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 December 31, 2022

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)

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 32,292,974shares of the Registrant's common stock outstanding on January 31, 2023.

ORION ENERGY SYSTEMS, INC.

QUARTERLY REPORT ON FORM 10-Q

FOR THE QUARTER ENDED DECEMBER 31, 2022

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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)

	December 31, 2022	March 31, 2022
Assets		
Cash and cash equivalents	$ 8,142	$ 14,466
Accounts receivable, net	13,688	11,899
Revenue earned but not billed	3,107	2,421
Inventories, net	19,305	19,832
Prepaid expenses and other current assets	2,347	2,631
Total current assets	46,589	51,249
Property and equipment, net	10,679	11,466
Goodwill	1,425	350
Other intangible assets, net	6,184	2,404
Deferred tax assets	—	17,805
Other long-term assets	3,450	3,543
Total assets	$ 68,327	$ 86,817
Liabilities and Shareholders' Equity		
Accounts payable	$ 13,458	$ 9,855
Accrued expenses and other	8,415	8,427
Deferred revenue, current	174	76
Current maturities of long-term debt	16	16
Total current liabilities	22,063	18,374
Revolving credit facility	5,000	—
Long-term debt, less current maturities	7	19
Deferred revenue, long-term	507	564
Other long-term liabilities	2,597	2,760
Total liabilities	30,174	21,717
Commitments and contingencies		
Shareholders' equity:		
Preferred stock, $0.01 par value: Shares authorized: 30,000,000 at December 31, 2022 and March 31, 2022; no shares issued and outstanding at December 31, 2022 and March 31, 2022	—	—
Common stock, no par value: Shares authorized: 200,000,000 at December 31, 2022 and March 31, 2022; shares issued: 41,764,220 at December 31, 2022 and 40,570,909 at March 31, 2022; shares outstanding: 32,291,974 at December 31, 2022 and 31,097,872 at March 31, 2022	—	—
Additional paid-in capital	160,696	158,419
Treasury stock, common shares: 9,472,246 at December 31, 2022 and 9,473,037 at March 31, 2022	(36,238)	(36,239)
Retained deficit	(86,305)	(57,080)
Total shareholders' equity	38,153	65,100
Total liabilities and shareholders' equity	$ 68,327	$ 86,817

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 December 31, 2022	Three Months Ended December 31, 2021	Nine Months Ended December 31, 2022	Nine Months Ended December 31, 2021
Product revenue	$ 15,399	$ 22,203	$ 41,715	$ 78,260
Service revenue	4,889	8,511	14,039	24,065
Total revenue	20,288	30,714	55,754	102,325
Cost of product revenue	11,480	16,427	31,152	54,724
Cost of service revenue	4,027	6,646	11,832	18,942
Total cost of revenue	15,507	23,073	42,984	73,666
Gross profit	4,781	7,641	12,770	28,659
Operating expenses:				
General and administrative	3,984	2,873	11,683	8,737
Acquisition related costs	1,993	178	2,340	178
Sales and marketing	2,983	2,862	8,521	8,794
Research and development	409	396	1,374	1,169
Total operating expenses	9,369	6,309	23,918	18,878
(Loss) income from operations	(4,588)	1,332	(11,148)	9,781
Other income (expense):				
Other income	—	—	—	1
Interest expense	(64)	(26)	(97)	(59)
Amortization of debt issue costs	(16)	(15)	(47)	(46)
Total other expense	(80)	(41)	(144)	(104)
(Loss) income before income tax	(4,668)	1,291	(11,292)	9,677
Income tax expense	19,391	189	17,933	2,406
Net (loss) income	$ (24,059)	$ 1,102	$ (29,225)	$ 7,271
Basic net (loss) income per share attributable to common shareholders	$ (0.75)	$ 0.04	$ (0.93)	$ 0.23
Weighted-average common shares outstanding	32,047,755	31,084,710	31,510,547	30,992,475
Diluted net (loss) income per share	$ (0.75)	$ 0.04	$ (0.93)	$ 0.23
Weighted-average common shares and share equivalents outstanding	32,047,755	31,234,925	31,510,547	31,273,703

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, 2022	31,097,872	$ 158,419	$ (36,239)	$ (57,080)	$ 65,100
Exercise of stock options for cash	26,646	54	—	—	54
Shares issued under Employee Stock Purchase Plan	443	—	1	—	1
Stock-based compensation	125,744	254	—	—	254
Employee tax withholdings on stock-based compensation	(634)	—	(2)	—	(2)
Net loss	—	—	—	(2,835)	(2,835)
Balance, June 30, 2022	31,250,071	$ 158,727	$ (36,240)	$ (59,915)	$ 62,572
Shares issued under Employee Stock Purchase Plan	648	—	1	—	1
Stock-based compensation	105,192	733	—	—	733
Net loss	—	—	—	(2,331)	(2,331)
Balance, September 30, 2022	31,355,911	$ 159,460	$ (36,239)	$ (62,246)	$ 60,975
Issuance of common stock for acquisition	620,067	770	—	—	770
Issuance of common stock for services	10,976	18	—	—	18
Shares issued under Employee Stock Purchase Plan	621	—	1	—	1
Stock-based compensation	304,686	448	—	—	448
Employee tax withholdings on stock-based compensation	(287)	—	—	—	—
Net income	—	—	—	(24,059)	(24,059)
Balance, December 31, 2022	32,291,974	$ 160,696	$ (36,238)	$ (86,305)	$ 38,153

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, 2021	30,805,300	$ 157,485	$ (36,240)	$ (63,171)	$ 58,074
Exercise of stock options for cash	24,045	101	—	—	101
Shares issued under Employee Stock Purchase Plan	496	—	3	—	3
Stock-based compensation	171,470	160	—	—	160
Employee tax withholdings on stock-based compensation	(610)	—	(4)	—	(4)
Net income	—	—	—	2,510	2,510
Balance, June 30, 2021	31,000,701	$ 157,746	$ (36,241)	$ (60,661)	$ 60,844
Exercise of stock options for cash	7,000	18	—	—	18
Shares issued under Employee Stock Purchase Plan	327	—	1	—	1
Stock-based compensation	55,896	211	—	—	211
Employee tax withholdings on stock-based compensation	(294)	—	(1)	—	(1)
Net income	—	—	—	3,659	3,659
Balance, September 30, 2021	31,063,630	$ 157,975	$ (36,241)	$ (57,002)	$ 64,732
Exercise of stock options for cash	800	2	—	—	2
Shares issued under Employee Stock Purchase Plan	355	—	1	—	1
Stock-based compensation	32,648	220	—	—	220
Employee tax withholdings on stock-based compensation	(2,745)	—	(2)	—	(2)
Net income	—	—	—	1,102	1,102
Balance, December 31, 2021	31,094,688	$ 158,197	$ (36,242)	$ (55,900)	$ 66,055

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)

	Nine Months Ended December 31,	
	2022	2021
Operating activities		
Net (loss) income	$ (29,225)	$ 7,271
Adjustments to reconcile net (loss) income to net cash (used in) provided by operating activities:		
Depreciation	974	936
Amortization of intangible assets	373	158
Stock-based compensation	1,435	591
Amortization of debt issue costs	47	46
Deferred income tax	17,804	2,340
Gain (loss) on sale of property and equipment	10	(77)
Provision for inventory reserves	407	426
Provision for bad debts	25	8
Other	150	30
Changes in operating assets and liabilities, net of acquisition:		
Accounts receivable	(431)	1,276
Revenue earned but not billed	(321)	(930)
Inventories	1,001	383
Prepaid expenses and other assets	609	(1,292)
Accounts payable	2,418	(5,231)
Accrued expenses and other	(566)	(3,651)
Deferred revenue, current and long-term	42	31
Net cash (used in) provided by operating activities	(5,248)	2,315
Investing activities		
Cash to fund acquisition, net of cash received	(5,508)	(3,697)
Cash paid for investment	—	(500)
Purchases of property and equipment	(573)	(465)
Additions to patents and licenses	(9)	(8)
Proceeds from sale of property, plant and equipment	—	122
Net cash used in investing activities	(6,090)	(4,548)
Financing activities		
Payment of long-term debt	(12)	(11)
Proceeds from revolving credit facility	5,000	—
Payments of revolving credit facility	—	—
Payments to settle employee tax withholdings on stock-based compensation	(2)	(7)
Deferred financing costs	(29)	(4)
Proceeds from employee equity exercises	57	126
Net cash provided by financing activities	5,014	104
Net decrease in cash and cash equivalents	(6,324)	(2,129)
Cash and cash equivalents at beginning of period	14,466	19,393
Cash and cash equivalents at end of period	$ 8,142	$ 17,264
Supplemental disclosure of non-cash investing and financing activities:		
Issuance of common stock in connection with acquisition	$ 770	$ —

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

NOTE 1 — DESCRIPTION OF BUSINESS

Orion includes Orion Energy Systems, Inc., a Wisconsin corporation, and all consolidated subsidiaries. Orion is a provider of energy-efficient LED lighting and controls, maintenance services and electrical vehicle (EV) charging station solutions to commercial and industrial businesses, and federal and local governments, predominantly in North America.

