full service, turn-key provider of LED lighting and controls systems with design, build, installation and project management services, including being awarded a very large project for a major national account. As a result of this success, we have begun to evolve our business strategy to focus on further expanding the nature and scope of our products and services offered to our customers. This further expansion of our products and services includes pursuing projects to develop recurring revenue streams, including providing lighting and electrical maintenance services and utilizing control sensor technology to collect data and assisting customers in the digitization of this data, along with other potential services. We also plan to pursue the expansion of our IoT, “smart-building” and “connected ceiling” and other related technology, software and controls products and services that we offer to our customers. We currently plan on investing significant time, resources and capital into expanding our offerings in these areas with no expectation that they will result in us realizing material revenue in the near term and without any assurance they will succeed or be profitable. In fact, it is likely that these efforts will reduce our profitability, at least in the near term, as we invest resources and incur expenses to develop these offerings. While we intend to pursue these expansion strategies organically, we also are actively exploring potential business acquisitions which would more quickly add these types of expanded and different capabilities to our product and services offerings. It is possible that one or more of such potential acquisitions, if successfully completed, could significantly change, and potentially transform, the nature and extent of our business.

We generally do not have long-term contracts with our customers that provide us with recurring revenue from period to period and we typically generate substantially all of our revenue from sales of lighting and control systems and related services to governmental, commercial and industrial customers on a project-by-project basis. We also perform work under master services or product purchasing agreements with major customers with sales completed on an individual purchase order basis. In addition, in order to provide quality and timely service under our multi-location master retrofit agreements, we are required to make substantial working capital expenditures and advance inventory purchases that we may not be able to recoup if the agreements or a substantial volume of purchase orders under the agreements are delayed or terminated. For example, while we received a master retrofit agreement in January 2020 for approximately $18-20 million in revenue from our largest customer, due to the closure of its facilities to external activities because of the COVID-19 pandemic, this customer deferred retrofit installations related to the project during March 2020, thereby resulting in the deferral of our realization of expected revenue during our fiscal 2020 fourth quarter. The loss of, or substantial reduction in sales to, any of our significant customers, or our current single largest customer, or the termination or delay of a significant volume of purchase orders by one or more key customers, could have a material adverse effect on our results of operations in any given future period.

We typically sell our lighting systems in replacement of our customers’ existing fixtures. We call this replacement process a "retrofit". We frequently engage our customer’s existing electrical contractor to provide installation and project management services. We also sell our lighting systems on a wholesale basis, principally to electrical distributors and ESCOs to sell to their own customer bases.

The gross profits of our products can vary significantly depending upon the types of products we sell, with margins typically ranging from 10% to 50%. As a result, a change in the total mix of our sales among higher or lower margin products can cause our profitability to fluctuate from period to period.

Our fiscal year ends on March 31. We refer to our just completed fiscal year, which ended on March 31, 2020, as "fiscal 2020", and our prior fiscal year which ended on March 31, 2019 as "fiscal 2019". Our fiscal first quarter of each fiscal year ends on June 30, our fiscal second quarter ends on September 30, our fiscal third quarter ends on December 31 and our fiscal fourth quarter ends on March 31.

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

Major Developments in Fiscal 2020

During fiscal 2020, we executed on a series of master contracts for a major national account customer with our state-of-the-art LED lighting systems and wireless IoT enabled control solutions at locations nationwide. This one national account customer represented 74.1% of our total revenue in fiscal 2020 and was the primary driver for our growth over the prior year period. During March 2020, this customer suspended our installations at a significant number of locations that were scheduled for installation during our fiscal 2020 fourth quarter and our fiscal 2021 first quarter. However, we now currently expect installations at this customer’s locations to recommence during the second quarter of fiscal 2021. We expect further revenue opportunity with this national account customer in fiscal 2021 and beyond; however, due to the COVID-19 pandemic, the timing, and volume of revenue, including our ability to realize these potential revenue opportunities is uncertain.

