



## **CORPORATE GOVERNANCE GUIDELINES**

**February 13, 2018**

The Board of Directors (the "Board") of ORION ENERGY SYSTEMS, INC. (the "Company"), has developed and adopted certain corporate governance principles ("Guidelines") establishing a common set of expectations to assist the Board and its committees in fulfilling their responsibilities to the Company's shareholders to oversee the work of management and the Company's results. These Guidelines are intended to ensure that the Board will have the necessary authority and practices in place to review and evaluate the Company's business operations as needed and to make decisions independent of the Company's management. In recognition of the continuing discussions about corporate governance, the Board will review and, if appropriate, revise these Guidelines from time to time.

### **Role of the Board and Management**

The Company's business is conducted by its employees, managers and officers, under the direction of the Company's Chief Executive Officer ("CEO") and the oversight of the Board, to enhance the long-term value of the Company for its shareholders. The Board is elected by the Company's shareholders to oversee management and to assure that the long-term interests of the shareholders are being served.

### **Responsibilities of the Board**

The Board reviews and discusses reports by management on the performance of the Company, its plans and prospects, as well as immediate issues facing the Company. Directors are expected to attend all scheduled meetings of the Board and the committees on which they serve. Attendance by phone is acceptable if the meeting is to be held by teleconference or if to be held in person, then with the prior consent of the Board Chair if a director cannot attend meetings due to travel problems, conflicts or similar causes. Directors are expected to attend the annual meeting of the Company's shareholders.

In addition to its general oversight of management, the Board (either directly or through its committees) also performs a number of specific functions, including:

- Representing the interests of the Company's shareholders in maintaining and enhancing the success of the Company's business, including optimizing long-term returns to increase shareholder value;
- Selecting, evaluating and compensating a well-qualified CEO of high integrity, and overseeing succession planning for the CEO and other senior officers;
- Providing counsel and oversight on the selection, evaluation, development and compensation of senior management;
- Reviewing, approving and interacting with senior management with respect to the Company's fundamental financial and business strategies and major corporate actions, including strategic planning, management development and succession, operating performance and shareholder returns;
- Assessing major risks facing the Company and reviewing options for their mitigation;
- Ensuring processes are in place for maintaining the integrity of the Company, the integrity of its financial statements, the integrity of its compliance with law and ethics, the integrity of its relationships with customers and suppliers and the integrity of its relationships with other stakeholders; and
- Providing general advice and counsel to the CEO and other senior management personnel.

## **Board Composition, Leadership, Independence, Qualification and Selection, Change in Board Member Status, Limitations on Public Company Directorships, Term Limits and Retirement Age**

### *Board Size and Composition*

The Nominating and Corporate Governance Committee will regularly review and make recommendations on the size of the Board and its composition, including whether or not to maintain a staggered Board and, if so, the composition of each class of Directors. Board size and composition will be set so that the Board will possess, in the aggregate, the strategic, managerial and financial skills and experience necessary to fulfill its duties and to achieve its objectives. The Company's Bylaws currently provide that the Board shall consist of not less than three (3) nor more than twelve (12) directors. The specific number of Board members and its composition will be reviewed from time to time and adjusted as necessary and appropriate to promote the best overall interests of the Company and its shareholders.

### *Board Leadership*

The Board shall elect a Board Chair whose principal role shall be to manage and to provide leadership to the Board. The Chair is accountable to the Board and acts as a direct liaison between the Board and the management of the Company. The Board Chair shall have primary responsibility for calling to order and conducting meetings of the Board and of the shareholders, and preparing the agenda for each meeting, as well as for carrying out such other duties as may be specified for such office in the Company's Bylaws and as may be prescribed by the Board. This responsibility does not, however, diminish the responsibilities of each Board member to raise appropriate agenda items, or to propose meetings. The Board does not have a policy on whether or not the roles of CEO and Board Chair should be separate. The Board reserves the right to assign the responsibilities of the CEO and Board Chair in different individuals or in the same individual if, in the Board's judgment, a combined CEO and Chair position is determined to be in the best interest of the Company. In the circumstance where the responsibilities of the CEO and Board Chair are vested in the same individual or in other circumstances when deemed appropriate, the Board will designate a Lead Director from among the independent directors to preside at the meetings of the non-employee director executive sessions.

### *Independence of Directors*

The majority of the members of the Board will meet the criteria for independence as established by the Board in accordance with the Nasdaq Capital Market and Securities and Exchange Commission ("SEC") standards. It is the Board's goal that at least 75% of the members of the Board will be independent. In general, the Board will utilize the Nasdaq Capital Market and SEC standards to determine materiality in considering independence of directors. In addition, the Board will conduct a review of the independence of each Board member no less frequently than annually.

