

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

FORM 10-Q

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

For the Quarterly Period Ended June 30, 2024

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
(State or other jurisdiction of
incorporation or organization)

39-1847269
(I.R.S. Employer
Identification number)

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

54220
(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	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input checked="" type="checkbox"/>	Smaller reporting company	<input checked="" type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

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 32,743,409 shares of the Registrant's common stock outstanding on August 6, 2024.

ORION ENERGY SYSTEMS, INC.
QUARTERLY REPORT ON FORM 10-Q
FOR THE QUARTER ENDED JUNE 30, 2024
TABLE OF CONTENTS

	<u>Page(s)</u>
<u>PART I FINANCIAL INFORMATION</u>	3
ITEM 1. <u>Financial Statements (unaudited)</u>	3
<u>Condensed Consolidated Balance Sheets as of June 30, 2024 and March 31, 2024</u>	3
<u>Condensed Consolidated Statements of Operations for the Three Months Ended June 30, 2024 and June 30, 2023</u>	4
<u>Condensed Consolidated Statements of Shareholders' Equity for the Three Months Ended June 30, 2024 and June 30, 2023</u>	5
<u>Condensed Consolidated Statements of Cash Flows for the Three Months Ended June 30, 2024 and June 30, 2023</u>	6
<u>Notes to the Condensed Consolidated Financial Statements</u>	7
ITEM 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	19
ITEM 3. <u>Quantitative and Qualitative Disclosures about Market Risk</u>	26
ITEM 4. <u>Controls and Procedures</u>	26
<u>PART II OTHER INFORMATION</u>	27
ITEM 1. <u>Legal Proceedings</u>	27
ITEM 1A. <u>Risk Factors</u>	27
ITEM 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	27
ITEM 5. <u>Other Information</u>	27
ITEM 6. <u>Exhibits</u>	28
<u>SIGNATURE</u>	29

PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

	June 30, 2024	March 31, 2024
Assets		
Cash and cash equivalents	\$ 5,692	\$ 5,155
Accounts receivable, net	12,475	14,022
Revenue earned but not billed	4,841	4,539
Inventories	15,860	18,246
Prepaid expenses and other current assets	3,272	2,860
Total current assets	42,140	44,822
Property and equipment, net	9,275	9,593
Goodwill	1,484	1,484
Other intangible assets, net	4,214	4,462
Other long-term assets	2,642	2,808
Total assets	<u>\$ 59,755</u>	<u>\$ 63,169</u>
Liabilities and Shareholders' Equity		
Accounts payable	\$ 14,421	\$ 18,350
Accrued expenses and other	9,835	9,440
Deferred revenue, current	245	260
Current maturities of long-term debt	264	3
Total current liabilities	24,765	28,053
Revolving credit facility	10,000	10,000
Long-term debt, less current maturities	3,261	—
Deferred revenue, long-term	394	413
Other long-term liabilities	2,256	2,161
Total liabilities	40,676	40,627
Commitments and contingencies		
Shareholders' equity:		
Preferred stock, \$0.01 par value: Shares authorized: 30,000,000 at June 30, 2024 and March 31, 2024; no shares issued and outstanding at June 30, 2024 and March 31, 2024	—	—
Common stock, no par value: Shares authorized: 200,000,000 at June 30, 2024 and March 31, 2024; shares issued: 42,214,171 at June 30, 2024 and 42,038,967 at March 31, 2024; shares outstanding: 32,743,409 at June 30, 2024 and 32,567,746 at March 31, 2024	—	—
Additional paid-in capital	162,163	161,869
Treasury stock, common shares: 9,470,762 at June 30, 2024 and 9,471,221 at March 31, 2024	(36,234)	(36,235)
Retained deficit	(106,850)	(103,092)
Total shareholders' equity	19,079	22,542
Total liabilities and shareholders' equity	<u>\$ 59,755</u>	<u>\$ 63,169</u>

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

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

	Three Months Ended June 30,	
	2024	2023
Product revenue	\$ 12,767	\$ 13,671
Service revenue	7,139	3,942
Total revenue	19,906	17,613
Cost of product revenue	8,541	10,059
Cost of service revenue	7,066	4,383
Total cost of revenue	15,607	14,442
Gross profit	4,299	3,171
Operating expenses:		
General and administrative	4,530	5,739
Acquisition related costs	—	53
Sales and marketing	2,937	3,296
Research and development	264	480
Total operating expenses	7,731	9,568
Loss from operations	(3,432)	(6,397)
Other income (expense):		
Interest expense	(262)	(176)
Amortization of debt issue costs	(58)	(24)
Royalty income	15	—
Interest income	—	2
Total other expense	(305)	(198)
Loss before income tax	(3,737)	(6,595)
Income tax expense	21	42
Net loss	\$ (3,758)	\$ (6,637)
Basic net loss per share attributable to common shareholders	\$ (0.12)	\$ (0.21)
Weighted-average common shares outstanding	32,610,604	32,345,823
Diluted net loss per share	\$ (0.12)	\$ (0.21)
Weighted-average common shares and share equivalents outstanding	32,610,604	32,345,823

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)

	Common Stock		Shareholders' Equity		
	Shares	Additional Paid-in Capital	Treasury Stock	Retained Deficit	Total Shareholders' Equity
Balance, March 31, 2024	32,567,746	\$ 161,869	\$ (36,235)	\$ (103,092)	\$ 22,542
Shares issued under Employee Stock Purchase Plan	459	—	1	—	1
Stock-based compensation	175,204	294	—	—	294
Net loss	—	—	—	(3,758)	(3,758)
Balance, June 30, 2024	<u>32,743,409</u>	<u>\$ 162,163</u>	<u>\$ (36,234)</u>	<u>\$ (106,850)</u>	<u>\$ 19,079</u>