Impact of COVID-19 and Fiscal 2021 Outlook

The COVID-19 pandemic has disrupted business, trade, commerce, financial and credit markets, in the U.S. and globally. Our business has been adversely impacted by measures taken by government entities and others to control the spread of the virus beginning in March 2020. As a deemed essential business, we provide products and services to ensure energy and lighting infrastructure and we therefore continue to operate throughout the pandemic. We have implemented a number of safety protocols, including limiting travel, restricting access to our facilities along with monitoring processes, physical distancing, physical barriers, enhanced cleaning procedures, and requiring face coverings. Nonetheless, we did experience a curtailment of activity beginning in the last few weeks of our 2020 fiscal year and continuing into fiscal 2021.

As part of our recent response to the impacts of the COVID-19 pandemic, during the fourth quarter of fiscal 2020 we implemented a number of cost reduction and cash conservation measures, including reducing headcount. While certain restrictions began to initially lessen in certain jurisdictions during our fiscal 2021 first quarter, stay-at-home, face mask or lockdown orders remain in effect in others, with employees asked to work remotely if possible. Certain areas of the country have seen a spike of COVID-19 cases, which could result in renewed restrictions and lockdown orders. Some customers and projects are in areas where travel restrictions have been imposed, certain customers have either closed or reduced on-site activities, and timelines for the completion of several projects have been delayed, extended or terminated. These modifications to our business practices, including any future actions we take, may cause us to experience reductions in productivity and disruptions to our business routines. In addition, we are required to make substantial working capital expenditures and advance inventory purchases that we may not be able to recoup if the agreements or a substantial volume of purchase orders under the agreements are delayed or terminated as a result of COVID-19. At this time, it is not possible to predict the overall impact the COVID-19 pandemic will have on Orion’s business, liquidity, capital resources or financial results, although we expect that the economic and regulatory impacts of COVID-19 will significantly reduce our revenue and profitability in at least the first half of fiscal 2021. If the COVID-19 pandemic becomes more pronounced in our markets or experiences a resurgence in markets recovering from the spread of COVID-19, or if another significant natural disaster or pandemic were to occur in the future, our operations in areas impacted by such events could experience further adverse financial impacts due to market changes and other resulting events and circumstances.

The impact of COVID-19 has caused significant uncertainty and volatility in the credit markets. We rely on the credit markets to provide us with liquidity to operate and grow our businesses beyond the liquidity that operating cash flows provide. If our access to capital were to become significantly constrained or if costs of capital increased significantly due the impact of COVID-19, including volatility in the capital markets, a reduction in our credit ratings or other factors, then our financial condition, results of operations and cash flows could be adversely affected.

In addition to the managing the adverse financial impact of the COVID-19 pandemic, our ability to achieve our desired revenue growth and profitability goals depends on our ability to effectively execute on the following key strategic initiatives. We may identify strategic acquisition candidates that would help support these initiatives.

Focus on executing and marketing our turnkey LED retrofit capabilities to large national account customers. We believe one of our competitive advantages is our ability to deliver full turnkey LED lighting project capabilities. These turnkey services were the principal reason we achieved significant revenue growth in fiscal 2020 as we executed on our commitment to retrofit multiple locations for a major national account customer. Our success in the national account market segment centers on our turnkey design, engineering, manufacturing and project management capabilities, which represent a very clear competitive advantage for us among large enterprises seeking to benefit from the illumination benefits and energy savings of LED lighting across locations nationwide. Few LED lighting providers are organized to serve every step of a custom retrofit project in a comprehensive, non-disruptive and timely fashion, from custom fixture design and initial site surveys to final installations. Incrementally, we are also able to help customers deploy state-of-the-art control systems that provide even greater long-term value from their lighting system investments.

Looking forward, we are focused on continuing to successfully execute on existing national account opportunities while also actively pursuing new national account opportunities that leverage our customized, comprehensive turnkey project solutions, and expanding our addressable market with high-quality, basic lighting systems to meet the needs of value-oriented customer segments served by our other market channels. Given our unique value proposition, capabilities and focus on customer service, we are optimistic about our business prospects and working to build sales momentum with existing and new customers.

