

ORION ENERGY SYSTEMS, INC.

Form DEFR14A

August 07, 2008

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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 (Amendment No. 1)

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
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- 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)

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This amended proxy statement is being filed only to reflect a change to the time, from 3:30 p.m. to 2:00 p.m., and location, from the Holiday Inn in Manitowoc, Wisconsin to the Manitowoc, Wisconsin facilities of Orion Energy Systems, Inc., of the 2008 Annual Meeting of Shareholders.

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**Orion Energy Systems, Inc.
1204 Pilgrim Road
Plymouth, Wisconsin 53073
(920) 892-9340**

NOTICE OF 2008 ANNUAL MEETING OF SHAREHOLDERS

To the Shareholders of Orion Energy Systems, Inc.:

We cordially invite you to attend our 2008 Annual Meeting of Shareholders on September 10, 2008, at 2:00 p.m., Central Time, at our Manitowoc facilities located at 2001 Mirro Drive, Manitowoc, Wisconsin 54220. You are welcome and encouraged to arrive at Noon for food, refreshments and tours that will be offered prior to the annual meeting.

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 three directors; and
2. 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 July 25, 2008. 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.

By order of the Board of Directors:

Neal R. Verfuert
President and Chief Executive Officer

Plymouth, Wisconsin
August 6, 2008

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

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PROXY STATEMENT

**FOR THE 2008 ANNUAL MEETING OF SHAREHOLDERS
To be Held September 10, 2008**

This proxy statement and accompanying form of proxy are being furnished to our shareholders beginning on or about August 6, 2008, in connection with the solicitation of proxies by our board of directors for use at our 2008 Annual Meeting of Shareholders to be held on Wednesday, September 10, 2008, at 2:00 p.m., local time, at our Manitowoc facilities located at 2001 Mirro 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 2008 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 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 three director nominees set forth below and (2) on such other matters that may properly come before the annual meeting in accordance with the best judgment of the persons named as proxies. The three 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.

Only holders of record of shares of our Common Stock as of the close of business on July 25, 2008 (the Record Date) are entitled to vote at the annual meeting. As of the Record Date, we had 27,538,174 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 13,769,088 votes, will represent a quorum for the purposes of electing directors and conducting any other business that may properly come before the annual meeting.

WE INTEND TO BEGIN MAILING THIS PROXY STATEMENT ON OR ABOUT AUGUST 6, 2008.

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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 Class I, one director in Class II and two directors in 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 was 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. As a result, at the annual meeting, our shareholders will elect two Class I directors to serve until the 2011 annual meeting of shareholders and until their successors are duly elected and qualified.

Typically, we will only elect directors at any given annual meeting in the class of directors whose terms expire at that annual meeting. However, this year, we are also electing a Class II director to fill the Class II vacancy that was created by the May 31, 2008 resignation of Patrick J. Trotter.

Our other two directors will continue to serve on the board as Class III directors until their terms expire as indicated below. Accordingly, following the annual meeting, there will be two directors in Class I, two directors in Class II and two directors in Class III.

The board's nominees for election as Class I directors for terms expiring at the 2011 annual meeting are Thomas A. Quadracci and Michael J. Potts. The board's nominee for election as a Class II director for a term expiring at the 2009 annual meeting is Russell M. Flaum. Of our nominees, only Messrs. Quadracci and Potts are currently serving as directors of our company. 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 July 25, 2008, 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

Thomas A. Quadracci, 60, has served as chairman of our board since 2006. Mr. Quadracci was executive chairman of Quad/Graphics, Inc., one of the United States largest commercial printing companies that 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.

Michael J. Potts, 44, has been 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. 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 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.

Class II Director Term Expiring 2009

Russell M. Flaum, 58, has been executive vice president of Illinois Tool Works Inc., a manufacturer of engineered components and industrial systems, since 1992. Between 1986 and 1992, Mr. Flaum held various sales, marketing and executive positions with Illinois Tool Works Inc. following its acquisition of Signode Corporation, where Mr. Flaum had worked since 1975. Mr. Flaum also currently serves as a director and member of the executive committee of the National

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Association of Manufacturers, and as a member of the advisory board of Z Capital Partners, L.L.C. Mr. Flaum was a director of Ryerson Tull Inc. from 2004 to 2007, and a director of Quanex Corporation from 1997 to 2007. Mr. Flaum was initially recommended for nomination as a director by one of our non-employee directors.