	Common Stock		Shareholders' Equity		
	Shares	Additional Paid-in Capital	Treasury Stock	Retained Deficit	Total Shareholders' Equity
Balance, March 31, 2023	32,295,408	\$ 160,907	\$ (36,237)	\$ (91,421)	\$ 33,249
Shares issued under Employee Stock Purchase Plan	699	—	1	—	1
Stock-based compensation	206,451	188	—	—	188
Net loss	—	—	—	(6,637)	(6,637)
Balance, June 30, 2023	<u>32,502,558</u>	<u>\$ 161,095</u>	<u>\$ (36,236)</u>	<u>\$ (98,058)</u>	<u>\$ 26,801</u>

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

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

	Three Months Ended June 30,	
	2024	2023
Operating activities		
Net loss	\$ (3,758)	\$ (6,637)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	348	346
Amortization of intangible assets	248	266
Stock-based compensation	294	188
Amortization of debt issue costs	58	24
Loss (gain) on sale of property and equipment	(6)	28
Provision for inventory reserves	33	161
Provision for credit losses	40	190
Other	196	1
Changes in operating assets and liabilities:		
Accounts receivable	1,507	(1,075)
Revenue earned but not billed	(301)	89
Inventories	2,156	355
Prepaid expenses and other assets	(304)	(257)
Accounts payable	(3,929)	(1,906)
Accrued expenses and other	490	666
Deferred revenue, current and long-term	(34)	234
Net cash used in operating activities	(2,962)	(7,327)
Investing activities		
Purchases of property and equipment	(24)	(508)
Proceeds from sale of property, plant and equipment	—	95
Net cash used in investing activities	(24)	(413)
Financing activities		
Payment of long-term debt	(3)	(4)
Proceeds from long-term debt	3,525	—
Proceeds from employee equity exercises	1	1
Net cash provided by (used in) financing activities	3,523	(3)
Net increase (decrease) in cash and cash equivalents	537	(7,743)
Cash and cash equivalents at beginning of period	5,155	15,992
Cash and cash equivalents at end of period	<u>\$ 5,692</u>	<u>\$ 8,249</u>
Supplemental disclosure of non-cash investing and financing activities:		
Operating lease assets obtained in exchange for new operating lease liabilities	\$ —	\$ 363

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

ORION ENERGY SYSTEMS, INC. AND SUBSIDIARIES
UNAUDITED NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 — DESCRIPTION OF BUSINESS

Orion includes Orion Energy Systems, Inc., a Wisconsin corporation, and all consolidated subsidiaries. Orion provides light emitting diode lighting systems, wireless Internet of Things enabled control solutions, project engineering, energy project management design, maintenance services and turnkey electric vehicle charging station installation services to commercial and industrial businesses, and federal and local governments, predominantly in North America and Germany.

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

NOTE 2 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The consolidated financial statements include the accounts of Orion Energy Systems, Inc. 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, 2025 or other interim periods.

The Condensed Consolidated Balance Sheet as of March 31, 2024 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, 2024 filed with the SEC on June 12, 2024.

Allowance for Credit Losses

Orion performs ongoing evaluations of its customers and continuously monitors collections and payments. Orion estimates an allowance for credit losses based upon the historical collectability based on past due status and makes judgments about the creditworthiness of customers based on ongoing credit evaluations. We also consider customer-specific information, current market conditions, and reasonable and supportable forecasts of future economic conditions.

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, net realizable value of inventory, allowance for credit losses, accruals for warranty and loss contingencies, earn-out, 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 June 30, 2024, one supplier accounted for 14.0% of total cost of revenue, while no suppliers accounted for more than 10% of total cost of revenue for three months ended June 30, 2023.

For the three months ended June 30, 2024, one customer accounted for 21.1% of total revenue. For the three months ended June 30, 2023, two customers accounted for 20.6% and 11.0% of total revenue, respectively.

As of June 30, 2024, one customer accounted for 15.7% and two customers accounted for 10.1% of accounts receivable. As of March 31, 2024, two customers accounted for 17.3% and 11.7% of accounts receivable.

Recent Accounting Pronouncements

Recently Adopted Standards

In June 2016, the Financial Accounting Standards Board ("FASB") issued accounting standards updates ("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 adopted ASU 2016-13 effective April 1, 2023. The effect of adoption was immaterial.

Issued: Not Yet Adopted

In November 2023, the FASB issued ASU No. 2023-07, Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures, which modifies the disclosure and presentation requirements of reportable segments. The amendments in the update require the disclosure of significant segment expenses that are regularly provided to the chief operating decision maker (the "CODM") and included within each reported measure of segment profit and loss. The amendments also require disclosure of all other segment items by reportable segment and a description of its composition. Additionally, the amendments require disclosure of the title and position of the CODM and an explanation of how the CODM uses the reported measure(s) of segment profit or loss in assessing segment performance and deciding how to allocate resources. This update is effective for annual periods beginning after December 15, 2023, and interim periods within fiscal years beginning after December 15, 2024. Early adoption is permitted. Orion is currently evaluating the impact that this guidance will have on the presentation of its consolidated financial statements and accompanying notes.