Continued Product Innovation. We continue to innovate, developing lighting fixtures and features that address specific customer requirements, while also working to maintain a leadership position in energy efficiency, smart product design and installation benefits. For interior building applications, we have recently launched an antimicrobial troffer fixture which supports the suppression of bacteria, mold, fungi, and mildew, and are currently developing an air circulation troffer to support improved air circulation. We also continue to deepen our capabilities in the integration of smart lighting controls. Our goal is to provide state-of-the-art lighting products with modular plug-and-play designs to enable lighting system customization from basic controls to advanced IoT capabilities.

Leverage of Orion's Smart Lighting Systems to Support Internet of Things Applications. We believe we are ideally positioned to help customers to efficiently deploy new IoT controls and applications by leveraging the "Smart Ceiling" capabilities of their Orion solid state lighting system. IoT capabilities can include the management and tracking of facilities, personnel, resources and customer behavior, driving both sales and lowering costs. As a result, these added capabilities provide customers an even greater return on investment from their lighting system and make us an even more attractive partner. We plan to pursue the expansion of our IoT, "smart-building" and "connected ceiling" and other related technology, software and controls products and services that we offer to our customers. While we intend to pursue these expansion strategies organically, we also are actively exploring potential business acquisitions which would more quickly add these types of expanded and different capabilities to our product and services offerings.

Develop Maintenance Service Offerings. We believe we can leverage our construction management process expertise to develop a high-quality, quick-response, multi-location maintenance service offering. Our experience with large national customers and our large installed base of fixtures position us well to extend a maintenance offering to historical customers, as well as to new customers. Development of this recurring revenue stream is in the preliminary stage, but we believe there is significant market opportunity.

Support success of our ESCO and agent-driven distribution sales channels. We continue to focus on building our relationships and product and sales support for our ESCO and agent driven distribution channels. These efforts include an array of product and sales training efforts as well as the development of new products to cater to the unique needs of these sales channels.

Managing Impacts of Tariffs and Trade Policies

The United States government has been implementing various monetary, regulatory, and trade importation restraints, penalties, and tariffs. Certain sourced finished products and certain of the components used in our products have been impacted by imposed tariffs on China imports. Our efforts to mitigate the impact of added costs resulting from these government actions include a variety of activities, such as sourcing from non-tariff impacted countries and raising prices. If we are unable to successfully mitigate the impacts of these tariffs and other trade policies, our results of operations may be adversely affected. We believe that these mitigation activities will assist to offset added costs, and we currently believe that such tariffs will have a limited adverse financial effect on our results of operations. Any future policy changes that may be implemented could have a positive or negative consequence on our financial performance depending on how the changes would influence many factors, including business and consumer sentiment.

Results of Operations - Three Months Ended June 30, 2020 versus Three Months Ended June 30, 2019

The following table sets forth the line items of our Condensed Consolidated Statements of Operations and as a relative percentage of our total revenue for each applicable period, together with the relative percentage change in such line item between applicable comparable periods (dollars in thousands, except percentages):

	Three Months Ended June 30,				
	2020 Amount	2019 Amount	% Change	2020 % of Revenue	2019 % of Revenue
Product revenue	$ 9,701	$ 32,339	(70.0)%	89.7%	76.3%
Service revenue	1,110	10,039	(88.9)%	10.3%	23.7%
Total revenue	10,811	42,378	(74.5)%	100.0%	100.0%
Cost of product revenue	7,229	23,825	(69.7)%	66.9%	56.2%
Cost of service revenue	947	8,270	(88.5)%	8.8%	19.5%
Total cost of revenue	8,176	32,095	(74.5)%	75.6%	75.7%
Gross profit	2,635	10,283	(74.4)%	24.4%	24.3%
General and administrative expenses	2,411	3,007	(19.8)%	22.3%	7.1%
Sales and marketing expenses	1,854	2,706	(31.5)%	17.1%	6.4%
Research and development expenses	415	411	1.0%	3.8%	1.0%
(Loss) income from operations	(2,045)	4,159	NM	(18.9)%	9.8%
Other income	9	12	(25.0)%	0.1%	0.0%
Interest expense	(49)	(136)	(64.0)%	(0.5)%	(0.3)%
Amortization of debt issue costs	(61)	(61)	—	(0.6)%	(0.1)%
Interest income	—	2	(100.0)%	0.0%	0.0%
(Loss) income before income tax	(2,146)	3,976	NM	(19.9)%	9.4%
Income tax expense	73	8	NM	0.7%	0.0%
Net (loss) income	$ (2,219)	$ 3,968	NM	(20.5)%	9.4%