### *Qualification of Directors*

The Board will select nominees to become directors to fill vacancies or newly created directorships, to be nominated by the Board for election by the Company's shareholders at the Annual Meeting of the Shareholders, and to fill committee assignments. The screening process is delegated to the Nominating and Corporate Governance Committee with director input from the Board Chair and the CEO. The Nominating and Corporate Governance Committee may, if it deems appropriate, retain for a fee recruiting professionals to identify and assist in evaluating candidates.

### *Selection of Directors*

The Board as a whole should possess certain core competencies. All candidates for nominee for director will be reviewed based upon the Board of Director's current capabilities, any needs therein and the capabilities of the candidate. The selection process will take into account all factors that the Nominating and Corporate Governance Committee considers appropriate, which may include the candidate's strength of character, mature judgment, career specialization, relevant technical skills or financial acumen, industry knowledge and experience and geographic, gender, age, and ethnic diversity. The Board will look for individuals who have displayed the highest personal and professional ethics, integrity and values and sound business judgment.

### *Change in Board Member Status; Limitations on Public Company Directorships*

Directors are required to notify the Nominating and Corporate Governance prior to joining another public company board. The Nominating and Corporate Governance Committee has adopted limits on the number of public company boards on which Board

members may serve, to enable them to have sufficient time to devote to their duties to the Company. Unless approved by the Board, Board members may not serve on more than the number of public company boards (including the Company's Board) set forth below:

<b>Position</b>	<b>Public Company Boards</b>
Independent director holding full-time executive position with another company	2
Independent director who is not a full-time executive	5
CEO	2

The Nominating and Corporate Governance Committee will consider exceptions where membership on an additional board could be beneficial to the Company and the additional board seat would not interfere with the time that the individual devotes to Company matters.

Directors who are changing their principal employment or business profession or association (other than as a result of normal retirement) must inform the Nominating and Corporate Governance Committee so that the Committee may consider whether continued service on the Board is still appropriate.

*Term Limits; Retirement Age*

The Board has not established term limits or a mandatory retirement age for Directors. The Board believes that long-term, experienced directors provide continuity of leadership, perspective and understanding of the business of the Company. Term limits and mandatory retirement ages have the disadvantage of losing the contributions of these directors, who have been able to develop increasing insight into the Company and its operations, and who therefore provide an increasing contribution to the Board.

**Lead Director**

If the Board Chair is an employee-director, the independent Directors will designate, and the Company will publicly disclose, the name of the independent Director who will serve as the Lead Director, in accordance with the requirements of the NASDAQ Capital Market. The Lead Director's responsibilities shall include, among others as may be designated by the Board:

- Conferring with the Board Chair on, and approving, Board meeting agendas and meeting schedules to assure there is sufficient time for discussion of all agenda items;
- Calling and presiding over all meetings of the Board at which the Board Chair is not present, including executive sessions of independent Directors and communicating feedback on executive sessions to the Board Chair;
- Leading the annual performance reviews of the CEO and the Board;
- Ensuring that there is open communication between the Company's independent Directors and the Board Chair and other management members;
- Being available, when deemed appropriate by the Board, for consultation and direct communication with shareholders;
- Reviewing, at his or her discretion, information to be sent to the Board; and
- Conferring with the Board Chair on other issues of corporate importance, as appropriate.

**Board Committees**

The Board has established three standing committees: an Audit and Finance Committee, a Compensation Committee and a Nominating and Corporate Governance Committee. The responsibilities of each committee are contained in committee charters approved by the Board. The Nominating and Corporate Governance Committee will review the committee structure of the Board and the membership of various committees annually and make recommendations for any changes to the Board. In consultation with the Board Chair and the CEO, each committee chairperson will determine the frequency of meetings and the agenda for

each meeting of the committee. The committee chairperson shall be responsible for making recommendations to the full Board and presenting resolutions requiring Board action and shall, after each committee meeting, report to the Board and make minutes available for all Board members. The Board may also establish ad hoc committees from time to time as deemed necessary and/or appropriate, with such duties and responsibilities as approved by the Board.

### **Committee Assignment and Rotation**

The Board will make committee assignments taking into consideration the recommendations of the Nominating and Corporate Governance Committee. Board members may rotate between committees from time to time as the Board deems appropriate.