In December 2023, the FASB issued ASU No. 2023-09, Income Taxes (Topic 740): Improvements to Income Tax Disclosures, which expands disclosures in an entity's income tax rate reconciliation table and disclosures regarding cash taxes paid both in the U.S. and foreign jurisdictions. The update will be effective for annual periods beginning after December 15, 2025. Orion is currently evaluating the impact that this guidance will have on the presentation of its consolidated financial statements and accompanying notes.

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) when control of the goods or services being provided (which Orion refers to as a performance obligation) is transferred to a customer at an amount that reflects the consideration Orion expects to receive in exchange for those goods or services.

The sale of charging stations and related software subscriptions, renewals and extended warranty 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, renewals and extended warranty, 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.

Revenue from the lighting 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 months ended June 30, 2024 and June 30, 2023 (dollars in thousands):

	Three Months Ended June 30, 2024		
	Product	Services	Total
Revenue from contracts with customers:			
Lighting product and installation	\$ 10,045	\$ 2,674	\$ 12,719
Maintenance services	1,000	2,323	3,323
Electric vehicle charging	1,688	2,142	3,830
Solar energy related revenues	15	—	15
Total revenues from contracts with customers	12,748	7,139	19,887
Revenue accounted for under other guidance	19	—	19
Total revenue	<u>\$ 12,767</u>	<u>\$ 7,139</u>	<u>\$ 19,906</u>

	Three Months Ended June 30, 2023		
	Product	Services	Total
Revenue from contracts with customers:			
Lighting product and installation	\$ 11,785	\$ 831	\$ 12,616
Maintenance services	899	2,855	3,754
Electric vehicle charging	982	256	1,238
Total revenues from contracts with customers	13,666	3,942	17,608
Revenue accounted for under other guidance	5	—	5
Total revenue	<u>\$ 13,671</u>	<u>\$ 3,942</u>	<u>\$ 17,613</u>

From time to time, Orion sells the receivables from one customer to a financing institution. There was no such activity during the three months ended June 30, 2024 or 2023.

The following chart shows the balance of Orion's receivables arising from contracts with customers, contract assets and contract liabilities as of June 30, 2024 and March 31, 2024 (dollars in thousands):

	June 30, 2024	March 31, 2024
Accounts receivable, net	\$ 12,475	\$ 14,022
Revenue earned but not billed	\$ 4,841	\$ 4,539
Deferred revenue (1)	\$ 124	\$ 124

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

There were no significant changes in the contract assets outside of standard reclassifications to accounts receivable, net upon billing. Deferred revenue, current as of June 30, 2024 and March 31, 2024, includes \$0.1 for both periods, of contract liabilities which represent consideration received from a new customer contract on which installation has not yet begun and Orion has not fulfilled the promises included.

NOTE 4 — ACCOUNTS RECEIVABLE

As of June 30, 2024 and March 31, 2024, Orion's accounts receivable and allowance for credit losses balances were as follows (dollars in thousands):

	June 30, 2024	March 31, 2024
Accounts receivable, gross	\$ 12,582	\$ 14,094
Allowance for credit losses	(107)	(72)
Accounts receivable, net	<u>\$ 12,475</u>	<u>\$ 14,022</u>

Changes in Orion's allowance for credit losses were as follows (dollars in thousands):

	For the Three Months Ended June 30,	
	2024	2023
Beginning of period	\$ (72)	\$ (86)
Credit loss expense	(40)	(190)
Write-off	5	4
End of period	<u>\$ (107)</u>	<u>\$ (272)</u>

NOTE 5 — INVENTORIES

As of June 30, 2024 and March 31, 2024, Orion's inventory balances were as follows (dollars in thousands):

		Inventories
As of June 30, 2024		
Raw materials and components	\$	6,357
Work in process		321
Finished goods		9,182
Total	\$	<u>15,860</u>
As of March 31, 2024		
Raw materials and components	\$	7,219
Work in process		267
Finished goods		10,760
Total	\$	<u>18,246</u>

NOTE 6 — PREPAID EXPENSES AND OTHER CURRENT ASSETS

Prepaid expenses and other current assets consist primarily of prepaid insurance premiums, debt issue costs, prepaid subscription fees and sales tax receivable. Prepaid expenses totaled \$1.5 million and \$1.3 million as of June 30, 2024 and March 31, 2024, respectively.

Other current assets as of June 30, 2024 and March 31, 2024 consists primarily of \$1.7 million and \$1.6 million, respectively, of prepaid software and services.

NOTE 7 — PROPERTY AND EQUIPMENT

As of June 30, 2024 and March 31, 2024, property and equipment, net, included the following (dollars in thousands):

	June 30, 2024	March 31, 2024
Land and land improvements	\$ 433	\$ 433
Buildings and building improvements	9,530	9,504
Furniture, fixtures and office equipment	7,941	7,941
Leasehold improvements	540	540
Equipment leased to customers	4,997	4,997
Plant equipment	11,060	11,142
Vehicles	959	959
Gross property and equipment	35,460	35,516
Less: accumulated depreciation	(26,185)	(25,923)
Total property and equipment, net	<u>\$ 9,275</u>	<u>\$ 9,593</u>

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 Accounting Standards Codification ("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	June 30, 2024		March 31, 2024	
Assets					
Operating lease assets	Other long-term assets	\$	1,591	\$	1,770
Liabilities					
Current liabilities					
Operating lease liabilities	Accrued expenses and other	\$	1,010	\$	990
Non-current liabilities					
Operating lease liabilities	Other long-term liabilities		881		1,121
Total lease liabilities		\$	1,891	\$	2,111

Orion had operating lease costs of \$0.4 million for the three months ended June 30, 2024 and 2023, respectively.