* NM - Not Meaningful

Revenue. Product revenue decreased 70.0%, or $22.6 million, for the first quarter of fiscal 2021 versus the first quarter of fiscal 2020. Service revenue decreased 88.9%, or $8.9 million for the first quarter of fiscal 2021 versus the first quarter of fiscal 2020. The decrease in product and service revenue was primarily due to multiple projects put on hold as a result of COVID-19, including the projects for one large national account customer which represented 77.0% of revenue in the first quarter of fiscal 2020, but less than 10% of revenue in the first quarter of fiscal 2021 Sales to one customer accounted for 32.9% of total revenue in the first quarter of fiscal 2021. Total revenue decreased by 74.5%, or $31.6 million, due to the items discussed above.

Cost of Revenue and Gross Profit. Cost of product revenue decreased 69.7%, or $16.6 million, in the first quarter of fiscal 2021 versus the first quarter of fiscal 2020 due to the significant decrease in our sales. Cost of service revenue decreased 88.5% or $7.3 million, in the first quarter of fiscal 2021 versus the first quarter of fiscal 2020 due to the decrease in sales. Gross profit increased from 24.3% of revenue in the first quarter of fiscal 2020 to 24.4% in fiscal 2021, due to the change in customer sales mix.

Operating Expenses

General and Administrative. General and administrative expenses decreased 19.8%, or $0.6 million in the first quarter of fiscal 2021 compared to the first quarter of fiscal 2020, primarily due to lower employment costs.

Sales and Marketing. Sales and marketing expenses decreased 31.5%, or $0.9 million, in the first quarter of fiscal 2021 compared to the first quarter of fiscal 2020. This comparative decrease was primarily due to a decrease in commission expense on lower sales and lower employment costs.

Research and Development. Research and development expenses in the first quarter of fiscal 2021 remained relatively flat compared to the first quarter of fiscal 2020.

Other Income. Other income in the first quarter of fiscal 2021 primarily represented product royalties received from licensing agreements for our patents.

Interest Expense. Interest expense in the first quarter of fiscal 2021 decreased by 64.0%, or $0.1 million, from the first quarter of fiscal 2020. The decrease in interest expense was primarily due to lower borrowing on our revolving credit facility in the first quarter of fiscal 2021 compared to the first quarter of fiscal 2020.

Amortization of debt issue costs. Amortization of debt issue costs in the first quarter of fiscal 2021 remained flat compared to the first quarter of fiscal 2020.

Interest Income. Interest income in the first quarter of fiscal 2021 remained relatively flat compared to the first quarter of fiscal 2020. Interest income relates to interest earned on sweep bank accounts.

Income Taxes. Income tax expense increased $0.1 million, in the first quarter of fiscal 2021 compared to the first quarter of fiscal 2020. Our income tax expense is due primarily to minimum state tax liabilities.

Orion Engineered Systems Division

Our OES segment develops and sells lighting products and provides construction and engineering services for our commercial lighting and energy management systems. OES provides engineering, design, lighting products and in many cases turnkey solutions for large national accounts, governments, municipalities, schools and other customers.

The following table summarizes our OES segment operating results (dollars in thousands):

	Three Months Ended June 30,		
	2020	2019	% Change
Revenues	$ 2,256	$ 34,787	(93.5)%
Operating (loss) income	$ (1,850)	$ 4,856	NM
Operating margin	(82.0)%	14.0%	

* NM - Not Meaningful

OES segment revenue in the first quarter of fiscal 2021 was $2.3 million, a decrease of $32.5 million from the first quarter of fiscal 2020, due to multiple projects put on hold as a result of COVID-19, including the projects to one large national account customer that represented 77.0% of total revenue in the first quarter fiscal 2020.

OES segment operating loss in the first quarter of fiscal 2021 was $1.9 million, a decrease of $6.7 million from operating income of $4.9 million in the first quarter of fiscal 2020. The decrease in the segment's operating income was the result of significantly lower sales in this segment, resulting in unfavorable operating leverage.

