

ORION ENERGY SYSTEMS, INC.

Form DEF 14A

September 09, 2011

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
SCHEDULE 14A
Proxy Statement Pursuant to Section 14(a) of the Securities
Exchange Act of 1934**

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement

Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material Pursuant to §240.14a-12

Orion Energy Systems, Inc.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

No fee required.

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**Orion Energy Systems, Inc.
2210 Woodland Drive
Manitowoc, Wisconsin 54220
(800) 660-9340**

NOTICE OF 2011 ANNUAL MEETING OF SHAREHOLDERS

To the Shareholders of Orion Energy Systems, Inc.:

We cordially invite you to attend our 2011 Annual Meeting of Shareholders on October 26, 2011, at 1:00 p.m., Central Time, at our corporate headquarters, 2210 Woodland Drive, Manitowoc, Wisconsin 54220.

At the annual meeting, as we describe in the accompanying proxy statement, we will ask you to vote on the following matters:

1. the election of two nominees as directors named in the attached proxy statement to serve terms expiring at the annual meeting of shareholders to be held in 2014 and until their successors have been duly elected and qualified;
2. an advisory vote to approve the compensation of our named executive officers as disclosed in the accompanying proxy statement;
3. an advisory vote on the frequency of the advisory shareholder vote on the compensation of our named executive officers;
4. the ratification of BDO USA, LLP to serve as our independent registered public accounting firm for our fiscal year 2012;
5. a proposal to approve an amendment of our 2004 Stock and Incentive Awards Plan to increase the number of shares authorized for issuance thereunder, contingent on our company's achievement of certain specified financial objectives for fiscal 2012;
6. a proposal to approve the material terms of the performance goals under our 2004 Stock and Incentive Awards Plan for purposes of qualifying compensation awarded under the Plan as performance-based compensation under Section 162(m) of the Internal Revenue Code of 1986, as amended; and
7. such other business as may properly come before the annual meeting, or any adjournment or postponement thereof.

You are entitled to vote at the annual meeting only if you were a shareholder of record at the close of business on August 31, 2011. A proxy statement and proxy card are enclosed. Whether or not you expect to attend the annual meeting, it is important that you promptly complete, sign, date and mail the proxy card in the enclosed envelope so that you may vote your shares. **If you hold your shares in a brokerage account, you should be aware that, if you do not instruct your broker how to vote, your broker will not be permitted to vote your shares for the election of directors, on the advisory vote to approve the compensation of our named executive officers, on the advisory vote on the frequency of advisory votes on the compensation of our named executive officers, on the proposal to approve an amendment of our 2004 Stock and Incentive Awards Plan or on the proposal to approve the material terms of the performance goals under our 2004 Stock and Incentive Awards Plan. Therefore, you must affirmatively take action to vote your shares at our annual meeting. If you do not, your shares will not be voted on these items.**

By order of the Board of Directors:

Neal R. Verfueth
Chief Executive Officer

Manitowoc, Wisconsin
September 9, 2011

Important Notice Regarding the Availability of Proxy Materials for the Shareholder Meeting To Be Held on October 26, 2011. The Orion Energy Systems, Inc. proxy statement for the 2011 Annual Meeting of Shareholders and the 2011 Annual Report to Shareholders are available at <https://www.proxydocs.com/oesx>.

Our Annual Report on Form 10-K is enclosed with this notice and proxy statement.

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PROXY STATEMENT

**FOR THE 2011 ANNUAL MEETING OF SHAREHOLDERS
To be Held October 26, 2011**

This proxy statement and accompanying form of proxy are being furnished to our shareholders beginning on or about September 9, 2011, in connection with the solicitation of proxies by our board of directors for use at our 2011 Annual Meeting of Shareholders to be held on Wednesday, October 26, 2011, at 1:00 p.m., local time, at our corporate headquarters, 2210 Woodland Drive, Manitowoc, Wisconsin 54220, and at any adjournment or postponement thereof (which we refer to collectively as our annual meeting), for the purposes set forth in the attached Notice of 2011 Annual Meeting of Shareholders and as described herein.

Execution of a proxy will not affect your right to attend the annual meeting and to vote in person, nor will your presence revoke a previously submitted proxy. You may revoke a previously submitted proxy at any time before it is exercised by giving written notice of your intention to revoke the proxy to our Board Secretary, by notifying the appropriate personnel at the annual meeting in writing or by voting in person at the annual meeting. Unless revoked, the shares represented by proxies received by our board of directors will be voted at the annual meeting in accordance with the instructions thereon. If no instructions are specified on a proxy, the votes represented thereby will be voted: (1) for the board's two director nominees set forth below; (2) for the advisory vote to approve the compensation of our named executive officers as disclosed in the Compensation Discussion and Analysis section and the executive compensation tables set forth below in this proxy statement; (3) for the submission of the compensation of our named executive officers to an advisory vote of shareholders on an annual basis; (4) for ratification of BDO USA, LLC to serve as our independent registered public accounting firm for our fiscal year 2012; (5) for approval of the amendment of our 2004 Stock and Incentive Awards Plan to increase the number of shares authorized for issuance thereunder, contingent on our company's achievement of certain specified financial objectives for fiscal 2012; (6) for approval of the material terms of the performance goals under our 2004 Stock and Incentive Awards Plan; and (7) on such other matters that may properly come before the annual meeting in accordance with the best judgment of the persons named as proxies.