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

Maturity of Lease Liabilities	Operating Leases	
Fiscal 2025 (period remaining)	\$	815
Fiscal 2026		983
Fiscal 2027		177
Thereafter		—
Total lease payments	\$	1,975
Less: Interest		(84)
Present value of lease liabilities	\$	<u>1,891</u>

NOTE 9 — GOODWILL AND OTHER INTANGIBLE ASSETS

Orion has \$0.9 million of goodwill related to its purchase of Voltrek LLC ("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 Maintenance operating segment.

As of June 30, 2024 and March 31, 2024, the components of, and changes in, the carrying amount of other intangible assets, net, were as follows (dollars in thousands):

	June 30, 2024				March 31, 2024			
	Gross Carrying Amount	Accumulated Amortization	Net	Weighted Average Useful Life	Gross Carrying Amount	Accumulated Amortization	Net	
Amortized Intangible Assets								
Patents	\$ 2,521	\$ (2,053)	\$ 468	8.1	\$ 2,521	\$ (2,029)	\$ 492	
Licenses	58	(58)	—	—	58	(58)	—	
Trade name and trademarks	300	(104)	196	3.3	300	(90)	210	
Customer relationships	5,000	(4,413)	587	1.3	5,000	(4,296)	704	
Vendor relationships	2,600	(647)	1,953	5.3	2,600	(554)	2,046	
Developed technology	900	(900)	—	—	900	(900)	—	
Total Amortized Intangible Assets	\$ 11,379	\$ (8,175)	\$ 3,204	4.8	\$ 11,379	\$ (7,927)	\$ 3,452	
Indefinite-lived Intangible Assets								
Trade name and trademarks	\$ 1,010	\$ —	\$ 1,010		\$ 1,010	\$ —	\$ 1,010	
Total Non-Amortized Intangible Assets	\$ 1,010	\$ —	\$ 1,010		\$ 1,010	\$ —	\$ 1,010	

Amortization expense on intangible assets was \$0.2 million and \$0.3 million for the three months ended June 30, 2024 and 2023, respectively.

The estimated amortization expense for the remainder of fiscal 2024, the next five fiscal years and beyond is shown below (dollars in thousands):

Fiscal 2025 (period remaining)	\$	741
Fiscal 2026		751
Fiscal 2027		501
Fiscal 2028		455
Fiscal 2029		407
Thereafter		349
Total	\$	<u>3,204</u>

NOTE 10 — ACCRUED EXPENSES AND OTHER

As of June 30, 2024 and March 31, 2024, accrued expenses and other included the following (dollars in thousands):

	June 30, 2024	March 31, 2024
Accrued acquisition earn-out	\$ 875	\$ 875
Other accruals	1,963	1,854
Compensation and benefits	2,629	2,255
Credits due to customers	1,401	1,167
Accrued project costs	2,236	2,366
Warranty	545	552
Sales returns reserve	88	106
Sales tax	68	219
Legal and professional fees	30	46
Total	<u>\$ 9,835</u>	<u>\$ 9,440</u>

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 June 30,	
	2024	2023
Beginning of period	\$ 725	\$ 646
Accruals	108	64
Warranty claims (net of vendor reimbursements)	(105)	(56)
End of period	<u>\$ 728</u>	<u>\$ 654</u>

Effective on October 5, 2022, Orion acquired all the membership interests of Voltrek, an electric vehicle charging station solutions provider (the "Voltrek Acquisition"). The Voltrek Acquisition agreement includes, 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 earn-out payments. These compensatory payments do not fall within the scope of ASC 805, Business Combinations, and will be expensed over the course of the earn-out periods to the extent they are earned. As of June 30, 2024, Orion recorded \$0.9 million to accrued expenses for the fiscal 2025 earn-out opportunity, which is recorded in accrued expenses and other.

NOTE 11 — NET LOSS PER COMMON SHARE

Basic net loss per common share is computed by dividing net loss 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 loss per common share reflects the dilution that would occur if restricted shares were vested. In the computation of diluted net loss per common share, Orion uses the treasury stock method for outstanding options and restricted shares. For the three months ended June 30, 2024 and 2023, 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 loss per common share is calculated based upon the following shares:

	For the Three Months Ended June 30,	
	2024	2023
Numerator:		
Net loss (in thousands)	\$ (3,758)	\$ (6,637)
Denominator:		
Weighted-average common shares outstanding	32,610,604	32,345,823
Weighted-average common shares and common share equivalents outstanding	<u>32,610,604</u>	<u>32,345,823</u>
Net loss per common share:		
Basic	\$ (0.12)	\$ (0.21)
Diluted	\$ (0.12)	\$ (0.21)

The following table indicates the number of potentially dilutive securities excluded from the calculation of Diluted net loss 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 June 30,	
	2024	2023
Restricted shares	1,524,222	582,506
Total	<u>1,524,222</u>	<u>582,506</u>

NOTE 12 — LONG-TERM DEBT

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

	June 30, 2024	March 31, 2024
Revolving credit facility	\$ 10,000	\$ 10,000
Term Loan	3,525	—
Equipment debt obligations	—	3
Total long-term debt	13,525	10,003
Less current maturities	(264)	(3)
Long-term debt, less current maturities	<u>\$ 13,261</u>	<u>\$ 10,000</u>

Revolving Credit Agreement

On December 29, 2020, Orion entered into a \$25 million Loan and Security Agreement with Bank of America, N.A., as lender (the "Credit Agreement").