NOTE 2 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The consolidated financial statements include the accounts of Orion and its wholly-owned subsidiaries. All significant intercompany transactions and balances have been eliminated in consolidation.

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 statement have been included. Interim results are not necessarily indicative of results that may be expected for the fiscal year ending March 31, 2023 or other interim periods.

The Condensed Consolidated Balance Sheet as of March 31, 2022 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, 2022 filed with the SEC on June 10, 2022.

Acquisition Related Costs

Acquisition related costs includes various acquisition related costs, including legal fees, consulting and success fees, earn-out expenses, and other non-recurring integration related costs.

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, 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 primarily deposited with one financial institution. At times, deposits in this institution exceeds 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 lamps and LED components, from multiple suppliers. For the three months ended December 31, 2022, one supplier accounted for 13.3% of total cost of revenue. For the nine months ended December 31, 2022, no suppliers accounted for more than 10.0% of total cost of revenue. For the three and nine months ended December 31, 2021, no suppliers accounted for more than 10.0% of total cost of revenue.

For the three and nine months ended December 31, 2022, one customer accounted for 18.2% and 16.1% of total revenue, respectively. For the three and nine months ended December 31, 2021, one customer accounted for 48.6% and 53.0% of total revenue, respectively.

As of December 31, 2022, one customer accounted for 12.3% of accounts receivable, respectively. As of March 31, 2022, two customers accounted for 11.8% and 10.4% 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 October 2021, the FASB issued ASU No. 2021-08, Business Combinations (Topic 805): Accounting for Contract Assets and Contract Liabilities from Contracts with Customers (“ASU 2021-08”), which requires an entity to use the guidance in ASC 606, Revenue from Contracts with Customers, rather than using fair value, when recognizing and measuring contract assets and contract liabilities related to customer contracts assumed in a business combination. The provisions of ASU 2021-08 are effective for Orion for fiscal years (and interim reporting periods within those years) beginning after December 15, 2022. Orion is currently evaluating the impact of adoption of this standard on its consolidated balance sheet.

NOTE 3 — REVENUE

Orion generates revenue primarily by selling manufactured or sourced commercial lighting fixtures and components, sourced electric vehicle chargers and related products, installing these products in customer’s facilities, and providing maintenance services including repairs and replacements for the lighting and related electrical components. Orion recognizes revenue in accordance with the guidance in “Revenue from Contracts with Customers” (Topic 606) (“ASC 606”) when control of the goods or services being provided (which we refer to as a performance obligation) is transferred to a customer at an amount that reflects the consideration Orion expects to receive in exchange for those goods or services.

During the third quarter of fiscal 2023, Orion acquired Voltrek LLC ("Voltrek"), which sells and installs sourced electric vehicle charging stations and related software subscriptions and renewals. The results of Voltrek are included in the Orion EV segment and compliment Orion’s existing turnkey installation model.

The sale of charging stations and related software subscriptions and renewals is presented in Product revenue. Orion is the principal in the sales of charging stations as it has control of the physical products prior to transfer to the customer. Accordingly, revenue is recognized on a gross basis. For certain sales, primarily software subscriptions and renewals, Orion is the sales agent providing access to the content and recognize commission revenue net of amounts due to third parties who fulfill the performance obligation. For these sales, control passes at the point in time upon providing access of the content to the customer.

The sale of installation and services related to the EV charging business is presented in Service revenue. Revenue from the EV segment that includes both the sale of product and service is allocated between the product and service performance obligations based on relative standalone selling prices, and is recorded in Product revenue and Service revenue, respectively, in the Condensed Consolidated Statement of Operations.

During the fourth quarter of fiscal 2022, Orion acquired Stay-Lite Lighting, Inc. ("Stay-Lite Lighting"), which provides lighting and electrical maintenance services. The results of Stay-Lite Lighting are included in the Orion Services Group segment and accelerate the growth of Orion's maintenance services customer offering. The disaggregated revenue table provides total revenue from the maintenance services offering.

Revenue from the maintenance offering that includes both the sale of Orion manufactured or sourced product and service is allocated between the product and service performance obligations based on relative standalone selling prices, and is recorded in Product revenue and Service revenue, respectively, in the Condensed Consolidated Statement of Operations.

The following tables provide detail of Orion's total revenue for the three and nine months ended December 31, 2022 and December 31, 2021 (dollars in thousands):

	Three Months Ended December 31, 2022			Nine Months Ended December 31, 2022		
	Product	Services	Total	Product	Services	Total
Revenue from contracts with customers:						
Lighting product and installation	$ 11,543	$ 1,679	$ 13,222	$ 36,006	$ 5,073	$ 41,079
Maintenance services	772	2,534	3,306	2,516	8,290	10,806
Electric vehicle charging	2,154	676	2,830	2,154	676	2,830
Total revenues from contracts with customers	14,469	4,889	19,358	40,676	14,039	54,715
Revenue accounted for under other guidance	930	—	930	1,039	—	1,039
Total revenue	$ 15,399	$ 4,889	$ 20,288	$ 41,715	$ 14,039	$ 55,754

	Three Months Ended December 31, 2021			Nine Months Ended December 31, 2021		
	Product	Services	Total	Product	Services	Total
Revenue from contracts with customers:						
Lighting product and installation	$ 21,829	$ 7,699	$ 29,528	$ 76,704	$ 22,665	$ 99,369
Maintenance services	200	812	1,012	268	1,400	1,668
Solar energy related revenues	8	—	8	36	—	36
Total revenues from contracts with customers	22,037	8,511	30,548	77,008	24,065	101,073
Revenue accounted for under other guidance	166	—	166	1,252	—	1,252
Total revenue	$ 22,203	$ 8,511	$ 30,714	$ 78,260	$ 24,065	$ 102,325

From time to time, Orion sells the receivables from one customer to a financing institution. The was no such activity during the three and nine months ended December 31, 2022. The total amount received from the sales of these receivables during the three and nine months ended December 31, 2021 was $0 and $2.4 million, respectively. Orion's losses on these sales were $9 thousand and $8 thousand, for the three and nine months ended December 31, 2021, respectively, and are included in Interest expense in the Condensed Consolidated Statement of Operations.

The following chart shows the balance of Orion's receivables arising from contracts with customers, contract assets and contract liabilities as of December 31, 2022 and March 31, 2022 (dollars in thousands):

	December 31, 2022	March 31, 2022
Accounts receivable, net	$ 13,688	$ 11,899
Contract assets	$ 2,187	$ 1,966
Contract liabilities	$ 99	$ —

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 4 — ACCOUNTS RECEIVABLE, NET

As of December 31, 2022 and March 31, 2022, Orion's accounts receivable and allowance for doubtful accounts balances were as follows (dollars in thousands):

	December 31, 2022	March 31, 2022
Accounts receivable, gross	$ 13,744	$ 11,907
Allowance for doubtful accounts	(56)	(8)
Accounts receivable, net	$ 13,688	$ 11,899

NOTE 5 — INVENTORIES, NET

As of December 31, 2022 and March 31, 2022, Orion's inventory balances were as follows (dollars in thousands):

	Cost	Excess and Obsolescence Reserve	Net
As of December 31, 2022			
Raw materials and components	$ 10,456	$ (943)	$ 9,513
Work in process	1,128	(131)	997
Finished goods	9,377	(582)	8,795
Total	$ 20,961	$ (1,656)	$ 19,305
As of March 31, 2022			
Raw materials and components	$ 10,781	$ (1,140)	$ 9,641
Work in process	1,529	(267)	1,262
Finished goods	9,593	(664)	8,929
Total	$ 21,903	$ (2,071)	$ 19,832