Director Continuing in Office Term Expiring 2009

Eckhart G. Grohmann, 72, has served as a director since 2004. Through December 2007, Mr. Grohmann was president and chairman of Aluminum Casting & Engineering Co., Inc., an aluminum foundry company with over 300 employees. Mr. Grohmann is currently serving as a director of the Wisconsin Cast Metals Association and previously served as the Wisconsin president and national director of the American Foundrymen's Society. Mr. Grohmann has also served as a regent of the Milwaukee School of Engineering since 1990.

Directors Continuing in Office Terms Expiring 2010

Neal R. Verfuether, 49, has been our president and a director since 1998, and our chief executive officer since 2005. 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. Verfuether served as president of Energy 2000/Virtus Corp., a solar heating and energy efficient lighting business. Mr. Verfuether has invented many of our products, principally our Compact Modular energy efficient lighting system, and other related energy control technologies used by our company. He is married to our vice president of operations, Patricia A. Verfuether.

James R. Kackley, 66, has served as a director since 2005. 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., as a recent director and a member of the nominating and governance committee and the audit committee of Ryerson, Inc. prior to its sale, and as a director and member of the management resources and compensation committee and audit committee of PepsiAmericas, Inc.

Director Not Standing for Re-Election

Diana Propper de Callejon, 45, has served as a director since January 2007. Since 2003, Ms. Propper de Callejon has been a general partner of Expansion Capital Partners, LLC, a venture capital firm focused on investing in clean technologies. Prior to joining Expansion Capital Partners, LLC, Ms. Propper de Callejon co-founded and was managing director of EA Capital, a financial services firm focused on clean technologies. Ms. Propper de Callejon is currently the managing member of Expansion Capital Partners II - General Partner, LLC, the general partner of Expansion Capital Partners II, LP, the general partner of Clean Technology Fund II, LP, which is one of our principal shareholders. She is also a director and member of the compensation committee of Tiger Optics, LLC, an optical sensors company that is a portfolio company of Clean Technology Fund II, LP., and ConsumerPowerline, a provider of demand response and energy management solutions.

We strongly encourage our directors to attend the annual meeting of shareholders. At the 2007 annual meeting of shareholders, all of the directors then serving attended.

RECOMMENDATION OF THE BOARD: The board recommends and nominates Messrs. Quadracci and Potts for election as Class I directors at the annual meeting to serve until the 2011 annual meeting of shareholders and until their successors are duly elected and qualified. The board recommends and nominates

Mr. Flaum for election as a Class II director at the annual meeting to serve until the 2009 annual meeting of shareholders and until his successor is duly elected and qualified.

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CORPORATE GOVERNANCE

Board of Directors General

Our board is required to meet at least four times annually, once in executive session without management present. Our board met 14 times during fiscal 2008. All of the directors attended at least seventy-five percent of the aggregate of (a) the total number of meetings of the board and (b) the total number of meetings held by all committees of the board on which such director served during the fiscal year.

Our board has determined that each of Messrs. Quadracci, Kackley and Grohmann and Ms. Propper de Callejon are independent under listing standards of the Nasdaq Global Market (which we refer to as Nasdaq), and that Mr. Flaum (our nominee who is not currently serving as a director) is also independent under the Nasdaq listing standards. Our board also has determined that Patrick J. Trotter, one of our former directors who resigned effective May 31, 2008, was independent under such listing standards during the time of his service as a director. Our board generally uses the director independence standards set forth by Nasdaq 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. Our board may establish other committees from time to time to facilitate our corporate governance.

Our board of directors adopted a charter for our audit and finance committee on June 27, 2007, and the charter is available on our web site at www.oriones.com. Our audit and finance committee reviews its charter at least annually, and did so at its May 7, 2008 meeting. Our audit and finance committee is currently comprised of Messrs. Kackley, Grohmann and Quadracci. Mr. Kackley chairs the audit and finance committee and 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 12 times in fiscal 2008. Our audit and finance committee meets the requirements for independence under the current Nasdaq rules and the rules of the SEC, as Messrs. Kackley, Grohmann and Quadracci are independent directors for such purposes.