Orion Distribution Services Division

Our ODS segment focuses on selling lighting products through manufacturer representative agencies and a network of North American broadline and electrical distributors and contractors.

The following table summarizes our ODS segment operating results (dollars in thousands):

	Three Months Ended June 30,		
	2020	2019	% Change
Revenues	$ 6,629	$ 3,704	79.0%
Operating income (loss)	$ 752	$ (337)	323.1%
Operating margin	11.3%	(9.1)%	

* NM - Not Meaningful

ODS segment revenue in the first quarter of fiscal 2021 was $6.6 million, an increase of 79.0%, or $2.9 million, compared to the first quarter of fiscal 2020, primarily due to sales to one customer who represented 32.9% of first quarter fiscal 2021 total revenue.

ODS segment operating income in the first quarter of fiscal 2021 was $0.8 million, an increase of $1.1 million, from the first quarter of fiscal 2020, primarily due to higher revenues resulting in improved operating leverage.

Orion U.S. Markets Division

Our USM segment sells commercial lighting systems and energy management systems to the wholesale contractor markets. USM customers include ESCOs and contractors.

The following table summarizes our USM segment operating results (dollars in thousands):

	Three Months Ended June 30,		
	2020	2019	% Change
Revenues	$ 1,926	$ 3,887	(50.5)%
Operating income	$ 81	$ 901	(91.0)%
Operating margin	4.2%	23.2%	

* NM - Not Meaningful

USM segment revenue in the first quarter of fiscal 2021 was $1.9 million, a decrease of 50.5%, or $1.9 million, from the first quarter of fiscal 2020, primarily due to the impact of COVID-19.

USM segment operating income in the first quarter of fiscal 2021 was $0.1 million, a decrease of 91.0%, or $0.8 million, from the first quarter of fiscal 2020. The decrease in the segment's operating income was the result of significantly lower sales in this segment, resulting in unfavorable operating leverage.

Liquidity and Capital Resources

Overview

We had approximately $10.8 million in cash and cash equivalents as of June 30, 2020, compared to $28.9 million at March 31, 2020. Our cash position decreased primarily as a result of payments of $10.0 million to reduce our revolving credit facility and use of cash from operating activities of $7.7 million.

During the third quarter of fiscal 2019, we listed our corporate office location in Manitowoc, Wisconsin for sale or lease to increase our liquidity by attempting to divest a non-core asset. Because of the uncertainty of a sale of our building in the next 12 months, the building continues to be classified as held and used as of June 30, 2020. However, any sale of our building will likely result in a non-cash impairment charge, as the building is currently listed for below its net book value.

Our future liquidity needs and forecasted cash flows are dependent upon many factors, including our relative revenue, gross profits, cash management practices, cost reduction initiatives, working capital management, capital expenditures, pending or future litigation results and cost containment measures. In addition, we tend to experience higher working capital costs when we increase sales from existing levels.

Cash Flows

The following table summarizes our cash flows for the three months ended June 30, 2020 and 2019 (in thousands):

	Three Months Ended June 30,	
	2020	2019
Operating activities	$ (7,709)	$ 1,996
Investing activities	(244)	(200)
Financing activities	(10,014)	(295)
(Decrease) increase in cash and cash equivalents	$ (17,967)	$ 1,501

Cash Flows Related to Operating Activities. Cash (used in) provided by operating activities primarily consists of net (loss) income adjusted for certain non-cash items, including depreciation, amortization of intangible assets, stock-based compensation, amortization of debt issue costs, provisions for reserves, and the effect of changes in working capital and other activities.

Cash used in operating activities for the first three months of fiscal 2021 was $7.7 million and consisted of our net loss adjusted for non-cash expense items of $0.8 million and net cash used in changes in operating assets and liabilities of $6.2 million. Cash used in operating assets and liabilities consisted primarily of a decrease of $7.4 million in Accounts payable and Accrued expenses and other based on timing of invoice receipt and payment, and an increase in inventory of $2.6 million based on timing of purchases committed prior to the impact of COVID-19. Cash provided by changes in operating assets and liabilities consisted primarily of a net decrease of $3.6 million in Accounts receivable and Revenue earned but not billed due to the timing on collections compared to decreased sales.