NOTE 6 — PREPAID EXPENSES AND OTHER CURRENT ASSETS

As of December 31, 2022 and March 31, 2022, prepaid expenses and other current assets include the following (dollars in thousands):

	December 31, 2022	March 31, 2022
Payroll tax credit	$ 1,587	$ 1,587
Other prepaid expenses	760	1,044
Total	$ 2,347	$ 2,631

NOTE 7 — PROPERTY AND EQUIPMENT, NET

As of December 31, 2022 and March 31, 2022, property and equipment, net, included the following (dollars in thousands):

	December 31, 2022	March 31, 2022
Land and land improvements	$ 433	$ 433
Buildings and building improvements	9,491	9,491
Furniture, fixtures and office equipment	7,772	7,650
Leasehold improvements	540	490
Equipment leased to customers	4,997	4,997
Plant equipment	11,212	11,130
Vehicles	617	796
Construction in Progress	2	3
Gross property and equipment	35,064	34,990
Less: accumulated depreciation	(24,385)	(23,524)
Total property and equipment, net	$ 10,679	$ 11,466

As of December 31, 2022, due to a change in Orion's forecast, a triggering event occurred requiring Orion to evaluate the long-lived assets in its enterprise asset group for impairment. The enterprise asset group includes the corporate assets that support the revenue producing activities of other asset groups. Orion performed the recoverability test for the asset group by comparing its carrying value to the group’s expected future undiscounted cash flows. Orion concluded that the undiscounted cash flows of the long-lived asset group exceeded its carrying value. As such the asset group was deemed recoverable and no impairment was recorded.

NOTE 8 — LEASES

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

Orion accounts for leases in accordance with ASC 842. 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. 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.

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

	Balance sheet classification	December 31, 2022	March 31, 2022
Assets			
Operating lease assets	Other long-term assets	$ 2,366	$ 2,440
Liabilities			
Current liabilities			
Operating lease liabilities	Accrued expenses and other	$ 830	$ 768
Non-current liabilities			
Operating lease liabilities	Other long-term liabilities	2,038	2,271
Total lease liabilities		$ 2,868	$ 3,039

Orion had operating lease costs of $0.4 million and $1.2 million for the three and nine months ended December 31, 2022. Orion had operating lease costs of $0.2 million and $0.7 million for the three and nine months ended December 31, 2021.

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 2023	$	255
Fiscal 2024		957
Fiscal 2025		949
Fiscal 2026		845
Fiscal 2027		142
Total lease payments	$	3,148
Less: Interest		(280)
Present value of lease liabilities	$	2,868

Assets Orion Leases to Other Parties

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 under ASC 842. 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.

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.

The following chart shows the amount of revenue and cost of sales arising from sales-type leases during the three and nine months ended December 31, 2022 and December 31, 2021 (dollars in thousands):

	Three Months Ended December 31,				**Nine Months Ended December 31,**			
	2022		**2021**		**2022**		**2021**	
Product revenue	$	936	$	342	$	911	$	993
Cost of product revenue		927	$	306		927	$	889

NOTE 9 — GOODWILL AND OTHER INTANGIBLE ASSETS, NET

Orion has $0.9 million of goodwill related to its purchase of Voltrek in the third quarter of fiscal 2023, which has an indefinite life, and is assigned to the EV Charging operating segment.

Orion has $0.6 million of goodwill related to its purchase of Stay-Light Lighting during fiscal year 2022, which has an indefinite life, and is assigned to the Orion Services Group operating segment. Goodwill related to the Stay-Light Lighting acquisition increased by $0.2 million to $0.6 million as compared to March 31, 2022. This increase was due to updates to purchase accounting within the measurement period.

See Note 18 – Acquisition for further discussion of the Stay-Lite Lighting and Voltrek acquisitions.

As of December 31, 2022 and March 31, 2022, the components of, and changes in, the carrying amount of other intangible assets, net, were as follows (dollars in thousands):

	December 31, 2022			March 31, 2022		
	Gross Carrying Amount	Accumulated Amortization	Net	Gross Carrying Amount	Accumulated Amortization	Net
Amortized Intangible Assets						
Patents	$ 2,521	$ (1,905)	$ 616	$ 2,652	$ (1,932)	$ 720
Licenses	58	(58)	—	58	(58)	—
Trade name and trademarks	564	(52)	512	118	(6)	112
Customer relationships	5,609	(3,784)	1,825	4,178	(3,618)	560
Vendor Relationship	2,300	(79)	2,221	—	—	—
Developed technology	900	(900)	—	900	(900)	—
Total Amortized Intangible Assets	$ 11,952	$ (6,778)	$ 5,174	$ 7,906	$ (6,514)	$ 1,392
Indefinite-lived Intangible Assets						
Trade name and trademarks	$ 1,010	$ —	$ 1,010	$ 1,012	$ —	$ 1,012
Total Non-Amortized Intangible Assets	$ 1,010	$ —	$ 1,010	$ 1,012	$ —	$ 1,012

Amortization expense on intangible assets was $0.3 million and $0.4 million for the three and nine months ended December 31, 2022, respectively.

Amortization expense on intangible assets was $0.1 million and $0.2 million for the three and nine months ended December 31, 2021, respectively.

As of December 31, 2022, the weighted average remaining useful life of intangible assets was 5.7 years.

The estimated amortization expense for the remainder of fiscal 2023, the next five fiscal years and beyond is shown below (dollars in thousands):

Fiscal 2023 (period remaining)	$ 277
Fiscal 2024	1,105
Fiscal 2025	1,096
Fiscal 2026	842
Fiscal 2027	566
Fiscal 2028	486
Thereafter	802
Total	$ 5,174

NOTE 10 — ACCRUED EXPENSES AND OTHER

As of December 31, 2022 and March 31, 2022, accrued expenses and other included the following (dollars in thousands):

	December 31, 2022	March 31, 2022
Accrued earnout	$ 1,750	—
Other accruals	1,633	$ 2,221
Compensation and benefits	1,552	1,668
Credits due to customers	1,399	1,209
Accrued project costs	852	2,215
Warranty	482	728
Sales returns reserve	400	123
Sales tax	239	157
Legal and professional fees	108	106
Total	$ 8,415	$ 8,427

Accrued earnout is related to recent acquisitions. Refer to discussion of acquisitions at Note 18 - Acquisitions.

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, power supplies, 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 December 31,		For the Nine Months Ended December 31,	
	2022	2021	2022	2021
Beginning of period	$ 698	$ 1,014	$ 860	$ 1,009
Accruals	75	123	271	328
Warranty claims (net of vendor reimbursements)	(149)	(186)	(507)	(386)
End of period	$ 624	$ 951	$ 624	$ 951

NOTE 11 — NET (LOSS) INCOME PER COMMON SHARE

Basic net income per common share is computed by dividing net income attributable to common shareholders by the weighted-average number of common shares outstanding for the period and does not consider common stock equivalents.

Diluted net income per common share reflects the dilution that would occur if stock options were exercised and restricted shares vested. In the computation of diluted net income per common share, Orion uses the treasury stock method for outstanding options and restricted shares. For the three and nine months ended December 31, 2022, 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. Net income per common share is calculated based upon the following shares:

	For the Three Months Ended December 31,		For the Nine Months Ended December 31,	
	2022	2021	2022	2021
Numerator:				
Net (loss) income (in thousands)	$ (24,059)	$ 1,102	$ (29,225)	$ 7,271
Denominator:				
Weighted-average common shares outstanding	32,047,755	31,084,710	31,510,547	30,992,475
Weighted-average common shares and common share equivalents outstanding	32,047,755	31,234,925	31,510,547	31,273,703
Net (loss) income per common share:				
Basic	$ (0.75)	$ 0.04	$ (0.93)	$ 0.23
Diluted	$ (0.75)	$ 0.04	$ (0.93)	$ 0.23

The following table indicates the number of potentially dilutive securities excluded from the calculation of Diluted net income per common share because their inclusion would have been anti-dilutive. The number of shares is as of the end of each period:

	For the Three Months Ended December 31,		For the Nine Months Ended December 31,	
	2022	2021	2022	2021
Common stock options	—	—	—	—
Restricted shares	—	203,636	—	17,803
Total	—	203,636	—	17,803

NOTE 12 — LONG-TERM DEBT

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

	December 31, 2022	March 31, 2022
Revolving credit facility	$ 5,000	$ —
Equipment debt obligations	23	35
Total long-term debt	5,023	35
Less current maturities	(16)	(16)
Long-term debt, less current maturities	$ 5,007	$ 19

Revolving Credit Agreement

On December 29, 2020, Orion entered into a new $25 million Loan and Security Agreement with Bank of America, N.A., as lender (the "Credit Agreement"). The Credit Agreement replaced Orion's prior $20.15 million secured revolving credit and security agreement (the "Prior Credit Agreement").