IMPORTANT: If you hold your shares in a brokerage account, you should be aware that, if you do not instruct your broker how to vote, your broker will not be permitted to vote your shares for the election of directors, on the advisory vote to approve the compensation of our named executive officers, on the advisory vote on the frequency of advisory votes on the compensation of our named executive officers, on the proposal to approve an amendment of our 2004 Stock and Incentive Awards Plan or on the proposal to approve the material terms of the performance goals under our 2004 Stock and Incentive Awards Plan. Therefore, you must affirmatively take action to vote your shares at our annual meeting. If you do not, your shares will not be voted on these items.

The two nominees receiving the highest vote totals of the eligible shares of our common stock, no par value per share (Common Stock), will be elected as our directors. With regard to the election of directors, votes may be cast in favor or withheld; votes that are withheld will be excluded entirely from the vote and will have no effect.

The advisory vote to approve the compensation of our named executive officers, the appointment of BDO USA, LLC to serve as our independent registered public accounting firm for our fiscal year 2012, the proposal to approve the amendment of our 2004 Stock and Incentive Awards Plan to increase the number of shares authorized for issuance thereunder and the proposal to approve the material terms of the performance goals under our 2004 Stock and Incentive Awards Plan will be approved if the votes cast in favor of approval exceed the votes cast against approval. The frequency of the advisory vote on the compensation of our named executive officers receiving the greatest number of votes cast in favor of such frequency, whether every year, every two years or every three years, will be the frequency of the advisory vote on executive compensation that shareholders are deemed to have approved. Abstentions will be counted for purposes of determining the presence of a quorum but will be disregarded in the calculation of votes cast and will have no effect on the advisory vote on the frequency of the advisory vote on executive compensation.

Only holders of record of shares of our Common Stock as of the close of business on August 31, 2011 (the Record Date) are entitled to vote at the annual meeting. As of the Record Date, we had 22,991,900 shares of Common Stock outstanding and entitled to vote. The record holder of each share of Common Stock outstanding on the Record Date is entitled to one vote per share on each matter submitted for shareholder consideration at the annual meeting.

In order for us to validly transact business at the annual meeting, we must have a quorum present. A majority of the votes of the shares of Common Stock entitled to be cast, or shares representing at least 11,495,951 votes, will represent a quorum for the purposes of electing directors, conducting an advisory vote to approve the compensation of our named executive officers, conducting an advisory vote on the frequency of the advisory shareholder vote on the compensation of our named executive officers, ratifying BDO USA, LLC to serve as our independent registered public accounting firm for fiscal 2012, approving an amendment to our 2004 Stock and Incentive Awards Plan, approving the material terms of the performance goals under our 2004 Stock and Incentive Awards Plan and conducting any other business that may properly come before the annual meeting.

WE INTEND TO BEGIN MAILING THIS PROXY STATEMENT ON OR ABOUT SEPTEMBER 9, 2011.

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PROPOSAL ONE:

ELECTION OF DIRECTORS

We maintain a staggered board of directors divided into three classes. Currently, there are three directors in each of Class I, Class II and Class III. Each director serves for a term ending on the date of the third annual shareholders meeting following the annual shareholders meeting at which such director's class was most recently elected and until his or her successor is duly elected and qualified. At the annual meeting, the terms of all three of our current Class I directors will expire. Two of these directors are nominees for re-election at the annual meeting, and one of them will not be standing for re-election but is being appointed as a director emeritus. As a result, at the annual meeting, our shareholders will elect two Class I directors to serve until our 2014 annual meeting of shareholders and until their successors are duly elected and qualified.

The board's nominees for election as Class I directors for terms expiring at the 2014 annual meeting are Michael J. Potts and Elizabeth Gamsky Rich, each of whom is currently serving as a director of our company. Ms. Rich was appointed to our board of directors on June 23, 2010 and has not previously been elected by our shareholders. Mr. Potts has served on our Board since 2001. More information about Ms. Rich and Mr. Potts is set forth below. Additionally, Thomas A. Quadracci will not be standing for reelection at the annual meeting. However, in recognition of his long service as a director and a past chairman of our board of directors, and to ensure that the board retains Mr. Quadracci's strategic viewpoints and perspectives on key board decisions, Mr. Quadracci will be appointed by the board as a director emeritus and will be invited to attend future meetings of the board and its committees but, after the date of our annual meeting, he will no longer be a member of the board or entitled to vote on board or committee matters. Mr. Quadracci has served as a director since 2006, and was chairman of our board of directors from 2006 until 2009. Mr. Quadracci was executive chairman of Quad/Graphics, Inc., one of the United States' largest commercial printing companies which he co-founded in 1971, until January 1, 2007, where he also served at various times as executive vice president, president and chief executive officer, and chairman and chief executive officer. Mr. Quadracci also founded and served as President of Quad/Tech, Inc., a manufacturer and marketer of industrial controls, until 2002.

The individuals named as proxy voters in the accompanying proxy, or their substitutes, will vote for the board's nominees with respect to all proxies we receive unless instructions to the contrary are provided. If any nominee becomes unavailable for any reason, the votes will be cast for a substitute nominee designated by our board. Our directors have no reason to believe that any of the nominees named below will be unable to serve if elected.

The following sets forth certain information, as of August 31, 2011, about each of the board's nominees for election at the annual meeting, each director of our company whose term will continue after our annual meeting, and each current director not standing for re-election at the annual meeting.