Cash provided by operating activities for the first three months of fiscal 2020 was $2.0 million and consisted of net income adjusted for non-cash expense items of $4.7 million and net cash used by changes in operating assets and liabilities of $2.7 million. Cash used by changes in operating assets and liabilities consisted primarily of an increase of $9.2 million in Accounts receivable due to higher sales and the timing of collections, and an increase in Inventory of $1.6 million on anticipated second quarter sales. Cash provided by changes in operating assets and liabilities consisted primarily of an increase of $7.1 million in Accounts payable and $0.8 million in Accrued expenses other based on timing of payments.

Cash Flows Related to Investing Activities. Cash used in investing activities of $0.2 million in the first three months of fiscal 2021 consisted primarily of purchases of property and equipment.

Cash used in investing activities of $0.2 million in the first three months of fiscal 2020 consisted of purchases of property and equipment.

Cash Flows Related to Financing Activities. Cash used in financing activities of $10.0 million in the first three months of fiscal 2021 consisted primarily of repayments of $10.0 million on our revolving credit facility.

Cash used in financing activities of $0.3 million in the first three months of fiscal 2020 consisted primarily of net repayments of $0.2 million of our revolving credit facility.

Working Capital

Our net working capital as of June 30, 2020 was $16.9 million, consisting of $36.5 million in current assets and $19.6 million in current liabilities. Our net working capital as of March 31, 2020 was $27.8 million, consisting of $55.0 million in current assets and $27.2 in current liabilities. Our current Accounts receivable, net balance increased by $4.7 million from the fiscal 2020 year-end primarily due to collections and sequentially lower first quarter sales. Our Inventories, net increased from the fiscal 2020 year-end by $2.6 million due primarily to purchases committed to prior to the impact of COVID-19. Our Accounts payable decreased $6.2 million from our fiscal 2020 year-end due to the timing of purchases and payments during the quarter. Our Accrued expenses decreased from our fiscal 2020 year-end by $1.4 million due primarily to a decrease in accrued employee costs, including commissions.

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 receivable, Inventory and payables may increase to the extent our revenue and order levels increase.

Indebtedness

Revolving Credit Agreement

On October 26, 2018, we entered into a secured revolving Business Financing Agreement with Western Alliance Bank, as lender (the “Credit Agreement”). On June 3, 2019, we and certain of our subsidiaries entered into an amendment to the Credit Agreement, which increased the maximum borrowing base credit available for certain of the customer receivables included in our borrowing base and provided for a borrowing base credit of up to \$3.0 million based on inventory, in each case, subject to certain conditions. On August 2, 2019, we and certain of our subsidiaries entered into a second amendment to the Credit Agreement, which established a rent reserve in an amount equal to three months’ rent payable at any leased location where we maintain inventory included in our borrowing base and provided for a reduction of the borrowing base credit that we may receive for inventory if we default under the lease for any such location. As of the date of the Second Amendment, this rent reserve equaled \$0.1 million. On November 21, 2019, we entered into a third amendment to the Credit Agreement, which extended the maturity date from October 26, 2020 to October 26, 2021; increased the sublimit under the Credit Agreement for advances under business credit cards from \$1.5 million to \$3 million; created a new \$2 million sublimit permitting entry into foreign currency forward contracts with the lender; expanded our ability to make capital expenditures and incur other debt from time to time; and permitted the lender to amend the financial covenant included in the Credit Agreement (which requires the maintenance of a certain amount of unrestricted cash on deposit with the lender at the end of each month) upon receipt of the our annual projections.

The Credit Agreement, as amended, provides for a revolving credit facility (the “Credit Facility”) maturing on October 26, 2021. Borrowings under the Credit Facility are limited to \$20.15 million subject to a borrowing base requirement based on eligible receivables and inventory. The Credit Agreement, as amended, includes a \$2.0 million sublimit for the issuance of letters of credit. As of June 30, 2020, our borrowing base was \$6.5 million, and we had no borrowings outstanding. As of June 30, 2020, we had no outstanding letters of credit leaving total additional borrowing availability of \$6.5 million.

The Credit Agreement is secured by a security interest in substantially all of our and our subsidiaries’ personal property.