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 June 30, 2024, the borrowing base of the Credit Facility supports \$18.3 million of availability, with \$8.3 million of remaining availability net of \$10.0 million borrowed.

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, Inc. ("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 clarified that the earn-out liabilities associated with the Stay-Lite and Voltrek transactions are permitted under the Credit Agreement and that the expenses recognized in connection with those earn-outs should be added back in the computation of EBITDA, as defined, under the Credit Agreement.

Effective April 22, 2024, the Company, with Bank of America, N.A. as lender, executed Amendment No. 2 to its Credit Agreement ("Amendment No. 2"). The primary purpose of Amendment No. 2 was to add a \$3.525 million mortgage loan facility to the Credit Agreement secured by the Company's office headquarters property in Manitowoc, Wisconsin. Amendment No. 2 also broadened the definition of receivables to encompass government receivables as being eligible to be included in the Company's borrowing base calculation for the purpose of establishing the Company's monthly borrowing availability under the Credit Agreement. Quarterly installments of \$88,125 will be due on the first day of each fiscal quarter beginning October 1, 2024.

Remaining principal payments on long-term debt are \$0.2 million and \$13.3 million in fiscal 2025 and fiscal 2026, respectively.

As of June 30, 2024, Orion was in compliance with all debt covenants.

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 June 30, 2024 and 2023, Orion recorded income tax expense of \$21 thousand and \$42 thousand, respectively, using this methodology.

As of June 30, 2024 and March 31, 2024, Orion had a full valuation allowance against its net deferred tax asset balance. Orion considers future taxable income and ongoing prudent and feasible tax planning strategies in assessing the need for the valuation allowance. In the event that Orion determines that the deferred tax assets are able to be realized, an adjustment to the deferred tax asset would increase income in the period such determination is made.

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 June 30, 2024, 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.

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 June 30, 2024, Orion issued 459 shares under the ESPP plan at a closing market price of \$1.11. In the three months ended June 30, 2023, Orion issued 700 shares under the ESPP plan at a closing market price of \$1.63.

Sale of shares

In March 2023, 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 June 30, 2024.

NOTE 16 — RESTRICTED SHARES

At Orion's 2023 annual meeting of shareholders, 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 3,500,000 shares to 6,000,000 shares (an increase of 2,500,000 shares); added a minimum vesting period for all awards granted under the Amended 2016 Plan (with limited exceptions); and added a specific prohibition on the payment of dividends and dividend equivalents on unvested awards.

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

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

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

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

	For the Three Months Ended June 30,			
	2024		2023	
Cost of product revenue	\$	2	\$	1
General and administrative		282		182
Sales and marketing		8		4
Research and development		2		1
Total	\$	294	\$	188

The following table summarizes information with respect to performance-vesting restricted stock and time vesting-restricted stock activity:

	Time-Based Restricted Shares		Performance-Based Restricted Shares	
	Shares	Weighted Average Fair Value Price	Shares	Weighted Average Fair Value Price
Balance at March 31, 2024	1,014,104	\$ 1.87	708,377	\$ 1.66
Shares issued	685,322	\$ 1.09	821,559	\$ 1.09
Shares vested	(175,204)	\$ 2.99	—	—
Shares outstanding at June 30, 2024	1,524,222	\$ 1.39	1,529,936	\$ 1.35
Per share price on grant date	\$1.09		\$1.09	

As of June 30, 2024, the amount of deferred stock-based compensation expense to be recognized, over a remaining period of 2.6 years, was approximately \$1.7 million.

NOTE 17 — SEGMENT DATA

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. Orion's CODM is the chief executive officer. Orion evaluates and reports on the business using three segments: Lighting Segment, Maintenance Segment and Electric Vehicle Charging Segment ("EV Segment").

Lighting Segment

The Lighting Segment develops and sells lighting products and provides construction and engineering services for Orion's commercial lighting and energy management systems. The Lighting Segment provides engineering, design, lighting products and in many cases turnkey solutions for large national accounts, governments, municipalities, schools and other customers mostly through direct sales and also sells lighting products through manufacturer representative agencies and to the wholesale contractor markets through energy service companies and contractors.

Maintenance Segment

The Maintenance Segment provides retailers, distributors and other businesses with maintenance, repair and replacement services for the lighting and related electrical components deployed in their facilities.

Electric Vehicle Charging Segment

The Electric Vehicle Charging Segment offers leading electric vehicle charging expertise, sells and installs sourced electric vehicle charging stations with related software subscriptions and renewals and provides EV turnkey installation 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 Loss		Total Assets	
	For the Three Months Ended		For the Three Months Ended			
	June 30,		June 30,		June 30,	March 31,
	2024	2023	2024	2023	2024	2024
Segments:						
Lighting Segment	\$ 12,751	\$ 12,621	\$ (1,206)	\$ (766)	\$ 23,785	\$ 25,911
Maintenance Segment	3,324	3,754	(976)	(1,840)	5,856	8,827
Electric Vehicle Charging Segment	3,831	1,238	(231)	(1,934)	14,812	15,291
Corporate and Other	—	—	(1,019)	(1,857)	15,302	13,140
	<u>\$ 19,906</u>	<u>\$ 17,613</u>	<u>\$ (3,432)</u>	<u>\$ (6,397)</u>	<u>\$ 59,755</u>	<u>\$ 63,169</u>