Nominees For Election at the Annual Meeting

Class I Directors Terms Expiring 2011

Michael J. Potts, 47, became our president and chief operating officer in July 2010. Prior to becoming our president and chief operating officer, Mr. Potts served as our executive vice president since 2003 and has served as a director since 2001. Mr. Potts joined our company as our vice president - technical services in 2001. Prior to joining our company, Mr. Potts founded Energy Executives Inc., a consulting firm that assisted large energy-consuming clients on energy issues. From 1988 through 2001, Mr. Potts was employed by Kohler Co., one of the world's largest manufacturers of plumbing products. From 1990 through 1999 he held the position of supervising engineer - energy in

Kohler's energy and utilities department. In 2000, Mr. Potts assumed the position of supervisor of energy management group of Kohler's entire corporate energy portfolio, as well as the position of general manager of its natural gas subsidiary. Mr. Potts is licensed as a professional engineer in Wisconsin. We believe that Mr. Potts' experiences as our executive vice president and in leadership roles in the energy industry and his public affairs experience and engineering background qualify him for service as a director of our company.

Elizabeth Gamsky Rich, 52, was appointed to our board of directors in June 2010. Since January 2009 and from 2000 to 2007, Ms. Rich has been the owner of, and an attorney with, Elizabeth Gamsky Rich & Associates S.C., a law firm offering legal services in the areas of energy law, environmental law, land use, real estate law and business

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law. From September 2007 to January 2009, Ms. Rich was a principal shareholder of Petrie & Stocking S.C., supervising a general legal practice and practicing in the areas of energy, environmental and real estate law and related litigation. Ms. Rich has served as a member of the board of directors for Outpost Natural Foods, Gateway 2 Center Inc., the Wisconsin State Bar Board of Governors and the Plymouth Arts Foundation, and she currently serves on the board of directors for the Farm-to-Consumer Legal Defense Foundation. We believe that Ms. Rich's background in advising companies in the energy and environmental sectors and her experience as a director for various entities qualify her for service as a director of our company.

RECOMMENDATION OF THE BOARD: The board of directors recommends a vote for Ms. Rich and Mr. Potts for election as Class I directors at the annual meeting to serve until our 2014 annual meeting of shareholders and until their successors are duly elected and qualified.

Directors Continuing in Office

Class II Directors Terms Expiring 2012

Mark C. Williamson, 57, has served as a director since April 2009 and has been our lead independent director since October 2009. Mr. Williamson has been a partner of Putnam Roby Williamson Communications of Madison, Wis., a strategic communications firm specializing in energy utility matters, since 2008. He has more than 20 years of executive-level utility experience. Prior to joining Putnam Roby Williamson Communications, Mr. Williamson was vice president of major projects for American Transmission Company from 2002 to 2008, served as executive vice president and chief strategic officer with Madison Gas and Electric Company from 1986 to 2002 and, prior to 1986, was a trial attorney with the Madison firm of Geisler and Kay S.C. We believe that Mr. Williamson's background in the energy utility industry and in management positions qualify him for service as a director of our company.

Michael W. Altschaefl, 52, has served as a director since October 2009. Mr. Altschaefl is an owner and chief executive officer of Albany-Chicago Company LLC, a custom die cast and machined components company. Mr. Altschaefl is a certified public accountant. Prior to joining Albany-Chicago Company LLC in 2008, Mr. Altschaefl served as a partner with Grant Thornton LLP, an independent registered public accounting firm, for six years. We believe that Mr. Altschaefl's experience in leadership positions at manufacturing companies and his background as a public accountant qualify him for service as a director of our company.

Tryg C. Jacobson, 55, was appointed to our board of directors on May 31, 2011. Since 2010, Mr. Jacobson has been the founder and president of Jake's Café LLC, a collaborative community for creative professionals. Prior to founding Jake's Café LLC, Mr. Jacobson was the owner and chairman of Jacobson Rost, a Wisconsin-based marketing communications firm specializing in corporate branding, from 1981 to 2010. Before joining Jacobson Rost, Mr. Jacobson ran Ice Nine Corporation, a Minneapolis textile printing firm he founded in 1978. In addition to his business responsibilities, Mr. Jacobson served until 2010 on the Kohler Foundation's Board of Directors. He has also been a brand specialist/speaker for The Executive Committee since 1995, focusing on teaching his brand methodology to businesses in the United States and Canada. Mr. Jacobson has also served as a director of US Sailing Center Sheboygan since 2009. We believe that Mr. Jacobson's experiences in leadership positions at companies in the corporate communications and branding industries qualify him for service as a director of our company.

Class III Directors Terms Expiring 2013

Neal R. Verfuert, 52, has been a director since 1998 and our chief executive officer since 2005. From 1998 until July 2009, Mr. Verfuert also served as our president, and from 2009 until August 25, 2010, he served as chairman of our board of directors. He co-founded our company in 1996 and served until 1998 as our vice president. From 1993 to 1996, he was employed as director of sales/marketing and product development of Lights of America, Inc., a

manufacturer and distributor of compact fluorescent lighting technology. Prior to that time, Mr. Verfuert served as president of Energy 2000/Virtus Corp., a solar heating and energy efficient lighting business. Mr. Verfuert has invented many of our products, principally our Compact Modular energy efficient lighting system, and other related energy control technologies used by our company. We believe that Mr. Verfuert's role as founder of our company and inventor of many of our products and his experience in leadership positions in the energy management industry qualify him for service as a director of our company.

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James R. Kackley, 69, has been a director since 2005 and the non-executive chairman of our board of directors since August 25, 2010, and served as our president and chief operating officer from July 2009 until May 2010. Mr. Kackley practiced as a public accountant for Arthur Andersen, LLP from 1963 to 1999. From 1974 to 1999, he was an audit partner for the firm. In addition, in 1998 and 1999, he served as chief financial officer for Andersen Worldwide. From June 1999 to May 2002, Mr. Kackley served as an adjunct professor at the Kellstadt School of Management at DePaul University. Mr. Kackley serves as a director, a member of the executive committee and the audit committee chairman of Herman Miller, Inc. From 2004 until 2010, Mr. Kackley served as a director and member of the management resources and compensation committee and audit committee of PepsiAmericas, Inc. prior to its sale, and from February 2007 to October 2007 he also served as a director and a member of the nominating and governance committee and the audit committee of Ryerson, Inc. prior to its sale. In December 2010, Mr. Kackley was elected to the board of directors of Perficient, Inc., a publicly-traded information technology consulting firm, where he serves as a member of the audit committee and nominating and governance committee. We believe that Mr. Kackley's background as a public accountant and chief financial officer, his public company audit committee service, his role as our president and chief operating officer and his experience in leadership positions in business qualify him for service as a director of our company.