Our board of directors adopted a charter for our compensation committee on June 27, 2007, and the charter is available on our web site at www.oriones.com. Our compensation committee is currently comprised of Ms. Propper de Callejon and Messrs. Quadracci and Grohmann, with Mr. Quadracci 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; and (iv) annually reviewing the compensation paid to our non-employee directors. Our compensation committee met 11 times in fiscal 2008. Our compensation committee meets the requirements for independence under the current Nasdaq and SEC rules, as Ms. Propper de Callejon and Messrs. Quadracci and Grohmann are independent directors for such purposes. Following the annual meeting, assuming he is elected to our board, Mr. Flaum will become a member of the compensation committee,

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replacing Ms. Propper de Callejon. Mr. Flaum will also be considered an independent director for purposes of the current Nasdaq and SEC rules. In determining fiscal 2008 compensation, our compensation committee engaged Towers Perrin, a nationally-recognized compensation consulting firm, to provide recommendations and advice on our executive and director compensation programs. Our compensation committee instructed Towers Perrin, pursuant to its engagement, to provide benchmarking data on our NEOs and directors' compensation and advice on our executive and director compensation programs, change-of-control severance provisions and initial public offering bonuses.

Our board of directors adopted a charter for our nominating and corporate governance committee on June 29, 2007, and the charter is available on our web site at www.oriones.com. Our nominating and corporate governance committee is comprised of Messrs. Grohmann, Kackley and Quadracci, with Mr. Grohmann 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 did not meet in fiscal 2008. Our nominating and corporate governance committee meets the requirements for independence under the current Nasdaq and SEC rules, as Messrs. Grohmann, Kackley and Quadracci are independent directors for such purposes.

Compensation Committee Interlocks and Insider Participation

Two of the members of our compensation committee, Mr. Quadracci and Ms. Propper de Callejon, had relationships requiring disclosure as transactions with related persons, promoters and certain control persons for fiscal 2008. Descriptions of these relationships follow under the heading **Related Person Transactions**.

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 Corporate Secretary, Orion Energy Systems, Inc., 1204 Pilgrim Road, Plymouth, Wisconsin 53073. 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 nominating 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, diversity of viewpoints and industry knowledge and experience. We believe that directors should display the highest personal and professional ethics, integrity and values and sound business judgment.

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.oriones.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.

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The following table sets forth information as of July 25, 2008 regarding our current executive officers:

Name	Age	Position
Neal R. Verfuert	49	President, Chief Executive Officer and Director
Erik G. Birkerts	41	Chief Operating Officer
Scott Jensen	41	Chief Financial Officer and Treasurer
Daniel J. Waibel	48	President, Orion Asset Management Division
Michael J. Potts	44	Executive Vice President and Director
Eric von Estorff	43	Vice President, General Counsel and Secretary
Patricia A. Verfuert	49	Vice President of Operations
John H. Scribante	43	Senior Vice President of Business Development

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

Erik G. Birkerts has been our chief operating officer since July 15, 2008. Prior to that time, he served as our vice president of strategic initiatives since March 2007. Mr. Birkerts founded and served as president of The Prairie Partners Group LLC, a business strategy consulting firm that worked with Fortune 500 and middle-market companies to create sales strategies, from 2000 through February 2007. Mr. Birkerts was the general manager of strategic development for Network Commerce, a technology company, from 1999 to 2000. From 1997 to 1999, he was a management consultant with Frank Lynn & Associates, a marketing consulting firm. Mr. Birkerts also worked as a bank examiner with the Federal Reserve Bank of New York from 1989 to 1994.

Scott Jensen has been our chief financial officer and treasurer since July 15, 2008. Prior to being appointed our chief financial officer and treasurer, Mr. Jensen served as our controller and vice president of corporate finance since 2007, 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.

Daniel J. Waibel has been president of the Orion Asset Management Division since July 15, 2008. Prior to being appointed president of the Orion Asset Management Division, Mr. Waibel served as our chief financial officer and treasurer since 2001. 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.

Eric von Estorff has been our vice president, general counsel and secretary since 2003. From 1997 to 2003, Mr. von Estorff was employed as corporate counsel and corporate secretary of Quad/Graphics, Inc. one of the United States largest commercial printing companies, where he concentrated in the areas of acquisitions and strategic combinations, complex contracts and business transactions, finance and lending agreements, real estate and litigation management. Prior to his employment at Quad/Graphics, Inc., Mr. von Estorff was associated with a Milwaukee, Wisconsin-based law firm from 1994 to 1997.