The replacement of the Prior Credit Agreement with the Credit Agreement provides Orion with increased financing capacity and liquidity to fund its operations and implement its strategic plans.

The Credit Agreement provides for a five-year $25.0 million revolving credit facility (the "Credit Facility") that matures on December 29, 2025. Borrowings under the Credit Facility are subject to a borrowing base requirement based on eligible receivables, inventory and cash. As of December 31, 2022, the borrowing base supported $16.3 million of availability under the Credit Facility. As of December 31, 2022, $5.0 million was borrowed under the Credit Facility.

Effective November 4, 2022, Orion, with Bank of America, N.A. as lender, executed Amendment No. 1 to its Credit Agreement. The primary purpose of the amendment was to include the assets of the acquired subsidiaries, Stay-Lite Lighting and Voltrek, as secured collateral under the Credit Agreement. Accordingly, eligible assets of Stay-Lite and Voltrek will be included in the borrowing base calculation for the purpose of establishing the monthly borrowing availability under the Credit Agreement. The amendment also clarifies that the earnout liabilities associated with the Stay-Lite and Voltrek transactions are permitted under the Credit Agreement and that the expenses recognized in connection with those earnouts should be added back in the computation of EBITDA, as defined, under the Credit Agreement.

As of December 31, 2022, Orion was in compliance with all debt covenants.

Equipment Debt Obligations

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% per annum, respectively, and both debts mature in January 2024.

NOTE 13 — 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 months ended December 31, 2022 and 2021, Orion recorded income tax expense of $19.4 million and $0.2 million, respectively, using this methodology. For the nine months ended December 31, 2022 and 2021, Orion recorded income tax expense of $17.9 million and $2.4 million, respectively, using this methodology. The increase in the Company's tax expense relates primarily to a non-cash charge of $17.8 million in relation to recording a valuation allowance associated with the Company's domestic federal and state deferred tax assets.

As of December 31, 2022 and March 31, 2022, Orion has a recorded valuation allowance of $19.1 million and $1.2 million, respectively, against its net deferred tax asset balance. The accounting forecasts, as revised in the current quarter, projects losses in the near term. Orion now projects a 36-month cumulative loss starting from fiscal year 2023. As such, Orion management has concluded that it is more likely than not that the domestic deferred tax assets will not be realized and an increase to the valuation allowance has been recorded in the third quarter, which increased tax expense by $17.8 million.

As of each reporting date, management considers new evidence, both positive and negative, that could affect its view of the future realization of 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 more or less of its deferred tax assets are able to be realized, an adjustment to the valuation allowance would be reflected in the company's provision for income taxes.

Uncertain Tax Positions

As of December 31, 2022, Orion's balance of gross unrecognized tax benefits was approximately $0.2 million, all 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 (benefit) expense. Penalties and interest are included in the unrecognized tax benefits.

NOTE 14 — 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 year 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. This sales and use tax audit was settled during the quarter ended June 30, 2022 with no tax adjustment.

NOTE 15 — SHAREHOLDERS' EQUITY

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 December 31, 2022, Orion issued 621shares under the ESPP plan at a closing market price of $1.82.

	Shares Issued Under ESPP Plan	Closing Market Price
Quarter Ended June 30, 2022	443	2.01
Quarter Ended September 30, 2022	648	1.56
Quarter Ended December 31, 2022	621	1.82
Total issued in fiscal 2022	1,712	$ 1.56 - 2.01

Sale of shares

In March 2020, Orion filed a universal shelf registration statement with the Securities and Exchange Commission. Under the shelf registration statement, Orion currently has the flexibility to publicly offer and sell from time to time up to $100 million of debt and/or equity securities. The filing of the shelf registration statement may help facilitate Orion's ability to raise public equity or debt capital to expand existing businesses, fund potential acquisitions, invest in other growth opportunities, repay existing debt, or for other general corporate purposes.

In March 2021, Orion entered into an At Market Issuance Sales Agreement to undertake an "at the market" (ATM) public equity capital raising program pursuant to which Orion may offer and sell shares of common stock from time to time, having an aggregate offering price of up to $50 million. No share sales have been effected pursuant to the ATM program through December 31, 2022.

NOTE 16 — 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"). 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 December 31,		For the Nine Months Ended December 31,	
	2022	2021	2022	2021
Cost of product revenue	$ 2	$ 1	$ 3	$ 4
General and administrative	444	214	1,425	574
Sales and marketing	0	3	4	10
Research and development	2	1	3	3
Total	$ 448	$ 219	$ 1,435	$ 591

During the first three months of fiscal 2022, Orion had the following activity related to its stock-based compensation:

	Restricted Shares	Stock Options
Awards outstanding at March 31, 2022	450,458	142,428
Awards granted	806,738	—
Awards vested or exercised	(535,622)	(26,646)
Awards forfeited	(23,120)	(30,646)
Awards outstanding at December 31, 2022	698,454	85,136
Per share weighted average price on grant date	$ 2.18	—

As of December 31, 2022, the amount of deferred stock-based compensation expense to be recognized, over a remaining period of 2.9 years, was approximately $1.3 million.

NOTE 17 — SEGMENTS

Orion has historically reported the following business segments: Orion Services Group Division ("OSG"), Orion Distribution Services Division ("ODS"), and Orion U.S. Markets Division ("USM"). With Orion’s acquisition of Voltrek on October 5, 2022, Orion has now added a fourth reporting segment, Orion Electric Vehicle Charging Division (“EV”). The accounting policies are the same for each business segment as they are on a consolidated basis.

Orion Services Group Division

The OSG segment develops and sells lighting products and provides construction, engineering along with installation and maintenance services for Orion's commercial lighting and energy management systems. OSG 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 contractors and energy service companies ("ESCOs").

Orion Electric Vehicle Charging Division

The EV segment offers leading electric vehicle charging expertise and provides turnkey solutions with ongoing support to all commercial verticals.

Corporate and Other

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

	Revenues		Operating Income (Loss)	
	For the Three Months Ended December 31,		For the Three Months Ended December 31,	
	2022	2021	2022	2021
Segments:				
Orion Services Group	$ 8,623	$ 20,021	$ (1,858)	$ 970
Orion Distribution Services	3,711	4,942	(77)	491
Orion U.S. Markets	5,124	5,751	532	1,250
Orion Electric Vehicle Charging	2,830	—	(1,500)	—
Corporate and Other	—	—	(1,685)	(1,379)
	$ 20,288	$ 30,714	$ (4,588)	$ 1,332

	Revenues		Operating Income (Loss)	
	For the Nine Months Ended December 31,		For the Nine Months Ended December 31,	
	2022	2021	2022	2021
Segments:				
Orion Services Group	$ 27,405	$ 68,961	$ (5,630)	$ 7,115
Orion Distribution Services	12,846	18,264	6	3,173
Orion U.S. Markets	12,673	15,100	1,028	3,198
Orion Electric Vehicle Charging	2,830	—	(1,500)	—
Corporate and Other	—	—	(5,052)	(3,705)
	$ 55,754	$ 102,325	$ (11,148)	$ 9,781

NOTE 18 — ACQUISITION

Acquisition of Voltrek

Effective on October 5, 2022, Orion acquired all the membership interests of Voltrek, an electric vehicle charging station solutions provider for a purchase price of $5.0 million in cash and $1.0 million of shares of common stock of Orion, subject to normal and customary closing adjustments (the "Voltrek Acquisition"). In addition, depending upon the relative EBITDA growth of Voltrek's business in fiscal 2023, 2024 and 2025, Orion could pay up to an additional $3.0 million, $3.5 million and $7.15 million, respectively, in earnout payments. These compensatory payments do not fall within the scope of ASC 805, Business Combinations, and will be expensed over the course of the earnout periods to the extent they are earned. The Voltrek Acquisition was funded from existing cash resources and Orion shares. Voltrek will operate as Voltrek, an Orion Energy Systems business. The Voltrek Acquisition leverages Orion's project management and maintenance expertise into a rapidly growing sector.