Thomas N. Schueller, 68, was appointed to our board of directors in April 2010 and elected by shareholders at our 2010 annual meeting. From 2007 until his retirement in 2009, Mr. Schueller was chief credit officer and managing director of Lake Shore Wisconsin Corporation, a commercial banking enterprise headquartered in Sheboygan, Wisconsin. Prior to his position at Lake Shore Wisconsin Corporation, Mr. Schueller served as president and senior loan review officer of Community Bank and Trust of Sheboygan, a commercial bank headquartered in Sheboygan, Wisconsin, from 1990 to 2007. From 1970 to 1989, Mr. Schueller served in a variety of positions, including senior vice president and regional senior lender, for Citizens Bank and Trust in Sheboygan. We believe that Mr. Schueller's career in the commercial finance industry and his experience in helping to finance many growth companies qualify him for service as a director of our company.

We strongly encourage our directors to attend our annual meeting. All but one of our then serving directors attended our 2010 annual meeting.

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CORPORATE GOVERNANCE

Board of Directors General

Our board of directors met six times during fiscal 2011. All of our directors attended at least seventy-five percent of the aggregate of (a) the total number of meetings of the board held during the fiscal year while they were a director and (b) the total number of meetings held by all committees of the board on which they served during the fiscal year while they were serving on the committees.

Our board has determined that each of Ms. Rich and Messrs. Altschaefl, Jacobson, Quadracci, Schueller and Williamson is independent under the listing standards of the NYSE Amex LLC (which we refer to as the NYSE Amex). Our board generally uses the director independence standards set forth by the NYSE Amex as its subjective independence criteria for directors, and then makes an affirmative determination as to each director's independence by taking into account other, objective criteria as applicable.

Board Committees

Our board of directors has established an audit and finance committee, a compensation committee and a nominating and corporate governance committee, and has adopted charters for each committee describing their respective responsibilities. The charters are available on our website at www.oesx.com.

Our audit and finance committee was established in accordance with Section 3(a)(58)(A) of the Securities Exchange Act of 1934 (which we refer to as the Exchange Act) and is currently comprised of Messrs. Altschaefl, Quadracci, Schueller and Williamson, with Mr. Altschaefl acting as the chair. Each member of the audit and finance committee is an audit committee financial expert, as defined under rules of the Securities and Exchange Commission (which we refer to as the SEC) implementing Section 407 of the Sarbanes-Oxley Act of 2002 (which we refer to as the Sarbanes-Oxley Act). The principal responsibilities and functions of our audit and finance committee are to (i) oversee the reliability of our financial reporting, the effectiveness of our internal control over financial reporting, and the independence of our internal and external auditors and audit functions and (ii) oversee the capital structure of our company and assist our board of directors in assuring that appropriate capital is available for operations and strategic initiatives. In carrying out its accounting and financial reporting oversight responsibilities and functions, our audit and finance committee, among other things, oversees and interacts with our independent auditors regarding the auditors engagement and/or dismissal, duties, compensation, qualifications and performance; reviews and discusses with our independent auditors the scope of audits and our accounting principles, policies and practices; reviews and discusses our audited annual financial statements with our independent auditors and management; and reviews and approves or ratifies (if appropriate) related party transactions. Our audit and finance committee also is directly responsible for the appointment, compensation, retention and oversight of our independent auditors. Our audit and finance committee met eight times in fiscal 2011. Our audit and finance committee meets the requirements for independence under the current rules of the NYSE Amex and the SEC, as Messrs. Altschaefl, Quadracci, Schueller and Williamson are all independent directors for such purposes.

Our compensation committee is currently comprised of Ms. Rich and Messrs. Jacobson, Quadracci and Williamson, with Mr. Williamson acting as the chair. The principal functions of our compensation committee include (i) administering our incentive compensation plans; (ii) establishing performance criteria for, and evaluating the performance of, our executive officers; (iii) annually setting salary and other compensation for our executive officers; (iv) overseeing the company's response to the outcome of the advisory vote on executive compensation; and (v) annually reviewing the compensation paid to our non-employee directors. Our compensation committee met seven times in fiscal 2011. Our compensation committee meets the requirements for independence under the current NYSE

Amex and SEC rules, as Ms. Rich and Messrs. Jacobson, Quadracci and Williamson are all independent directors for such purposes. In connection with making decisions concerning executive compensation for fiscal 2011, our compensation committee engaged Towers Watson to provide the committee with Towers Watson's market assessment, based on its published survey sources, of the base salary, total cash compensation and total direct compensation of our executive officers to assist the committee in determining compensation. Separately, our company engaged Towers Watson to conduct a market assessment of 40 of our employment positions (not including our named executive officers (as described below)) and provide our management team with comparative

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benchmarking compensation data for such positions based on its published survey sources with respect to base salary and total cash compensation. The aggregate fees for this engagement did not exceed \$120,000 during fiscal 2011.