NOTE 18 — RESTRUCTURING EXPENSE

As part of Orion's response to declining financial results, Orion entered into separation agreements with multiple employees during the fourth quarter of fiscal 2024. In addition, an inventory write-off was recognized in the first quarter of fiscal 2025 for inventory related to a customer Orion no longer does business with. Orion's restructuring expense for the three months ended June 30, 2024 and 2023 is reflected within its consolidated statement of operations as follows (dollars in thousands):

	For the Three Months Ended	
	June 30,	June 30,
	2024	2023
Cost of service revenue	\$ 197	\$ —
General and administrative	196	—
	<u>\$ 393</u>	<u>\$ —</u>

Total restructuring expense by segment was recorded as follows (dollars in thousands):

	For the Three Months Ended	
	June 30,	June 30,
	2024	2023
Segments:		
Maintenance	\$ 389	\$ —
Corporate and Other	4	—
	<u>\$ 393</u>	<u>\$ —</u>

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, 2024.

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, 2024. We urge you not to place undue reliance on these forward-looking statements, which speak only as of the date of this report. We do not undertake any obligation to release publicly any revisions to such forward-looking statements to reflect events or uncertainties after the date hereof or to reflect the occurrence of unanticipated events.

Overview

We provide state-of-the-art light emitting diode ("LED") lighting systems, wireless Internet of Things ("IoT") enabled control solutions, commercial and industrial electric vehicle ("EV") charging infrastructure solutions, and lighting and electrical maintenance services. We help our customers achieve their sustainability, energy savings and carbon footprint reduction goals through innovative technology and exceptional service. We sell our products and services into many vertical markets within the broader commercial and industrial market segment. Primary verticals include: big box retail, manufacturing, warehousing/logistics, commercial office, federal and municipal government, healthcare and schools. Our services consist of turnkey installation (lighting and EV) and system maintenance. Virtually all of our sales occur within North America or for the US Department of Defense's military bases operating in foreign countries.

Our lighting products consist primarily of LED lighting fixtures, many of which include sourced IoT enabled control systems. Our principal lighting 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 lighting 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 and offerings.

We differentiate ourselves from our competitors by offering very efficient light fixtures (measured in lumens per watt) coupled with our 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 and commissioning. In addition, we began to offer lighting and electrical maintenance services in fiscal 2021. We believe that providing these services enables us to support a long-term business relationship with our customers and results in an increase in our recurring revenue. 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 was intended to leverage our project management and maintenance expertise into the rapidly growing EV sector.

Our lighting products consist primarily of LED lighting fixtures, many of which include IoT enabled control systems provided by third parties. We believe the market for LED lighting products 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.

We generally do not have long-term contracts with our customers for product or turnkey services that provide us with recurring annual revenue. However, our maintenance services contracts usually consist of multi-year arrangements. We typically generate substantially all of our lighting revenue from sales of lighting systems and related services to governmental, commercial and industrial customers on a project-by-project basis. We also perform work under global services or product purchasing agreements with major customers with sales completed on a purchase order basis. 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 lighting fixtures. We call this replacement process a "retrofit". We frequently sell our products and services directly to our customers and in many cases we provide design and installation services as well as project management services. We also sell our lighting systems on a wholesale basis, principally to electrical distributors, electrical contractors and ESCOs which then resell to their own customers.

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

Our fiscal year ends on March 31. We refer to our current fiscal year which ends on March 31, 2025 as "fiscal 2025". We refer to our most recently completed fiscal year, which ended on March 31, 2024, as "fiscal 2024", and our prior fiscal year which ended on March 31, 2023 as "fiscal 2023". 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. Orion's CODM is the chief executive officer. Orion evaluates and reports on the business using three segments: Lighting Segment, Maintenance Segment and Electric Vehicle Charging Segment ("EV Segment").

Results of Operations - Three Months Ended June 30, 2024 versus Three Months Ended June 30, 2023

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

	Three Months Ended June 30,				
	2024	2023	%	2024	2023
	Amount	Amount	Change	% of Revenue	% of Revenue
Product revenue	\$ 12,767	\$ 13,671	(6.6)%	64.1%	77.6%
Service revenue	7,139	3,942	81.1%	35.9%	22.4%
Total revenue	19,906	17,613	13.0%	100.0%	100.0%
Cost of product revenue	8,541	10,059	(15.1)%	42.9%	57.1%
Cost of service revenue	7,066	4,383	61.2%	35.5%	24.9%
Total cost of revenue	15,607	14,442	8.1%	78.4%	82.0%
Gross profit	4,299	3,171	35.6%	21.6%	18.0%
General and administrative expenses	4,530	5,739	(21.1)%	22.8%	32.6%
Acquisition related costs	—	53	(100.0)%	0.0%	0.3%
Sales and marketing expenses	2,937	3,296	(10.9)%	14.8%	18.7%
Research and development expenses	264	480	(45.0)%	1.3%	2.7%
Loss from operations	(3,432)	(6,397)	(46.3)%	(17.2)%	(36.3)%
Interest expense	(262)	(176)	48.9%	(1.3)%	(1.0)%
Amortization of debt issue costs	(58)	(24)	141.7%	(0.3)%	(0.1)%
Royalty income	15	—	NM	0.2%	0.0%
Interest income	—	2	(100.0)%	0.0%	0.0%
Loss before income tax	(3,737)	(6,595)	(43.3)%	(18.8)%	(37.4)%
Income tax expense (benefit)	21	42	(50.0)%	0.1%	0.2%
Net loss	<u>\$ (3,758)</u>	<u>\$ (6,637)</u>	<u>(43.4)%</u>	<u>(18.9)%</u>	<u>(37.7)%</u>