Orion has accounted for the Voltrek Acquisition as a business combination. Orion has preliminarily allocated the purchase price of approximately $6.7 million to the assets acquired and liabilities assumed at estimated fair values, and the excess of the purchase price over the aggregate fair values is recorded as goodwill. The purchase price was paid in cash and 620,067 shares of common stock with a total market value of $1.0 million, which is recorded in the opening balance sheet at fair value of $0.8 million, the discount on which is due to lock-up requirements on the shares.

Cash	$ 416
Accounts receivable	1,438
Revenue earned but not billed	365
Inventory	880
Prepaid expenses and other current assets	39
Property and equipment	4
Goodwill	861
Other intangible assets	4,200
Other long-term assets	211
Accounts payable	(1,199)
Accrued expenses and other	(286)
Other long-term liabilities	(180)
Net purchase consideration	$ 6,749

Goodwill recorded from the Voltrek Acquisition is attributable to the skillset of the acquired workforce. The goodwill resulting from the Voltrek Acquisition is expected to be deductible for tax purposes. The intangible assets include amounts recognized for the fair value of the trade name, vendor relationship and customer relationships.

The tradename intangible asset was valued using a relief from royalty method. The significant assumptions used include the estimated revenue and royalty rate, among other factors.

The vendor relationship intangible asset was valued using the income approach – excess earnings method. The significant assumptions include estimated revenue, cost of goods sold, and probability of renewal, among other factors.

The customer relationship intangible asset was valued using the income approach – with-and-without method. The significant assumptions include estimated cash flows (including appropriate revenue, cost of revenue and operating expenses attributable to the asset, retention rate, among other factors), and discount rate, reflecting the risks inherent in the future cash flow stream, among other factors.

The categorization of the framework used to measure fair value of the intangible assets is considered to be within the Level 3 valuation hierarchy due to the subjective nature of the unobservable inputs used.

The following table presents the details of the intangible assets acquired at the date of Voltrek Acquisition (dollars in thousands):

	Estimated Fair Value	Estimated Useful Life (Years)
Tradename	$ 400	5
Vendor relationship	2,300	7
Customer relationships	1,500	3

Voltrek's post-acquisition results of operations since October 5, 2022 are included in Orion's Consolidated Statements of Operations. The operating results of Voltrek are included in the EV segment. See note 17 – Segments, for results.

Acquisition of Stay-Lite Lighting

Effective on January 1, 2022, Orion acquired all of the issued and outstanding capital stock of Stay-Lite Lighting, a nationwide lighting and electrical maintenance service provider, for $4.3 million (the "Stay-Lite Acquisition"). Stay-Lite Lighting operates as Stay-Lite Lighting, an Orion Energy Systems business. The Stay-Lite Acquisition accelerates the growth of Orion's maintenance services offerings through its Orion Services Group, which provides lighting and electrical services to customers.

Orion has accounted for this transaction as a business combination. Orion has allocated the purchase price of approximately $4.3 million, which includes an estimate of the earn-out liability of $0.2 million and $0.1 million for the working capital adjustment received in the first quarter fiscal 2023, to the assets acquired and liabilities assumed at estimated fair values, and the excess of the purchase price over the aggregate fair values is recorded as goodwill. Orion could pay up to $0.7 million in earnout related purchase price, which is based on performance during the current and following calendar years. Any accretion of the earnout liability above $0.2 million recorded as part of the opening balance sheet will be recognized as expense in the Consolidated Statement of Operations.

The allocation of the purchase consideration to the fair value of the assets acquired and liabilities assumed as of January 1, 2022, is as follows (dollars in thousands):

Cash	$ 95
Accounts receivable	2,690
Revenue earned but not billed	342
Inventory	504
Prepaid expenses and other current assets	41
Property and equipment	725
Goodwill	564
Other intangible assets	673
Other long-term assets	537
Accounts payable	(965)
Accrued expenses and other	(492)
Other long-term liabilities	(411)
Net purchase consideration	$ 4,303

Goodwill recorded from the Stay-Lite Acquisition is attributable to the expected synergies from the business combination. The goodwill resulting from the Stay-Lite Acquisition is deductible for tax purposes. The intangible assets include amounts recognized for the fair value of the trade name and customer relationships. The fair value of the intangible assets was determined based upon the income (discounted cash flow) approach.

The following table presents the details of the intangible assets acquired at the date of Stay-Lite Acquisition (dollars in thousands):

	Estimated Fair Value	Estimated Useful Life (Years)
Tradename	$ 164	5
Customer relationships	509	8

Stay-Lite Lighting's post-acquisition results of operations since January 1, 2022 are included in Orion's Consolidated Statements of Operations. The operating results of Stay-Lite Lighting are included in the Orion Services Group segment.

If Voltrek was acquired on April 1, 2022, the pro forma Orion revenue for the nine-month period ended on December 31, 2022 would have been $58.2 million and proforma net loss would have been $(28.9) million. If both Stay-Lighting and Voltrek had been acquired as of April 1, 2021, Orion full year fiscal 2022 revenue would have been $134.9 million and net income would have been $5.8 million.

The pro forma information was determined based on the historical results of Orion and unaudited financial results from Stay-Lite Lighting and Voltrek. These proforma results reflect additional depreciation and amortization that would have been charged assuming the fair value adjustments to property, plant, and equipment and intangible asset occurred at the beginning of the period, along with consequential tax effects. The unaudited pro forma results have been prepared for comparative purposes only and are not necessarily indicative of what would have occurred had the business combinations been completed at the beginning of the period or the results that may occur in the future. Furthermore, the unaudited pro forma financial information does not reflect the impact of any synergies resulting from the acquisitions.

Transaction costs related to the Stay-Lite Acquisition and the Voltrek Acquisition are recorded in acquisition costs in the Consolidated Statements of Operations. Transaction costs totaled $0.2 million in the three and nine months ending December 31, 2021 and $0.5 million and $0.8 million in the three and nine months ended December 31, 2022, respectively.

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, 2022.

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 several 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, 2022. 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 energy-efficient LED lighting and controls, maintenance services and electrical vehicle (EV) charging station solutions. We help our customers achieve their sustainability, energy savings and carbon footprint reduction goals through innovative technology and exceptional service. 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 LED 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. Our services consist of turnkey installation and system maintenance. Virtually all our sales occur within North America.

Our lighting products consist primarily of 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, most 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 differentiate ourselves from our competitors through offering 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. In addition, we began to offer lighting and electrical maintenance services in fiscal 2021 which enables us to support a lifetime business relationship with our customer. We completed the acquisition of Stay-Lite Lighting on January 1, 2022, which is intended to further expand our maintenance services capabilities. On October 5, 2022, we acquired Voltrek, which is intended to leverage our project management and maintenance expertise into the rapidly growing EV sector.

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 2022, we continued 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, as we continued a very large project for a major national account which was substantially complete by the end of the fiscal year. 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, like our acquisition of Stay-Lite Lighting and Voltrek, which would more quickly add these types of expanded and different capabilities to our product and services offerings. It is possible that the acquisitions of Stay-Lite Lighting and Voltrek, or other 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 for product or turnkey services that provide us with recurring annual revenue. However, some of our maintenance services contracts consist of multi-year arrangements. We typically generate substantially all 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 a 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. 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 margins 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. Our current fiscal year ends on March 31, 2023 and is referred to as “fiscal 2023”. We refer to our just completed fiscal year, which ended on March 31, 2022, as "fiscal 2022", and our prior fiscal year which ended on March 31, 2021 as "fiscal 2021". 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 Services Group Division ("OSG"), and Orion Distribution Services Division ("ODS"), and Orion U.S. Markets Division (“USM”). With our acquisition of Voltrek on October 5, 2022, we have now added a fourth reporting segment, Orion Electric Vehicle Charging Division (“EV”).