Our nominating and corporate governance committee is comprised of Ms. Rich and Messrs. Quadracci, Altschaeffl and Schueller, with Mr. Quadracci acting as the chair. The principal functions of our nominating and corporate governance committee are, among other things, to (i) establish and communicate to shareholders a method of recommending potential director nominees for the committee's consideration; (ii) develop criteria for selection of director nominees; (iii) identify and recommend persons to be selected by our board of directors as nominees for election as directors; (iv) plan for continuity on our board of directors; (v) recommend action to our board of directors upon any vacancies on the board; and (vi) consider and recommend to our board other actions relating to our board of directors, its members and its committees. Our nominating and corporate governance committee met three times in fiscal 2011. Our nominating and corporate governance committee meets the requirements for independence under the current NYSE Amex and SEC rules, as Ms. Rich and Messrs. Quadracci and Schueller are all independent directors for such purposes.

Board Leadership Structure and Role in Risk Oversight

Our board of directors does not have a policy on whether or not the roles of chief executive officer and chairman should be separate. Our board reserves the right to assign the responsibilities of the chief executive officer and chairman in different individuals or in the same individual if, in the board's judgment, a combined chief executive officer and chairman position is determined to be in the best interest of our company. In the circumstance where the responsibilities of the chief executive officer and chairman are vested in the same individual or in other circumstances when deemed appropriate, the Board will designate a lead independent director from among the independent directors to preside at the meetings of the non-employee director executive sessions.

The positions of chief executive officer and chairman have been separate since August 25, 2010. Prior to that time, the positions were combined from 2009 until August 25, 2010 in Mr. Verfuert, our chief executive officer. On August 25, 2010, our board elected Mr. Kackley as non-executive chairman to permit Mr. Verfuert to further focus on executing our business strategy. Our board retains the authority to modify this structure to best address our company's unique circumstances as and when appropriate.

To supplement our non-executive chairman position, our board has created a lead independent director role. Mr. Williamson currently serves as our lead independent director. Our lead independent director is an independent director who works closely with the chairman and the chief executive officer. The principal duties of the lead independent director are the following:

Serve as the principal liaison between the independent directors and the chairman and the chief executive officer on sensitive issues and in matters relating to the board as a whole.

Together with the chairman, coordinate, develop the agenda for and lead executive sessions for the board of director's independent directors.

Communicate with the chairman and the chief executive officer after each board meeting to provide feedback on the substance of the items presented.

Our full board is responsible for the oversight of our operational risk management process. Our board has assigned responsibility for addressing certain risks, and the steps management has taken to monitor, control and report such risk, to our audit and finance committee, including risks relating to execution of our growth strategy, the effects of the recessionary global economy on customer purchases, communications with the investment community regarding the

impact of various activities on profitability, component inventory supply, our ability to expand our partner network, communication with investors, certain actions of our competitors, the protection of our intellectual property, sufficiency of our capital, wireless inventory investment and risk of obsolescence, security of information systems and data, implementation of new information systems, credit risk, product liability, costs of reliance on external advisors and addition of new renewable energy technologies, with appropriate reporting of these risks made periodically to the full board. Our board relies on our compensation committee to address significant risk exposures facing our company with respect to compensation, including risks relating to retention of

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rainmakers and other key sales personnel, protection of partner relationships, management succession and benefit costs, also with appropriate reporting of these risks made periodically to the full board. Our board's role in the oversight of our risk management has not affected our board's determination that separate chief executive officer and chairman positions constitute the most appropriate leadership structure for our company at this time. Our audit and finance committee and our full board review and comment on the draft risk factors for disclosure in our annual and quarterly reports and use the receipt of such draft risk factors to initiate discussions with appropriate members of our senior management if such risk factors raise questions or concerns about the status of operational risks then facing our company.

Nominating and Corporate Governance Committee Procedures

Our nominating and corporate governance committee will consider shareholder recommendations for potential director nominees, which should be sent to the Nominating and Corporate Governance Committee, c/o Board Secretary, Orion Energy Systems, Inc., 2210 Woodland Drive, Manitowoc, Wisconsin 54220. The time by which such recommendations must be received in order to be timely is set forth below under Shareholder Proposals. The information to be included with recommendations is set forth in our Amended and Restated Bylaws, and factors that our nominating and corporate governance committee will consider in selecting director nominees are set forth in our Corporate Governance Guidelines. Our Corporate Governance Guidelines are available on our website at www.oesx.com. Our nominating and corporate governance committee evaluates all potential nominees in the same manner, and may consider, among other things, a 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. Our nominating and corporate governance committee believes that directors should display the highest personal and professional ethics, integrity and values and sound business judgment. The committee also believes that, while diversity and variety of experiences and viewpoints represented on our board should always be considered, a director nominee should not be chosen nor excluded solely or largely because of geographic, gender, age or ethnic diversity. Our nominating and corporate governance committee evaluates each incumbent director to determine whether he or she should be nominated to stand for re-election, based on the types of criteria outlined above as well as the director's contributions to the Board during their current term. As part of its periodic self-assessment, our nominating and corporate governance committee assesses the effectiveness of its director selection policy described in this paragraph, including its provisions relating to the consideration of diversity.

Code of Conduct

We have adopted a Code of Conduct that applies to all of our directors, employees and officers, including our principal executive officer, our principal financial officer, our controller and persons performing similar functions. Our Code of Conduct is available on our web site at www.oesx.com. Future material amendments or waivers relating to the Code of Conduct will be disclosed on our web site referenced in this paragraph within four business days following the date of such amendment or waiver.

EXECUTIVE OFFICERS

The following table sets forth information as of August 31, 2011 regarding our current executive officers:

Name	Age	Position
Neal R. Verfuert	52	Chief Executive Officer
Scott R. Jensen	44	Chief Financial Officer and Treasurer
Michael J. Potts	47	President and Chief Operating Officer

Richard Gaumer	58	Executive Vice President of Operations and Chief Accounting Officer
John H. Scribante	46	President of Orion Engineered Systems
Daniel J. Waibel	51	Executive Vice President

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The following biographies describe the business experience of our executive officers. (For biographies of Messrs. Verfuherth and Potts, see Proposal One: Election of Directors above.)