Patricia A. Verfuert has been our vice president of operations since 1997 and served as corporate secretary of our company from 1998 through mid-2003. Ms. Verfuert was employed by Lights of America, Inc., a manufacturer and distributor of compact fluorescent lighting technology, from 1991 to 1997. At Lights of America, Inc., Ms. Verfuert was responsible for recruiting and training of staff and as liaison to investor-owned utilities for their residential demand side management initiatives. From 1989 to 1992, she was operations manager for Energy 2000/Virtus Corp, a solar heating and energy efficient lighting business. She is married to our president and chief executive officer, Neal R. Verfuert.

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John H. Scribante has been our senior vice president of business development since 2007. 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.

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 2008 and describes our policies and decisions made with respect to the information contained in the following tables, related footnotes and narrative for fiscal 2008. We also describe actions regarding compensation taken before or after fiscal 2008 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 sales, profitability growth and increased shareholder value;
- to provide stability during our development stage; 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 performance goals, creating value for our shareholders, and for loyalty to our company. We also seek to reward initiative, innovation and creation of new products, technologies, business methods and applications since we believe our continued success depends in part on our ability to continue to create new competitive products and services.

Our compensation committee generally seeks to establish overall total direct compensation (consisting of base salary, annual cash bonus and long-term equity incentive compensation) for our executives at levels that equal or exceed the median level for similarly situated executives at comparable public companies in order to attract, retain and motivate highly-qualified, entrepreneurial and growth-oriented executives who will drive the creation of shareholder value. Our compensation committee believes that we should target the total direct compensation (and/or individual components thereof) of individual executives whom we deem to be key contributors to our current and future performance at relative levels that equal or exceed the 75th percentile level for similarly situated executives at comparable public companies.

We may make exceptions to the foregoing general philosophy, including as it 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 whom our compensation committee believes are or will be key contributors to creating and sustaining 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

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our executive compensation program. Our compensation committee currently is comprised of Ms. Propper de Callejon and Messrs. Quadracci and Grohmann, each of whom 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. Following our annual meeting, Ms. Propper de Callejon will no longer be a director, and we expect that Mr. Flaum will become a member of our compensation committee.

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, and administering our incentive compensation plans. Our chief executive officer makes recommendations to our compensation committee regarding the compensation of other executive officers, including his wife, 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 finally determines the compensation of all of our executive officers in its discretion.

In determining fiscal 2008 and fiscal 2009 compensation, our compensation committee engaged Towers Perrin, a nationally-recognized compensation consulting firm, to provide recommendations and advice on our executive and director compensation programs, to benchmark our NEOs and directors compensation, to provide advice on change-of-control severance provisions, and to provide advice regarding initial public offering bonuses for our NEOs. Pursuant to its engagement, Towers Perrin provided our compensation committee with certain benchmarking data for salaries, annual bonuses, long-term incentive compensation, total direct compensation, IPO bonuses, and non-employee director and independent chairman of the board compensation. In compiling the benchmarking data, Towers Perrin relied on the Towers Perrin 2007 Long-Term Incentive Survey, the Towers Perrin 2007 Executive Compensation Survey, the Watson Wyatt 2006/2007 Top Management Compensation Survey and the Watson Wyatt 2007/2008 Middle Management Compensation Survey. To approximate our labor market, Towers Perrin 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 Perrin 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 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 Perrin relied.

Our compensation committee also specifically benchmarked the salaries, annual bonuses, long-term incentive compensation, total direct compensation, perquisites and IPO bonuses paid to named executive officers at the following industry peer group companies deemed potentially comparable to our company: Color Kinetics, Inc., Comerge, Inc., Echelon Corp., EnerNOC, Inc. and First Solar, Inc. Our compensation committee considered this industry peer group benchmarking data, along with the Towers Perrin benchmarking data, in connection with the changes to our executive compensation programs described below that became effective upon the closing of our initial public offering in December 2007 (which was during our fiscal 2008). The benchmarking data for these specifically identified peer group companies was substantially identical to the Towers Perrin benchmarking data.

Changes to Executive Compensation in Connection with Our Initial Public Offering

In fiscal 2008, in connection with our initial public offering, we implemented several changes to our executive compensation programs and policies, with the goal of establishing executive compensation programs and policies appropriate for a public company. The changes included the following:

We entered into standardized employment agreements with our NEOs (other than Ms. Verfuert) at various times subsequent to the closing of our initial public offering. Among other things, the new employment agreements do the following:

Specify the NEO's position, base salary for fiscal 2008 and fiscal 2009 and incentive and benefit plan participation during the specified term;

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Provide that our board of directors or our compensation committee may increase the NEO's base salary from time to time in its discretion;

Specify the term of employment under the agreement and that the term will automatically renew unless either party gives written notice in advance of the expiration of the term;

Provide for employment protections and severance benefits in the event of certain terminations, and for enhanced protections and benefits following a change of control; and

Provide for assignment of inventions and technical or business innovations developed by the NEO while employed by us.