Acquisitions

Acquisition of Voltrek

Effective on October 5, 2022, we acquired all the membership interests of Voltrek, an electric vehicle charging station solutions provider, for a purchase price of $5.0 million in cash and $1.0 million of shares of common stock of Orion, subject to normal and customary closing adjustments. In addition, depending upon the relative EBITDA growth of Voltrek's business in fiscal 2023, 2024 and 2025, we could pay up to an additional $3.0 million, $3.5 million and $7.15 million, respectively, in earnout payments. Those compensatory payments do not fall within the scope of ASC 805, Business Combinations, and will be expensed over the course of the earnout periods to the extent they are earned. The acquisition was funded from existing cash resources and our common stock. Voltrek will operate as Voltrek, an Orion Energy Systems business. The acquisition leverages our project management and maintenance expertise into the rapidly growing EV sector.

Acquisition of Stay-Lite Lighting

Effective on January 1, 2022, we acquired all of the issued and outstanding capital stock of Stay-Lite Lighting, a nationwide lighting and electrical maintenance service provider, for a cash purchase price of $4.0 million. In addition, depending upon Stay-Lite Lighting's performance during the current and following calendar years, Orion could pay up to an additional $0.7 million in earn out related purchase price. The acquisition was funded from existing cash resources. Stay-Lite Lighting operates as Stay-Lite, an Orion Energy Systems business. The acquisition accelerates the growth of our maintenance services offerings through our Orion Services Group, which provides lighting and electrical services to customers.

Recent Developments

During the fourth quarter of fiscal 2022, we substantially completed a significant project rollout for our large national retail customer. As expected, during fiscal 2023, we continue to support this customer, but at substantially lower revenue levels than in the comparative prior year. Despite the anticipated $50 million decrease in business from our largest customer and an online retailer in the first nine months of fiscal 2023, the remainder of our business has grown by approximately 9% over the year-ago period. Our fiscal 2023 third quarter results reflect the continuation of delays in the initiation of certain large customer projects, as well as slower than expected activity in our electrical contractor distribution channel. While we believe our long-term growth prospects remain very favorable, current business and economic challenges could continue to impact the pace of projects, as well as new product and service opportunities. Our new EV segment is off to an excellent start and should exceed our expectations for the second half of fiscal 2023. This helps confirm that the investments we are making to diversify our business are paying off. We expect our maintenance business, with its recurring revenues, and EV business to accelerate as we fully activate cross-selling activities, we believe they will represent a significant portion of our revenue in fiscal 2024.

Results of Operations - Three Months Ended December 31, 2022 versus Three Months Ended December 31, 2021

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 December 31,				
	2022	2021		2022	2021
	Amount	Amount	% Change	% of Revenue	% of Revenue
Product revenue	$ 15,399	$ 22,203	(30.6)%	75.9%	72.3%
Service revenue	4,889	8,511	(42.6)%	24.1%	27.7%
Total revenue	20,288	30,714	(33.9)%	100.0%	100.0%
Cost of product revenue	11,480	16,427	(30.1)%	56.6%	53.5%
Cost of service revenue	4,027	6,646	(39.4)%	19.8%	21.6%
Total cost of revenue	15,507	23,073	(32.8)%	76.4%	75.1%
Gross profit	4,781	7,641	(37.4)%	23.6%	24.9%
General and administrative expenses	3,984	2,873	38.7%	19.6%	9.4%
Acquisition costs	1,993	178	1019.7%	9.8%	1.1%
Sales and marketing expenses	2,983	2,862	4.2%	14.7%	9.3%
Research and development expenses	409	396	3.3%	2.0%	1.3%
(Loss) income from operations	(4,588)	1,332	NM	(22.6)%	4.3%
Interest expense	(64)	(26)	146.2%	(0.3)%	(0.1)%
Amortization of debt issue costs	(16)	(15)	6.7%	(0.1)%	(0.0)%
(Loss) income before income tax	(4,668)	1,291	NM	(23.0)%	4.2%
Income tax (benefit) expense	19,391	189	NM	95.6%	0.6%
Net (loss) income	$ (24,059)	$ 1,102	NM	(118.6)%	3.6%

* NM - Not Meaningful

Revenue, Cost of Revenue and Gross Margin. Product revenue decreased 30.6%, or $6.8 million, for the third quarter of fiscal 2023 versus the third quarter of fiscal 2022. Service revenue decreased 42.6%, or $3.6 million, for the third quarter of fiscal 2023 versus the third quarter of fiscal 2022. The decrease in product and service revenue was due to the expected significantly lower revenues from our largest customer and comparatively lower project volume from other customers. The revenue from our existing large national retail customer represented 18.2% of total revenue in the third quarter of fiscal 2023 compared to 48.6% in the third quarter of fiscal 2022. The decrease in the third quarter revenue was partially offset by revenues due to the acquisitions of Stay-Lite Lighting and Voltrek. Cost of product revenue decreased by 30.1%, or $4.9 million, in the third quarter of fiscal 2023 versus the comparable period in fiscal 2022. Cost of service revenue decreased by 39.4%, or $2.6 million, in the third quarter of fiscal 2023 versus the comparable period in fiscal 2022. The decrease in product and service costs was primarily due to the decrease in revenue. Gross margin decreased from 24.9% of revenue in the third quarter of fiscal 2022 to 23.6% in the third quarter of fiscal 2023, due primarily to reduced sales decreasing the absorption of fixed costs.

Operating Expenses

General and Administrative. General and administrative expenses increased 38.7%, or $1.1 million, in the third quarter of fiscal 2023 compared to the third quarter of fiscal 2022. This comparative increase was primarily due to the acquisitions of Stay-Lite Lighting and Voltrek and an acceleration of stock-based compensation expense due to retirement-related modifications of existing restricted stock awards.

Acquisition Costs. Acquisition expenses increased $1.8 million in the third quarter of fiscal 2023 compared to the third quarter of fiscal 2022. This comparative increase was primarily due to the earnout expense of $1.5 million related to the acquisition of Voltrek.

Sales and Marketing. Sales and marketing expenses increased 4.2%, or $0.1 million, in the third quarter of fiscal 2023 compared to the third quarter of fiscal 2022, reflecting a reduction in commission expense on lower sales, partially offset by costs of the acquired businesses which were not in the prior period.

Research and Development. Research and development expenses were relatively flat, in the third quarter of fiscal 2023 compared to the third quarter of fiscal 2022.

Income Taxes. Based on our recent financial results and near-term expectations, a non-cash tax charge of $17.8 million has been recorded as a result of the conclusion that it is more likely than not that the domestic deferred tax assets will not be realized.

Orion Services Group Division

Our OSG segment develops and sells lighting products and provides construction, engineering along with installation and maintenance services for our commercial lighting and energy management systems. OSG 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 OSG segment operating results (dollars in thousands):

	Three Months Ended December 31,		
	2022	2021	% Change
Revenues	$ 8,623	$ 20,021	(56.9)%
Operating (loss) income	$ (1,858)	$ 970	NM
Operating margin	(21.5)%	4.8%	

* NM - Not Meaningful

OSG segment revenue in the third quarter of fiscal 2023 decreased by 56.9%, or $11.4 million compared to the third quarter of fiscal 2022. The decrease in OSG segment revenue was due to a significant reduction of project volume from our largest customer and comparatively lower project volume from other customers. This revenue decrease was partially offset by the added revenue from Stay-Lite Lighting. This decrease led to a corresponding operating loss in this segment, as a result of decreased absorption of fixed costs.

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 December 31,		
	2022	2021	% Change
Revenues	$ 3,711	$ 4,942	(24.9)%
Operating (loss) income	$ (77)	$ 491	NM
Operating margin	(2.1)%	9.9%	

* NM - Not Meaningful

ODS segment revenue in the third quarter of fiscal 2023 decreased by 24.9%, or $1.2 million, compared to the third quarter of fiscal 2022, primarily due to a decrease in sales to one customer. Operating income in this segment decreased as a result of increased allocation of corporate costs.

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 December 31,		
	2022	2021	% Change
Revenues	$ 5,124	$ 5,751	(10.9)%
Operating income	$ 532	$ 1,250	(57.4)%
Operating margin	10.4 %	21.7 %	

USM segment revenue in the third quarter of fiscal 2023 decreased by 10.9%, or $0.6 million, compared to the third quarter of fiscal 2022, primarily due to a less diversified customer base. Operating income in this segment decreased as a result of lower revenue and increased allocation of corporate costs.