### **Number and Scope of Board and Committee Meetings**

The Board will meet at least four times per year, including concurrently with the Annual Shareholders Meeting. Committees of the Board will meet as needed or as set forth in their respective charters. Each director is expected to attend all meetings of the Board and any committee(s) of which he or she is a member and to review all meeting materials circulated prior to each meeting. Attendance by phone is acceptable if the meeting is to be held by teleconference or if to be held in person, then with the prior consent of the Board Chair if a director cannot attend meetings due to travel problems, conflicts or similar causes.

Each Board meeting will include a financial and operating review. In addition, at least once annually, the Board will devote substantial time to reviewing the following matters: senior executive succession planning; the personal objectives and performance of the CEO; senior executive performance evaluation; the corporate code of business conduct and ethics; corporate controls and financial reporting policies and procedures; the Board's effectiveness; enterprise risk management; and the Company's overall business strategy and strategic plan.

### **Director Compensation**

Non-employee directors, committee chairs, the Board Chair and the Lead Director, if any, shall receive reasonable compensation for their services, as may be determined from time to time by the Board upon recommendation of the Compensation Committee. Compensation shall be set at levels that are consistent with market practice, taking into account the size and scope of the Company's business and the responsibilities of its directors. The Compensation Committee of the Board shall annually review and report to the Board with respect to director compensation and benefits.

Directors who are employees shall receive no additional compensation for serving as directors.

### **Director Access to Management and Independent Advisors**

The Board is expected to be highly interactive with members of the Company's senior management, and the Board and its individual members will have full access to individual senior executives of the Company. The Company also maintains an environment that permits senior managers to contact Board members directly.

It is policy of the Board that executive officers and other members of senior management who report directly to the CEO be present at Board and/or committee meetings at the invitation of the Board or committee members. The Board encourages such executive officers and senior management to make presentations or to include in discussions at Board meetings managers and other employees who (i) can provide insight into the matters being discussed because of their functional expertise and/or personal involvement in such matters and/or (ii) are individuals with high potential whom such executive officers and senior management believe the directors should have the opportunity to meet and evaluate.

Directors are authorized to consult with independent advisors, as is necessary and appropriate, without consulting management.

### **Shareholder Access to Directors**

The Company encourages shareholders to communicate with directors. The Nominating and Corporate Governance Committee will maintain the procedures it has established for shareholders to communicate directly to the chairperson of the Nominating and Corporate Governance Committee, the chairperson of the Audit and Finance Committee regarding financial or accounting

policies or any Director. The Company may screen emails to directors for relevance, but not based on the content of communications that are relevant to directors in their capacities as directors. The Company may screen mail and emails to directors for relevance and security purposes, but not based on the content of communications.

### **Stock Ownership Guidelines**

The Board believes in the importance of requiring that all Directors and senior level officers beneficially own a sufficient amount of the Company's common stock so that their economic interests are aligned with those of the Company's shareholders. As a result, the Board shall establish guidelines for the expected level of beneficial ownership of the Company's common stock by all independent Directors and senior level management and from time to time will review these guidelines.

### **Equity Compensation Policies**

The Company may grant equity based compensation from time to time to certain employees under the terms of its existing stock incentive plan and/or future benefit plans. The Board prohibits the re-pricing of "underwater" stock options (other than in connection with stock splits and similar dilutive events) and prohibits the backdating of stock options. All equity compensation plans should be submitted for the approval of shareholders in accordance with Nasdaq Capital Market rules.

### **Ethics and Conflicts of Interest**

The Board expects the Company's directors, as well as its officers and employees, to act ethically at all times and to acknowledge their adherence to the policies set forth in the Company's Code of Conduct. If an actual or potential conflict of interest arises for a director, the director shall promptly inform the CEO. If a significant conflict exists and cannot be resolved, the director should resign. All directors will recuse themselves from any discussion or decision affecting their personal, business or professional interests. The Board shall resolve any conflict of interest question involving the CEO or an executive officer, and the CEO shall resolve any conflict of interest issue involving any other officer of the Company.