Scott R. Jensen has been our Chief Financial Officer since June 3, 2011 and our Treasurer since July 2008. He also served as our Chief Accounting Officer from April 2011 until June 3, 2011, as our Chief Financial Officer from July 2008 until April 2011, as our Controller and Vice President of Corporate Finance from 2007 until 2008 and as our Director of Finance from 2004 to 2007. From 2002 to 2004, Mr. Jensen was the manager of financial planning and analysis at the Mirro Co. (a division of Newell Rubbermaid). Mr. Jensen is a certified public accountant.

Richard Gaumer became our Executive Vice President of Operations in February 2011 and our Chief Accounting Officer on June 3, 2011. Prior to joining us, Mr. Gaumer had been an independent consultant to our company since June 2010 and had served since 1999 as a tenured professor of accounting and leadership at Lakeland College, a liberal arts college in Sheboygan, Wisconsin. At Lakeland College, Mr. Gaumer oversaw technical research in the areas of Sarbanes-Oxley Act compliance and lean accounting best practices. Mr. Gaumer also jointly served as an adjunct professor for the University of Wisconsin Milwaukee and University of Wisconsin Green Bay, teaching graduate-level courses on financial decision making. Prior to his positions in academia and as an independent consultant, Mr. Gaumer held various financial executive positions including chief financial officer at Strategic Data Systems, a provider of information technology services, and divisional controller at Illinois Tool Works Inc., a multinational manufacturer of a diversified range of industrial products and equipment. He began his career at Kohler Co., a diversified manufacturer of plumbing products, furniture, engines and generators, with responsibilities in corporate taxation, internal controls and divisional controls. Mr. Gaumer is a licensed certified public accountant and certified fraud examiner.

John H. Scribante became President of our Orion Engineered Systems Division in August 2009, after serving since 2007 as our Senior Vice President of Business Development. Mr. Scribante served as our Vice President of Sales from 2004 until 2007. Prior to joining our company, Mr. Scribante co-founded and served as chief executive officer of Xe Energy, LLC, a distribution company that specialized in marketing energy reduction technologies, from 2003 to 2004. From 1996 to 2003, he co-founded and served as president of Innovize, LLC, a company that provided outsourcing services to mid-market manufacturing companies.

Daniel J. Waibel became our Executive Vice President in August 2011. He was formerly President of our Orion Asset Management Division since July 2008. Prior to being appointed President of the Orion Asset Management Division, Mr. Waibel had served since 2001 as our Chief Financial Officer and Treasurer. Mr. Waibel has over 19 years of financial management experience, and is a certified public accountant and a certified management accountant. From 1998 to 2001, he was employed by Radius Capital Partners, LLC, a venture capital and business formation firm, as a principal and chief financial officer. From 1994 through 1998, Mr. Waibel was chief financial officer of Ryko Corporation, an independent recording music label. From 1992 to 1994, Mr. Waibel was controller and general manager of Chippewa Springs, Ltd., a premium beverage company. From 1990 to 1992, Mr. Waibel was director of internal audit for Musicland Stores Corporation, a music retailer. Mr. Waibel was employed by Arthur Andersen, LLP from 1982 to 1990 as an audit manager.

EXECUTIVE COMPENSATION

Compensation Discussion and Analysis

This compensation discussion and analysis describes the material elements of compensation awarded to, earned by, or paid to each of our named executive officers, whom we refer to as our NEOs, during fiscal 2011 and describes our policies and decisions made with respect to the information contained in the following tables, related footnotes and narrative for fiscal 2011. The NEOs are identified below in the table titled Summary Compensation Table for Fiscal

2011. In this compensation discussion and analysis, we also describe various actions regarding

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NEO compensation taken before or after fiscal 2011 when we believe it enhances the understanding of our executive compensation program.

Overview of Our Executive Compensation Philosophy and Design

We believe that a skilled, experienced and dedicated senior management team is essential to the future performance of our company and to building shareholder value. We have sought to establish competitive compensation programs that enable us to attract and retain executive officers with these qualities. The other objectives of our compensation programs for our executive officers are the following:

to motivate our executive officers to achieve strong financial performance, particularly increased revenue, profitability, free cash flow and shareholder value;

to attract and retain executive officers who we believe have the experience, temperament, talents and convictions to contribute significantly to our future success; and

to align the interests of our executive officers with the interests of our shareholders.

In light of these objectives, we have sought to reward our NEOs for achieving financial performance goals, creating value for our shareholders, and for loyalty and dedication to our company. We also seek to reward initiative, innovation and creation of new products, technologies, business methods and applications, since we believe our future success depends, in part, on our ability to continue to expand our revenue, product and market opportunities.

At the beginning of fiscal 2011, our compensation committee, with the concurrence and support of our chief executive officer, took the following actions with respect to the compensation of our NEOs and other executive officers:

Paid no annual bonuses for fiscal 2010;

Continued to freeze base salaries for fiscal 2011 at their respective fiscal 2010 levels (in most cases at fiscal 2009 levels), except for new hires and certain limited exceptions;

Implemented a new annual cash bonus program with threshold corporate financial performance criteria requiring at least a 20% year over year increase in our revenue and a minimum of a \$4 million operating profit; and

Granted long-term equity incentive awards to our NEOs at substantially lower levels than past practice.