* NM - Not Meaningful

Revenue, Cost of Revenue and Gross Margin. Product revenue decreased 6.6%, or \$0.9 million, for the first quarter of fiscal 2025 versus the first quarter of fiscal 2024. Service revenue increased 81.1%, or \$3.2 million, for the first quarter of fiscal 2025 versus the first quarter of fiscal 2024. The resulting increase in total revenue was due to increased revenues in the EV segment, partially offset by decreased revenue in the Maintenance segment. Cost of product revenue decreased by 15.1%, or \$1.5 million, in the first quarter of fiscal 2025 versus the comparable period in fiscal 2024. Cost of service revenue increased by 61.2%, or \$2.7 million, in the first quarter of fiscal 2025 versus the comparable period in fiscal 2024. Gross margin increased from 18.0% of revenue in the first quarter of fiscal 2024 to 21.6% in the first quarter of fiscal 2025, due primarily to project mix and increased sales which assisted in the absorption of fixed costs.

Operating Expenses

General and Administrative. General and administrative expenses decreased 21.1%, or \$1.2 million, in the first quarter of fiscal 2025 compared to the first quarter of fiscal 2024. This comparative decrease was primarily due to a decrease in Voltrek earn out expense to \$0.3 million in the first quarter of fiscal 2025 compared to \$1.1 million in the first quarter of fiscal 2024.

Sales and Marketing. Sales and marketing expenses decreased 10.9%, or \$0.4 million, in the first quarter of fiscal 2025 compared to the first quarter of fiscal 2024. This comparative decrease was primarily due to the lower volume of product sales resulting in lower commissions expense.

Research and Development. Research and development expenses decreased 45.0%, or \$0.2 million, in the first quarter of fiscal 2025 compared to the first quarter of fiscal 2024.

Lighting Segment

Our lighting segment develops and sells lighting products and provides construction and engineering services for our commercial lighting and energy management systems. Our lighting segment provides engineering, design, lighting products and in many cases turnkey solutions for large national accounts, governments, municipalities, schools and other customers mostly through direct sales and also sells lighting products through manufacturer representative agencies and to the wholesale contractor markets through ESCOs and contractors.

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

	Three Months Ended June 30,			% Change
	2024	2023		
Revenues	\$ 12,751	\$ 12,621		1.0 %
Operating loss	\$ (1,206)	\$ (766)		(57.4) %
Operating margin	(9.5) %	(6.1) %		

Lighting segment revenue in the first quarter of fiscal 2025 increased by 1.0%, or \$0.1 million compared to the first quarter of fiscal 2024. The increase in lighting segment revenue was due to variability in the timing of larger lighting projects. The increase in operating loss in this segment is a result of an increased percentage of service revenue, which has a lower gross margin than product revenue.

Maintenance Segment

Our maintenance segment provides retailers, distributors and other businesses with maintenance, repair and replacement services for the lighting and related electrical components deployed in their facilities.

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

	Three Months Ended June 30,			% Change
	2024	2023		
Revenues	\$ 3,324	\$ 3,754		(11.5) %
Operating loss	\$ (976)	\$ (1,840)		47.0 %
Operating margin	(29.4) %	(49.0) %		

Maintenance segment revenue in the first quarter of fiscal 2025 decreased by 11.5%, or \$0.4 million, compared to the first quarter of fiscal 2024 primarily due to the winddown of several customer contracts. Operating loss in this segment decreased as a result of an increase in gross margins driven by a more favorable revenue mix.

Electric Vehicle Charging Segment

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

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

	Three Months Ended June 30,			% Change
	2024	2023		
Revenues	\$ 3,831	\$ 1,238		209.5 %
Operating loss	\$ (231)	\$ (1,934)		(88.1) %
Operating margin	(6.0) %	(156.2) %		

EV segment revenue increased \$2.6 million to \$3.8 million in the first quarter of fiscal 2025. The increase in revenue over the first quarter of fiscal 2024 is due to a higher revenue volume to municipalities. Operating loss decreased \$1.7 million in the

first quarter of fiscal 2025 due to a \$0.8 million decrease of earn-out expense included in general and administrative costs along with improved gross margins.

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 our budgeted capital expenditures and working capital needs 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 \$5.7 million in cash and cash equivalents as of June 30, 2024, compared to \$5.2 million at March 31, 2024. Our cash position increased as a result of the mortgage loan largely offset by an operating loss and a net use of working capital during the first quarter of fiscal 2025.

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 and 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 three months ended June 30, 2024 and 2023 (in thousands):

	Three Months Ended June 30,	
	2024	2023
Operating activities	\$ (2,962)	\$ (7,327)
Investing activities	(24)	(413)
Financing activities	3,523	(3)
Increase (decrease) in cash and cash equivalents	<u>\$ 537</u>	<u>\$ (7,743)</u>

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 quarter of fiscal 2025 was \$3.0 million and consisted of our net loss of \$3.8 million adjusted for non-cash expense items and net cash provided in changes in operating assets of \$0.6 million, the largest of which was a \$3.9 million decrease in accounts payable, which was mostly offset by increases in accounts receivable and inventories.