Orion Electric Vehicle Division

With the acquisition of Voltrek on October 5, 2022, our new EV segment offers leading electric vehicle charging expertise and provides turnkey solutions with ongoing support to all commercial verticals.

The following table summarizes our EV segment operations results (dollars in thousands):

	Three Months Ended December 31,		
	2022	2021	% Change
Revenues	$ 2,830	$ —	NM
Operating income	$ (1,500)	$ —	NM
Operating margin	(53.0)%	— %	

* NM - Not Meaningful

EV segment revenue generated by Voltrek in the third quarter of fiscal 2023 was $2.8 million. Operating loss in this segment was primarily a result of $1.5 million earnout expense included in acquisition costs.

Results of Operations - Nine Months Ended December 31, 2022 versus Nine Months Ended December 31, 2021

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):

	Nine Months Ended December 31,				
	2022	2021		2022	2021
	Amount	Amount	% Change	% of Revenue	% of Revenue
Product revenue	$ 41,715	$ 78,260	(46.7)%	74.8%	76.5%
Service revenue	14,039	24,065	(41.7)%	25.2%	23.5%
Total revenue	55,754	102,325	(45.5)%	100.0%	100.0%
Cost of product revenue	31,152	54,724	(43.1)%	55.9%	53.5%
Cost of service revenue	11,832	18,942	(37.5)%	21.2%	18.5%
Total cost of revenue	42,984	73,666	(41.7)%	77.1%	72.0%
Gross profit	12,770	28,659	(55.4)%	22.9%	28.0%
General and administrative expenses	11,683	8,737	33.7%	21.0%	8.5%
Acquisition costs	2,340	178	1214.6%	4.2%	0.3%
Sales and marketing expenses	8,521	8,794	(3.1)%	15.3%	8.6%
Research and development expenses	1,374	1,169	17.5%	2.5%	1.1%
(Loss) income from operations	(11,148)	9,781	(214.0)%	(20.0)%	9.6%
Other income	—	1	NM	—	0.0%
Interest expense	(97)	(59)	64.4%	(0.2)%	(0.1)%
Amortization of debt issue costs	(47)	(46)	2.2%	(0.1)%	(0.0)%
(Loss) income before income tax	(11,292)	9,677	NM	(20.3)%	9.5%
Income tax (benefit) expense	17,933	2,406	NM	32.2%	2.4%
Net (loss) income	$ (29,225)	$ 7,271	NM	(52.4)%	7.1%

* NM - Not Meaningful

Revenue, Cost of Revenue and Gross Margin. Product revenue decreased 46.7%, or $36.5 million, for the first nine months of fiscal 2023 versus the first nine months of fiscal 2022. Service revenue decreased 41.7%, or $10.0 million, for the first nine months of fiscal 2023 versus the first nine months of fiscal 2022. The decrease in product and service revenue was due to the expected significantly lower project revenues from our largest customer and comparatively lower project volume from other customers, primarily caused by the response of customers to supply chain disruptions and other delays. The revenue from our existing large national retail customer represented 16.1% of total revenue in the first nine months of fiscal 2023 compared to 53.0% in the first nine months of fiscal 2022. This decrease in revenue was partially offset by revenues due to the acquisitions of Stay-Lite Lighting and Voltrek. Cost of product revenue decreased by 43.1%, or $23.6 million, in the first nine months of fiscal 2023 versus the comparable period in fiscal 2022. Cost of service revenue decreased by 37.5%, or $7.1 million, in the first nine months of fiscal 2023 versus the comparable period in fiscal 2022. The decrease in product and service costs was primarily due to the decrease in revenue. Gross margin decreased from 28.0% in the first nine months of fiscal 2022 to 22.9% in the first nine months of fiscal 2023, due primarily to reduced sales decreasing the absorption of fixed costs.

Operating Expenses

General and Administrative. General and administrative expenses increased 33.7%, or $2.9 million, in the first nine months of fiscal 2023 compared to the first nine months of fiscal 2022. This comparative increase was primarily due to the acquisitions of Stay-Lite Lighting and Voltrek and an acceleration of stock-based compensation expense due to retirement modifications of existing restricted stock awards.

Acquisition Costs. Acquisition expenses increased $2.2 million in the third quarter of fiscal 2023 compared to the third quarter of fiscal 2022. This comparative increase was primarily due to the earnout expense of $1.5 million, related to the acquisition of Voltrek.

Sales and Marketing. Sales and marketing expenses decreased 3.1%, or $0.3 million, in the first nine months of fiscal 2023 compared to the first nine months of fiscal 2022, reflecting a reduction in commission expense on lower sales, partially offset by increased employment costs.

Research and Development. Research and development expenses increased 17.5%, or $0.2 million, in the first nine months of fiscal 2023 compared to the first nine months of fiscal 2022, as a result of increased employment costs and testing.

Income Taxes. Based on our recent financial results and near-term expectations, a non-cash tax charge of $17.8 million has been recorded as a result of the conclusion that it is more likely than not that the domestic deferred tax assets will not be realized.

Orion Services Group Division

Our OSG segment develops and sells lighting products and provides construction, engineering along with installation and maintenance services for our commercial lighting and energy management systems. OSG 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 OSG segment operating results (dollars in thousands):

	Nine Months Ended December 31,		
	2022	2021	% Change
Revenues	$ 27,405	$ 68,961	(60.3)%
Operating (loss) income	$ (5,630)	$ 7,115	NM
Operating margin	(20.5)%	10.3%	

* NM - Not Meaningful

OSG segment revenue in the first nine months of fiscal 2023 decreased by 60.3%, or $41.6 million, compared to the first nine months of fiscal 2022. The decrease in revenue was due to a significant reduction of project volume from our largest customer and comparatively lower project volume from other customers, primarily caused by the response of customers to supply chain disruptions and other delays. This revenue decrease is partially offset by the added revenue from Stay-Lite Lighting. This decrease led to a corresponding operating loss in this segment, as a result of revenue decreased absorption of fixed costs.

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):

	Nine Months Ended December 31,		
	2022	2021	% Change
Revenues	$ 12,846	$ 18,264	(29.7)%
Operating income	6	3,173	(99.8)%
Operating margin	0.0%	17.4%	

ODS segment revenue in the first nine months of fiscal 2023 decreased by 29.7%, or $5.4 million, compared to the first nine months of fiscal 2022, primarily due to a decrease in sales to one customer. The decrease in sales resulted in a corresponding operating loss in this segment based on 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):

	Nine Months Ended December 31,		
	2022	2021	% Change
Revenues	$ 12,673	$ 15,100	(16.1)%
Operating income	1,028	3,198	(67.9)%
Operating margin	8.1%	21.2%	

USM segment revenue in the first nine months of fiscal 2023 decreased by 16.1%, or $2.4 million, compared to the first nine months of fiscal 2022, primarily due to a less diversified customer base. Operating income in this segment decreased as a result of increased allocation of corporate costs.

Orion Electric Vehicle Division

Our EV segment offers leading electric vehicle charging expertise and provides turnkey solutions with ongoing support to all commercial verticals.

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

	Nine Months Ended December 31,		
	2022	2021	% Change
Revenues	$ 2,830	$ —	NM
Operating income	(1,500)	—	NM
Operating margin	(53.0)%	—%	

* NM - Not Meaningful

With our acquisition of Voltrek on October 5, 2022, EV segment revenue in the first nine months of fiscal 2023 was $2.8 million. Operating loss in this segment was primarily a result of $1.5 million earnout expense in acquisition costs.

Liquidity and Capital Resources

Overview

We believe our existing cash and operating cash flow provide us with the financial flexibility needed to meet our capital requirements, including to fund targeted capital expenditures, acquisitions and working capital for at least one year from the date of this report, as well as our longer-term capital requirements for periods beyond at least one year from the date of this report.

We had approximately $8.1 million in cash and cash equivalents as of December 31, 2022, compared to $14.5 million at March 31, 2022. Our cash position decreased as a result of an operating loss and an overall use of working capital during the first nine months of fiscal 2023.

Our future liquidity needs and forecasted cash flows are dependent upon many factors, including our relative revenue, gross margins, cash management practices, cost containment, working capital management, capital expenditures. While we believe that we will likely have adequate available cash and equivalents and credit availability under our Credit Agreement to satisfy our currently anticipated working capital and liquidity requirements for at least the next 12 months based on our current cash flow forecast. If we experience significant liquidity constraints, we may be required to issue equity or debt securities, reduce our sales efforts, implement additional cost savings initiatives or undertake other efforts to conserve our cash.