Our compensation committee also increased Mr. Potts' and Mr. Scribante's annual base salaries to reflect their increased duties and responsibilities as president and chief operating officer, in the case of Mr. Potts, and as a leader of an operating division of our company, in the case of Mr. Scribante, each as described below.

In early fiscal 2012, our management team recommended, and our compensation committee approved, the following attributes for our executive compensation program for fiscal 2012:

Paid no bonuses for fiscal 2011, despite increasing revenue in fiscal 2011 by over 37% from fiscal 2010.

Continued to freeze base salaries for fiscal 2012 at their respective fiscal 2011 levels (in most cases unchanged from fiscal 2009 levels), except for new hires, promotions and certain limited exceptions.

Substitute, in lieu of our existing annual cash bonus program and fiscal 2012 grants under our long-term equity incentive program, a new, comprehensive equity- and performance-based incentive compensation program, described below, which is designed to focus our management team and key employees on delivering substantial financial performance improvements in fiscal 2012 over fiscal 2011.

These actions are analyzed further below. Our compensation committee has reserved the right and discretion to make exceptions to the foregoing actions, including as any such exception may apply to the determination of any and/or all of the relative base salaries, annual cash bonuses, long-term incentive compensation and/or total direct compensation of our executives, for outstanding contributions to the overall success of our company and the creation of shareholder value, as well as in cases where it may be necessary or advisable to attract and/or retain executives who our compensation committee believes are or will be key contributors to creating and sustaining

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shareholder value, as determined by our compensation committee based on the recommendations of our chief executive officer (in all cases other than our chief executive officer's own compensation).

Setting Executive Compensation

Our board of directors, our compensation committee and our chief executive officer each play a role in setting the compensation of our NEOs. Our board of directors appoints the members of our compensation committee and delegates to the compensation committee the direct responsibility for overseeing the design and administration of our executive compensation program. Our compensation committee consists of Messrs. Williamson (Chair), Jacobson and Quadracci and Ms. Rich. Each member of our compensation committee is an outside director for purposes of Section 162(m) of the Internal Revenue Code of 1986, as amended, which we refer to as the Code, and a non-employee director for purposes of Rule 16b-3 under the Exchange Act.

Our compensation committee has primary responsibility for, among other things, determining our compensation philosophy, evaluating the performance of our executive officers, setting the compensation and other benefits of our executive officers, overseeing our company's response to the outcome of the advisory votes of shareholders on executive compensation and administering our incentive compensation plans. Our chief executive officer makes recommendations to our compensation committee regarding the compensation of other executive officers and attends meetings of our compensation committee at which our compensation committee considers the compensation of other executives. Our compensation committee considers these recommendations, but has the final discretionary responsibility for determining the compensation of all of our executive officers.

In late fiscal 2010, our compensation committee engaged Towers Watson to provide the committee with Towers Watson's market assessment, based on its published survey sources, of the base salary, total cash compensation and total direct compensation of our executive officers to assist the committee in determining fiscal 2011 compensation. Separately, our company engaged Towers Watson to conduct a market assessment of 40 of our employment positions (not including our NEOs) and provide our management team with comparative benchmarking compensation data for such positions based on its published survey sources with respect to base salary and total cash compensation.

Because of the general recessionary economic and industry conditions and their adverse impact on our fiscal 2010 financial performance and fiscal 2011 prospects, the compensation committee, with the concurrence and support of our chief executive officer, determined in the beginning of fiscal 2011 that it would (i) pay no annual bonuses for fiscal 2010; (ii) continue to freeze base salaries for fiscal 2011 at their respective fiscal 2010 levels (in most cases at fiscal 2009 levels), except for new hires and certain limited exceptions; (iii) implement a new fiscal 2011 annual cash bonus program with threshold corporate financial performance criteria requiring at least a 20% year over year increase in our revenue and a minimum of a \$4 million operating profit; and (iv) grant long-term equity incentive awards to our NEOs at substantially lower levels than past practice.

Pursuant to its engagement by our compensation committee in determining fiscal 2011 compensation, Towers Watson provided the committee with certain benchmarking data for salaries, annual bonuses, long-term incentive compensation and total direct compensation. In compiling the benchmarking data, Towers Watson relied on the Towers Perrin 2009 Long-Term Incentive Survey, the Watson Wyatt 2009/2010 Top Management Compensation Survey and the Watson Wyatt 2009/2010 Middle Management Compensation Survey. To approximate our labor market, Towers Watson used market results corresponding to the participating companies in the surveys who are in the electrical equipment and supplies industry or, to the extent such results were not available for a position, results corresponding to participating companies in the durable goods manufacturing industry. Towers Watson used regression analysis to adjust the survey data to compensate for differences among the revenue sizes of the companies in the survey and our revenue size. In making its fiscal 2011 compensation decisions, however, our compensation committee did not receive or review, and was not aware of, the identities of the individual participating companies in

the surveys on which Towers Watson relied, which information is proprietary and confidential to Towers Watson. Accordingly, our compensation committee did not have access to, or rely upon, the individual companies comprising such confidential and proprietary general market survey data in determining the compensation of our NEOs. Our compensation committee did not engage Towers Watson or any other compensation consultant in setting executive compensation levels or making decisions regarding executive compensation plans for fiscal 2012. The committee

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determined that it was not necessary to incur the expense of obtaining additional advice and guidance from an executive compensation consultant for fiscal year 2012 for the following reasons:

Towers Watson had undertaken extensive work on behalf of the committee in the preceding fiscal year relating to our executive compensation levels relative to our peer group and market trends.

The compensation committee believed, based on informal discussions with Towers Watson, that the relative market trends for executive compensation for our peer group, and for the market generally, had not significantly changed during fiscal 2011, and that our relative executive compensation levels remained well within the median range of our peer group.