Borrowings under the Credit Agreement generally bear interest at floating rates based upon the prime rate (but not less than 5.00% per year) plus an applicable margin determined by reference to our quick ratio (defined as the aggregate amount of unrestricted cash, unrestricted marketable securities and, with certain adjustments, receivables convertible into cash divided by the total current liabilities, including the obligations under the Credit Agreement). As of June 30, 2020, the applicable interest rate was 5.25%. Among other fees, we are required to pay an annual facility fee equal to 0.45% of the credit limit under the Credit Agreement due annually October 26.

The Credit Agreement requires us to maintain nine months’ of “RML” as of the end of each month. For purposes of the Credit Agreement, RML is defined as, as of the applicable determination date, unrestricted cash on deposit with the lender plus availability under the Credit Agreement divided by an amount equal to, for the applicable trailing three-month period, consolidated net profit before tax, plus depreciation expense, amortization expense and stock-based compensation, minus capital lease principal payments, tested as of the end of each month. As of June 30, 2020, we were in compliance with this RML requirement.

The Credit Agreement also contains customary events of default and other covenants, including certain restrictions on our ability to incur additional indebtedness, consolidate or merge, enter into acquisitions, pay any dividend or distribution on our stock, redeem, retire or purchase shares of our stock, make investments or pledge or transfer assets. If an event of default under the Credit Agreement occurs and is continuing, then the lender may cease making advances under the Credit Agreement and declare any outstanding obligations under the Credit Agreement to be immediately due and payable. In addition, if we become the subject of voluntary or involuntary proceedings under any bankruptcy or similar law, then any outstanding obligations under the Credit Agreement will automatically become immediately due and payable.

Capital Spending

Our capital expenditures are primarily for general corporate purposes for our corporate headquarters and technology center, production equipment and tooling and for information technology systems. Our capital expenditures totaled $0.2 million and $0.2 million for the three month periods ended June 30, 2020, and 2019, respectively. Due to the uncertainty of the COVID-19 impact on our business, we are not currently providing capital expenditure external guidance for fiscal 2021; however, we expect to finance current year 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 Agreement.

Backlog

Backlog represents the amount of revenue that we expect to realize in the future as a result of firm, committed purchase orders. Backlog totaled $15.9 million and $18.6 million as of June 30, 2020 and March 31, 2020, respectively. We generally expect our backlog to be recognized as revenue within one year, although the COVID-19 pandemic may extend this time period.

Off-Balance Sheet Arrangements

We have no off-balance sheet arrangements.

Inflation

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

Critical Accounting Policies and Estimates

The discussion and analysis of our financial condition and results of operations is based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of our consolidated financial statements requires us to make certain estimates and judgments that affect our reported assets, liabilities, revenue and expenses, and our related disclosure of contingent assets and liabilities. We re-evaluate our estimates on an ongoing basis, including those related to revenue recognition, inventory valuation, collectability of receivables, stock-based compensation, warranty reserves and income taxes. We base our estimates on historical experience and on various assumptions that we believe to be reasonable under the circumstances. Actual results may differ from these estimates. A summary of our critical accounting policies is set forth in the “Critical Accounting Policies and Estimates” section of our Management’s Discussion and Analysis of Financial Condition and Results of Operations contained in our Annual Report on Form 10-K for the year ended March 31, 2020. For the three months ended June 30, 2020, there were no material changes in our accounting policies.

Recent Accounting Pronouncements

For a complete discussion of recent accounting pronouncements, refer to Note 3 in the Condensed Consolidated Financial Statements included elsewhere in this report.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our exposure to market risk was discussed in the "Quantitative and Qualitative Disclosures About Market Risk" section contained in our Annual Report on Form 10-K for the year ended March 31, 2020. There have been no material changes to such exposures since March 31, 2020.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Our disclosure controls and procedures are designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including the Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

As of June 30, 2020, an evaluation was conducted under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) and Rule 15d-15(e) of the Exchange Act). Based on this evaluation, such officers have concluded that our disclosure controls and procedures are effective as of June 30, 2020.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting (as defined in Rule 13a-15(e) and Rule 15d-15(e) of the Exchange Act) for the three months ended June 30, 2020, that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II – OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

We are subject to various claims and legal proceedings arising in the ordinary course of business. As of the date of this report, we do not believe that the final resolution of any of such claims or legal proceedings would have a material adverse effect on our future results of operations.