Cash Flows

The following table summarizes our cash flows for the nine months ended December 31, 2022 and 2021 (in thousands):

	Nine Months Ended December 31,	
	2022	2021
Operating activities	$ (5,248)	$ 2,315
Investing activities	(6,090)	(4,548)
Financing activities	5,014	104
Decrease in cash and cash equivalents	$ (6,324)	$ (2,129)

Cash Flows Related to Operating Activities. Cash used in operating activities primarily consists of net loss 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 nine months of fiscal 2023 was $5.2 million and consisted of our net loss of $29.2 million adjusted for non-cash expense items and net cash used in changes in operating assets of $24.0 million, the largest of which was a $17.9 million decrease in deferred income tax assets as a result of the valuation allowance.

Cash provided by operating activities for the first nine months of fiscal 2022 was $2.3 million and consisted of our net income of $7.3 million adjusted for non-cash expense items of $4.4 million offset by working capital uses of $9.4 million, the largest of which was a $5.2 million decrease in accounts payable.

Cash Flows Related to Investing Activities. Cash used in investing activities of $6.1 million in the first nine months of fiscal 2022 consisted primarily of cash funded for the acquisition of Voltrek and purchases of property and equipment.

Cash used in investing activities of $4.5 million in the first nine months of fiscal 2022 consisted primarily $3.7 million of cash funded for the acquisition of Stay-Lite Lighting, and an investment of a non-controlling equity stake in ndustrial, Inc. of $0.5 million and purchases of property and equipment.

Cash Flows Related to Financing Activities. Cash provided by financing activities of $5.0 million in the first nine months of fiscal 2023 consisted primarily of proceeds from our Credit Agreement, which was drawn down to pay the cash purchase price to acquire Voltrek.

Cash provided by financing activities of $0.1 million in the first nine months of fiscal 2022 consisted primarily of proceeds from employee equity exercises.

Working Capital

Our net working capital as of December 31, 2022 was $24.5 million, consisting of $46.6 million in current assets and $22.1 million in current liabilities. Our net working capital as of March 31, 2022 was $32.9 million, consisting of $51.2 million in current assets and $18.4 million in current liabilities.

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. Because of recent supply chain challenges, we have been making additional incremental inventory purchases. Our accounts receivables, inventory and payables may increase to the extent our revenue and order levels increase.

Indebtedness

Revolving Credit Agreement

On December 29, 2020, we entered into a new $25 million Loan and Security Agreement (the “Credit Agreement”) with Bank of America, N.A., as lender (the “Lender”). The Credit Agreement replaced our prior $20.15 million secured revolving credit and security agreement (the “Prior Credit Agreement”).

The replacement of the Prior Credit Agreement with the Credit Agreement provides us with increased financing capacity and liquidity to fund our operations and implement our strategic plans.

The Credit Agreement provides for a five-year $25.0 million revolving credit facility (the “Credit Facility”) that matures on December 29, 2025. Borrowings under the Credit Facility are subject to a borrowing base requirement based on eligible receivables, inventory and cash. As of December 31, 2022, the borrowing base supports $16.3 million availability of the Credit Facility. As of December 31, 2022, $5.0 million was borrowed under the Credit Facility.

The Credit Agreement is secured by a first lien security interest in substantially all of our assets.

Effective November 4, 2022, we, along with the Lender, executed Amendment No. 1 to the Credit Agreement. The primary purpose of the amendment was to include the assets of our acquired subsidiaries, Stay-Lite Lighting and Voltrek as secured collateral under the Credit Agreement. Accordingly, eligible assets of Stay-Lite and Voltrek will be included in the borrowing base calculation for the purpose of establishing the monthly borrowing availability under the Credit Agreement. The amendment also clarifies that the earnout liabilities associated with the Stay-Lite and Voltrek transactions are permitted under the Credit Agreement and that the expenses recognized in connection with those earnouts should be added back in the computation of EBITDA, as defined, under the 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 $19.5 million and $10.1 million as of December 31, 2022 and March 31, 2022, 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

We have experienced increases in various input costs including labor, components and transportation in the past year. In response, we have implemented multiple price increases, and we have substantially mitigated the inflationary pressures, such that our results from operations have not been materially affected to date by inflation. We are monitoring input costs and cannot currently predict the future impact on our operations by increasing or ongoing inflationary pressures.

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. The estimates of forecasted cash flows are used in the assessment for impairment of long-lived assets and the realizability of deferred tax assets. 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, 2022. For the nine months ended December 31, 2022, 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, 2022. There have been no material changes to such exposures since March 31, 2022.

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 December 31, 2022, 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 were effective as of December 31, 2022.

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 quarter ended December 31, 2022, 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 will 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, 2022, which we filed with the SEC on June 10, 2022 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

On October 5, 2022, in connection with the Voltrek Acquisition, we issued an aggregate of 620,067 shares of our Common Stock at a price of $1.61 per share. The shares issued in the Voltrek Acquisition were sold without registration under the Securities Act of 1933, as amended (the “Securities Act”), or any state securities laws in a transaction not involving a public offering and the sellers in the Voltrek Acquisition represented they are accredited investors. We relied on the exemption from the registration requirements of the Securities Act of 1933 afforded by Section 4(a)(2).

ITEM 5. OTHER INFORMATION

None

ITEM 6. EXHIBITS

(a) Exhibits

3.1	Second Amended and Restated Bylaws of Orion Energy Systems, Inc., dated November 10, 2022., filed as Exhibit 3.1 to the Registrant's Form 8-K filed on November 14, 2022, is hereby incorporated by reference.
10.1	Voluntary Retirement and Consulting Agreement, dated as of August 2, 2022 and effective as of November 10, 2022, between Orion Energy Systems, Inc. and Michael W. Altschaefl, filed as Exhibit 10.1 to the Registrant's Form 8-K filed on August 3, 2022, is hereby incorporated by reference.*
10.2	Amended Executive Employment and Severance Agreement, effective as of November 10, 2022, by and between Orion Energy Systems, Inc. and Michael H. Jenkins, filed as Exhibit 10.2 to the Registrant's Form 8-K filed on August 3, 2022, is hereby incorporated by reference.*
10.3	Agreement No. 1 to Loan and Security Agreement, dated effective as of November 4, 2022, among Orion Energy Systems, Inc., Bank of America, N.A., as lender, and the subsidiary borrowers party thereto, filed as Exhibit 10.4 to the Registrant's Form 10-Q filed on November 8, 2022, 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	Inline XBRL Instance Document+
101.SCH	Inline XBRL Taxonomy extension schema document+
101.CAL	Inline XBRL Taxonomy extension calculation linkbase document+
101.DEF	Inline XBRL Taxonomy extension definition linkbase document+
101.LAB	Inline XBRL Taxonomy extension label linkbase document+
101.PRE	Inline XBRL Taxonomy extension presentation linkbase document+
104	The cover page from the Company’s Quarterly Report on Form 10-Q for the quarter ended December 31, 2022, has been formatted in Inline XBRL.

+ Filed herewith
* Management contract or compensatory plan or arrangement
^ The schedules to this exhibit have been omitted in accordance with Regulation S-K Item 601(a)(5). The Registrant agrees to furnish a copy of all omitted exhibits and schedules to the SEC upon its request; provided, however, that the Registrant may request confidential treatment pursuant to Rule 24b-2 of the Exchange Act, as amended, for any schedule so furnished.

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 February 9, 2023.

ORION ENERGY SYSTEMS, INC.

By /s/ J. Per Brodin

J. Per Brodin
Chief Financial Officer
(Principal Financial Officer and Authorized Signatory)

Exhibit 31.1

Certification

I, Michael H. Jenkins, 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: February 9, 2023

/s/ Michael H. Jenkins

Michael H. Jenkins

Chief Executive Officer

Exhibit 31.2

Certification

I, J. Per Brodin, 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: February 9, 2023

/s/ J. Per Brodin

J. Per Brodin
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 December 31, 2022, 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: February 9, 2023

/s/ Michael H. Jenkins

Michael H. Jenkins
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 December 31, 2022, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, J. Per Brodin, 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: February 9, 2023

/s/ J. Per Brodin

J. Per Brodin
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.