The committee did not expect to change significantly the total base compensation levels for our executive officers for fiscal 2012. In particular, the committee expected to maintain executive base salary levels flat with prior years for the third year in a row and bonus opportunities were largely the same as provided in fiscal 2012 (unless we achieve exceptional performance).

The committee intends to revisit whether to engage a compensation consultant for fiscal 2012 depending upon market conditions and our company's performance.

Elements of Executive Compensation

Our current executive compensation program for our NEOs consists of the following elements:

Base salary;

Incentive compensation (both annual and long-term); and

Retirement and other benefits.

Base Salary

We pay our NEOs a base salary to compensate them for services rendered and to provide them with a steady source of income for living expenses throughout the year. In early fiscal 2011, as a result of the challenging economic and industry market conditions and their adverse impact on our fiscal 2010 financial results and our then existing fiscal 2011 prospects, our compensation committee continued the freeze on the base salaries of all of our NEOs (other than Mr. Potts and Mr. Scribante). To reflect Mr. Potts' increased duties and responsibilities as president and chief operating officer, our compensation committee increased his annual base salary from \$225,000 to \$275,000, which was consistent with the median of market salaries paid to similarly situated executives as determined by the committee based on the benchmarking data previously provided to the committee by Towers Watson. Likewise, to reflect Mr. Scribante's increased duties and responsibilities as a leader of an operating division of our company, our compensation committee increased his annual base salary from \$225,000 to \$275,000, which was consistent with the median of market salaries paid to similarly situated executives as determined by the committee based on the benchmarking data previously provided to the committee by Towers Watson.

The fiscal 2011 annual base salaries for our NEOs were as follows:

Name and Current Position

Base Salary (\$)

Neal R. Verfuert Chief Executive Officer	\$ 460,000
Michael J. Potts President and Chief Operating Officer(1)	275,000
John H. Scribante President of Orion Engineered Systems	275,000
Daniel J. Waibel Executive Vice President(2)	225,000
Scott R. Jensen Chief Financial Officer and Treasurer(3)	200,000

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- (1) Mr. Potts became our president and chief operating officer effective as of July 21, 2010.
- (2) Mr. Waibel became our executive vice president in August 2011. He was previously president of the Orion Asset Management Division.
- (3) Mr. Jensen's base salary was increased to \$225,000 for fiscal 2012 in connection with his resumption of the role of our chief financial officer in June 2011.

In early fiscal 2012, management recommended, and our compensation committee approved, again freezing the base salaries of our NEOs for fiscal 2012 at fiscal 2011 levels (unchanged from fiscal 2009 levels, except for certain new hires, promotions and other limited exceptions) due to our desire to place greater emphasis on incentive and pay-for-performance compensation as described further below. Accordingly, the salaries shown in the table above are our NEOs' salaries for fiscal 2012 as well, except that the fiscal 2012 base salary of Mr. Jensen, who resumed the role of our chief financial officer in June 2011, will be \$225,000, which was consistent with the median of market salaries paid to similarly situated executives as determined by the committee based on the benchmarking data previously provided to the committee by Towers Watson.

Incentive Compensation

Incentive Compensation for Fiscal 2011

Our incentive compensation programs for our NEOs for fiscal 2011 consisted of annual incentive cash bonus opportunities and long-term incentive compensation opportunities in the form of a time-vested non-qualified stock option grant.

Annual Cash Incentive Opportunity for Fiscal 2011

In fiscal 2011, we structured our annual cash bonus program to provide incentives to executives based on a broad combination of factors, including our corporate financial performance and the executive's individual performance. Under the program, in which all of our active, full-time employees (including our NEOs) participated, bonuses were to be paid out of a bonus pool established primarily on the basis of our achievement in fiscal 2011 of significantly increased revenue compared to fiscal 2010, as well as achieving significant operating income. Our management and compensation committee selected increased revenue and operating income as the primary performance measures for the bonus pool because they viewed revenue and operating income as the most critical elements to increasing the value of our Common Stock and, therefore, to our company's enterprise value.

For the bonus pool to be established, two threshold requirements were required to be met: our total revenues for fiscal 2011 must have increased by at least 20% over our fiscal 2010 level (i.e., from \$65.4 million in fiscal 2010 to at least \$78.5 million), and our operating income for fiscal 2011 must have exceeded \$4 million. If we achieved both of these threshold levels, a bonus pool would have been established in an amount equal to 4% of the amount of our total revenue increase in fiscal 2011 over 2010. The bonus pool would have been adjusted by a percentage equal to the percentage improvement or decline in our revenue per employee in fiscal 2011 compared to fiscal 2010. Our management and compensation committee included this element to emphasize the goal of improved efficiency of our employee base. The fiscal 2011 pool would also have been reduced by all significant quantifiable mistakes made by any employees as tracked and reported by our management team and our chief executive officer and as related to, and approved by, our compensation committee.

Although we exceeded our fiscal 2011 revenue target by reporting fiscal 2011 revenue of \$92.5 million (an increase of approximately 37% over our fiscal 2010 revenues), our fiscal 2011 operating income of almost \$2.4 million was below the \$4 million operating income threshold target. As a result, no bonuses were awarded for fiscal 2011.

The amount of individual bonus payouts under the fiscal 2011 bonus program, if the pool had been established, would have been based 80% on company-wide performance and 20% on personal performance for all employees, except our two business unit leaders, Mr. Scribante and Daniel J. Waibel. For Messrs. Scribante and Waibel, the amount of their bonuses would have been based 40% on company-wide performance, 40% on their respective business unit performance and 20% on personal performance. The amount of the portion of the business unit

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