See Note 15 – Commitments and Contingencies, to the Condensed Consolidated Financial Statements in Item 1 of this Quarterly Report on Form 10-Q.

ITEM 1A. RISK FACTORS

We operate in a rapidly changing environment that involves a number of risks that could materially affect our business, financial condition or future results, some of which are beyond our control. In addition to the other information set forth in this Quarterly Report on Form 10-Q, the risks and uncertainties that we believe are most important for you to consider are discussed in Part I - Item 1A under the heading “Risk Factors” in our Annual Report on Form 10-K for the fiscal year ended March 31, 2020, which we filed with the SEC on June 5, 2020 and in Part 1 - Item 2 under the heading "Management's Discussion and Analysis of Financial Condition and Results of Operations" in this Form 10-Q.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None

ITEM 5. OTHER INFORMATION

None

ITEM 6. EXHIBITS

(a) Exhibits

3.1	Amended and Restated Bylaws of Orion Energy Systems, Inc., filed as Exhibit 3.1 to the Registrant's Form 8-K filed May 22, 2020, is hereby incorporated by reference.
31.1	Certification of Chief Executive Officer of Orion Energy Systems, Inc. pursuant to Rule 13a-14(a) or Rule 15d-14(a) promulgated under the Securities Exchange Act of 1934, as amended.+
31.2	Certification of Chief Financial Officer of Orion Energy Systems, Inc. pursuant to Rule 13a-14(a) or Rule 15d-14(a) promulgated under the Securities Exchange Act of 1934, as amended.+
32.1	Certification of Chief Executive Officer of Orion Energy Systems, Inc. pursuant to Rule 13a-14(b) promulgated under the Securities Exchange Act of 1934, as amended, and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.+
32.2	Certification of Chief Financial Officer of Orion Energy Systems, Inc. pursuant to Rule 13a-14(b) promulgated under the Securities Exchange Act of 1934, as amended, and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.+
101.INS	XBRL Instance Document+
101.SCH	Taxonomy extension schema document+
101.CAL	Taxonomy extension calculation linkbase document+
101.DEF	Taxonomy extension definition linkbase document+
101.LAB	Taxonomy extension label linkbase document+
101.PRE	Taxonomy extension presentation linkbase document+

\+ Filed herewith

SIGNATURE

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, thereunto duly authorized, on August 5, 2020.

ORION ENERGY SYSTEMS, INC.
Registrant

By /s/ William T. Hull
William T. Hull
Chief Financial Officer
(Principal Financial Officer and Authorized Signatory)

Exhibit 31.1

Certification

I, Michael W. Altschaefl, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Orion Energy Systems, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 5, 2020

/s/ Michael W. Altschaefl
Michael W. Altschaefl
Chief Executive Officer

Exhibit 31.2

Certification

I, William T. Hull, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Orion Energy Systems, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 5, 2020

/s/ William T. Hull

William T. Hull
Chief Financial Officer

Exhibit 32.1

Certification of CEO Pursuant To

18 U.S.C. Section 1350,

As Adopted Pursuant To

Section 906 Of The Sarbanes-Oxley Act Of 2002

In connection with the Quarterly Report of Orion Energy Systems, Inc., a Wisconsin corporation (the “Company”), on Form 10-Q for the period ended June 30, 2020, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Michael W. Altschaefl, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, based on my knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 5, 2020

/s/ Michael W. Altschaefl

Michael W. Altschaefl
Chief Executive Officer

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

Exhibit 32.2

Certification of CFO Pursuant To

18 U.S.C. Section 1350,

As Adopted Pursuant To

Section 906 Of The Sarbanes-Oxley Act Of 2002

In connection with the Quarterly Report of Orion Energy Systems, Inc., a Wisconsin corporation (the “Company”), on Form 10-Q for the period ended June 30, 2020, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, William T. Hull, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, based on my knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 5, 2020

/s/ William T. Hull
William T. Hull
Chief Financial Officer

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.