### **Reporting of Concerns to the Audit and Finance Committee**

Anyone who has a concern about the Company's conduct, or about the Company's accounting, internal accounting controls or auditing matters, may communicate that concern directly to the Audit and Finance Committee. Such communications may be confidential or anonymous, and may be reported by phone to a special phone number or other means prescribed by the Company that will be published in internal Company publications. All such concerns will be forwarded to the Audit and Finance Committee for its review, and will be simultaneously reviewed and addressed by the Company in the same way that other concerns are addressed by the Company. The status of all outstanding concerns addressed to the Audit and Finance Committee will be reported to the directors on a quarterly basis. The Audit and Finance Committee may direct special treatment, including the retention of outside advisors or counsel, for any concern addressed to them. The Company's Code of Conduct requires accurate, complete and timely recording and reporting of all financial transactions involving the Company by financial personnel and compliance with applicable laws and regulations, and prohibits any director, officer or employee from taking retribution against any director, officer or employee who provides information or assists in an investigation concerning an event that person reasonably believed constituted a violation of the Code of Conduct.

### **Director Orientation and Continuing Education**

The Board shall ensure that an orientation program for newly appointed or elected directors is implemented. Each new director will participate in the orientation program, which should include presentations designed to familiarize directors with the Company, the overall strategic plan for the Company, the significant financial accounting and risk management issues of the Company, the internal and independent audit functions of the Company and the Company's Code of Conduct. The presentations should also review procedures of the Board, director responsibilities, Board committee charters and these Corporate Governance Guidelines. The Company's Board Secretary shall oversee and maintain the orientation program implemented by the Board.

The Board encourages directors to continue educating themselves with respect to domestic and international markets, accounting and finance, leadership, crisis response, industry practices, general management, and strategic planning.

## **Management Succession, Evaluation and Compensation**

The Board shall develop and maintain an appropriate succession plan with respect to the position of CEO. Additionally, the Board, with input from the CEO and other senior management, will oversee senior management development and the planning for succession to senior positions.

The Compensation Committee is responsible for evaluating the CEO's performance on an annual basis, reviewing its actions with the Board, and making recommendations to the Board concerning annual and long-term performance goals for the CEO. The Compensation Committee's evaluation of the CEO is based upon a combination of achievement of the annual and long term performance goals established for the CEO as well as strategic Company objectives. The Compensation Committee will take this evaluation into account when setting the CEO's incentive and equity compensation.

If the Board determines that an executive officer has engaged in conduct detrimental to the Company, the Board may take a range of actions to remedy the conduct, prevent its recurrence, and impose such discipline as would be appropriate. Discipline would vary depending on the facts and circumstances, and may include, without limit, (1) termination of employment, (2) initiating an action for breach of fiduciary duty, and (3) if the conduct resulted in a material inaccuracy in the Company's financial statements or performance metrics, which affect the executive officer's compensation, seeking reimbursement of any portion of performance-based or incentive compensation paid or awarded to the executive that is greater than would have been paid or awarded if calculated based on the accurate financial statements or performance metrics; provided that if the Board determines that an executive engaged in fraudulent misconduct it will seek such reimbursement. These remedies would be in addition to, and not in lieu of, any actions imposed by law enforcement agencies, regulators or other authorities.

## **Presiding Director in Executive Sessions**

The Board shall meet in executive session (without members of management being present) as part of each Board meeting, If and to the extent determined necessary or advisable by the Board Chair, the Lead Director or any other director. Additional executive sessions of the Board shall be held as necessary or appropriate (as determined by the director presiding at such meetings during each two-year period) or upon the request of the Nominating and Corporate Governance Committee or any two other non-management directors. Executive sessions shall be led by the Board Chair, if such Chair is an independent director, or the Lead Director, who shall be an independent director appointed by the Board. The Board Chair or the Lead Director, as the case may be shall (i) communicate with the CEO after each Board meeting to provide feedback on the substance of the items presented, and any further suggestions for enhancing management's effectiveness, (ii) coordinate, develop the agenda for and moderate executive sessions for the Board's independent directors, and (iii) act as principal liaison between the independent directors and, in the case of a Lead Director, and the Board Chair on sensitive issues. In performing the above described responsibilities, the Board Chair or the Lead Director, as the case may be, may consider comments and requests of shareholders.

## **Communications with Stakeholders**

The Company's CEO is responsible for establishing effective communications with the Company's stakeholder groups, i.e., shareholders, customers, Company associates, communities, suppliers, creditors and corporate partners.

It is the policy of the Company that management speaks for the Company. This policy does not preclude non-employee Directors, including the Board Chair or the Lead Director, from meeting with shareholders, but it is suggested that in most circumstances any such meetings be held with management present.

## **Annual Performance Assessment of the Board**

The Board will conduct a self-assessment and an assessment of its committees at least annually to determine whether it and its committees are functioning effectively.

## **Limitation**

Nothing in these guidelines is intended to expand the fiduciary obligations of Board members beyond those provided for under applicable law.