Cash used in operating activities for the first quarter of fiscal 2024 was \$7.3 million and consisted of our net loss of \$6.6 million adjusted for non-cash expense items and net cash used in changes in operating assets of \$0.8 million, the largest of which was a \$1.9 million decrease in accounts payable.

Cash Flows Related to Investing Activities. Cash used in investing activities of \$24 thousand in the first quarter of fiscal 2025 consisted primarily of purchases of property and equipment, net of proceeds.

Cash used in investing activities of \$0.4 million in the first quarter of fiscal 2024 consisted primarily of purchases of property and equipment.

Cash Flows Related to Financing Activities. Cash provided by financing activities of \$3.5 million in the first quarter of fiscal 2025 was primarily due to the term loan discussed in Note 12 above, which was partially offset by payments on long-term debt.

Cash used by financing activities of \$3 thousand in the first quarter of fiscal 2024 consisted primarily of payment of long-term debt.

Working Capital

Our net working capital as of June 30, 2024 was \$17.4 million, consisting of \$42.1 million in current assets and \$24.8 million in current liabilities. Our net working capital as of March 31, 2024 was \$16.7 million, consisting of \$44.8 million in current assets and \$28.1 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

Our 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 June 30, 2024, the borrowing base supported approximately \$18.3 million of availability under the Credit Facility with \$10.0 million drawn against that availability. As of June 30, 2023, the borrowing base supported approximately \$18.6 million of availability under the Credit Facility with \$10.0 million drawn against that availability.

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

Borrowings under the credit agreement are permitted in the form of SOFR or prime rate-based loans and generally bear interest at floating rates plus an applicable margin determined by reference to our availability under the Credit Agreement. Among other fees, we are required to pay an annual facility fee of \$15,000 and a fee of 25 basis points on the unused portion of the Credit Facility.

The credit agreement includes a springing minimum fixed cost coverage ratio of 1.0 to 1.0 when excess availability under the Credit Facility falls below the greater of \$3.0 million or 15% of the committed facility. Currently, the required springing minimum fixed cost coverage ratio is not required.

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

Effective April 22, 2024, we, along with the lender, executed Amendment No. 2 ("Amendment No. 2") to the Credit Agreement. The primary purpose of Amendment No. 2 was to add a \$3.525 million mortgage loan facility to the Credit Agreement secured by our office headquarters property in Manitowoc, Wisconsin. Amendment No. 2 also broadened the definition of receivables to encompass government receivables as being eligible to be included in our borrowing base calculation for the

purpose of establishing our monthly borrowing availability under the Credit Agreement. Quarterly installments of \$88,125 will be due on the first day of each fiscal quarter beginning October 1, 2024.

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 \$14.1 million and \$22.0 million as of June 30, 2024 and March 31, 2024, respectively. We generally expect our backlog to be recognized as revenue within one year. Backlog does not include any amounts for contracted maintenance services.

Off-Balance Sheet Arrangements

We have no off-balance sheet arrangements.

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, stock-based compensation 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, 2024. For the quarter ended June 30, 2024, 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, 2024. There have been no material changes to such exposures since March 31, 2024.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

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

As of June 30, 2024, 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 June 30, 2024.

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 June 30, 2024, 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 14 – 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, 2024, which we filed with the SEC on June 12, 2024 and in Part 1 - Item 2 under the heading "Management's Discussion and Analysis of Financial Condition and Results of Operations" in this Form 10-Q.

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

None

ITEM 5. OTHER INFORMATION

Rule 10b5-1 Trading Plans

During the three months ended June 30, 2024, no director or officer of Orion adopted or terminated a "Rule 10b5-1 trading arrangement," or "non-Rule 10b5-1 trading arrangement," as each term is defined in Item 408(a) of Regulation S-K.

ITEM 6. EXHIBITS

(a) Exhibits

- 10.1 [Amendment No. 2 to Loan and Security Agreement, dated effective as of April 22, 2024, among Orion Energy Systems, Inc., Bank of America, N.A., as lender, and the subsidiary borrowers party thereto, file as Exhibit 10.1 to Registrant's Current Report on Form 8-K filed on April 24, 2024, 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 June 30, 2024, has been formatted in Inline XBRL and is contained in Exhibit 101.

+ Filed herewith

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on August 7, 2024.

ORION ENERGY SYSTEMS, INC.

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

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: August 7, 2024

/s/ Michael H. Jenkins
Michael H. Jenkins
Chief Executive Officer

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: August 7, 2024

/s/ J. Per Brodin

J. Per Brodin
Chief Financial Officer

**Certification of CEO Pursuant To
18 U.S.C. Section 1350,
As Adopted Pursuant To
Section 906 Of The Sarbanes-Oxley Act Of 2002**

In connection with the Quarterly Report of Orion Energy Systems, Inc., a Wisconsin corporation (the "Company"), on Form 10-Q for the period ended June 30, 2024, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Michael H. Jenkins, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, based on my knowledge:

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

Date: August 7, 2024

/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.

**Certification of CFO Pursuant To
18 U.S.C. Section 1350,
As Adopted Pursuant To
Section 906 Of The Sarbanes-Oxley Act Of 2002**

In connection with the Quarterly Report of Orion Energy Systems, Inc., a Wisconsin corporation (the "Company"), on Form 10-Q for the period ended June 30, 2024, 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: August 7, 2024

/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.