Our compensation committee's goals in implementing the new employment agreements were to secure and retain our executive officers and to ensure stability and structure during our development stage, particularly as a new public company. These employment agreements replaced the existing employment agreements we previously had with certain of our NEOs. We discuss the terms of the new employment agreements further below under "Payments Upon Termination or Change of Control - Employment Agreements."

We established new base salaries for our NEOs effective for fiscal 2009, as described below under "Base Salary."

We amended and restated our 2004 Equity Incentive Plan, which we renamed the Orion Energy Systems, Inc. 2004 Stock and Incentive Awards Plan. Among other things, the amendment and restatement did the following:

Increased the shares available under the plan from 2.0 million to 3.5 million shares;

Replaced the authority of our chief executive officer to make grants of awards with the ability of our board of directors to delegate to another committee of the board, including a committee comprised solely of our chief executive officer, the ability to make grants of awards, subject to various restrictions and limitations on such delegated authority;

Expanded the list of performance goals that may be used for Code Section 162(m) awards;

Permitted the grant of annual and long-term cash bonus awards for Code Section 162(m) purposes;

Included a provision requiring that awards be adjusted in certain circumstances, such as in the event of a stock split, to avoid potential adverse accounting consequences;

Imposed a 10-year limit on the term of a stock option;

Permitted cashless exercises of stock options through a broker-dealer;

Added restricted stock units as a form of award available under the plan;

Capped the amount of an award that may vest or be paid upon a change of control to the extent needed to preserve our deduction under the Code's excess parachute payment rules;

Permitted awards to be assumed under the plan in the event we acquire another entity;

Prohibited the repricing or backdating of stock options and stock appreciation rights; and

Expanded the list of plan provisions that may be amended only with shareholder approval.

We revised and amended our compensation committee charter to reflect our compliance with current rules and guidelines of the Nasdaq Global Market, the Exchange Act, and Sarbanes Oxley.

We implemented a cash bonus program contingent upon the closing of our initial public offering and, in the case of our chief executive officer, also upon the post-offering price performance of our common stock, which is described below under Short-Term Cash Bonus Incentive Compensation and Other Cash Bonus Compensation.

We adopted stock ownership guidelines for our executive officers and non-employee directors.

We adopted a new compensation program for our non-employee directors.

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Changes in our Management Subsequent to Fiscal 2008

Effective July 15, 2008, we implemented several organizational changes:

Daniel J. Waibel, one of our NEOs, was appointed president of our asset management division and was replaced as chief financial officer, treasurer, principal financial officer and principal accounting officer.

Scott Jensen, who previously served as our controller and vice president of corporate finance, became our new chief financial officer, treasurer, principal financial officer and principal accounting officer.

Erik G. Birkerts, who previously served as our vice president of strategic initiatives, became our chief operating officer.

We did not enter into or materially amend the terms of any compensation arrangements with Messrs. Waibel, Jensen or Birkerts in connection with these changes.

Elements of Compensation

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

Base salary;

Short-term incentive cash bonus compensation and other cash bonus compensation;

Long-term equity incentive compensation; and

Retirement and other benefits.

Base Salary

Prior to the Closing of our Initial Public Offering

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. Prior to the closing of our initial public offering, we set the base salaries of our NEOs initially through an arm's-length negotiation with each individual executive during the hiring process, and based upon the individual's level of responsibility and our assessment of the individual's experience, skills and knowledge. Prior to the closing of our initial public offering, as in previous fiscal years, we generally paid lower base salaries than what we believed our competitors may have paid for similar positions, based on our compensation committee's experience in our industry and general knowledge, and offered what our compensation committee believed to be comparatively higher levels of long-term equity-based incentive compensation in order to link pay with performance and with the creation of shareholder value.

Our chief executive officer and our compensation committee review the base salaries of our NEOs (other than our chief executive officer) for potential increases once per year. Our chief executive officer recommends changes in base salaries, and our compensation committee accepts, modifies or rejects our chief executive officer's recommendation, based upon various factors, including the individual NEO's experience, level of responsibility, skills, knowledge, base salary in prior years, contributions to our company in prior years and compensation received through elements other than base salary. Pursuant to the terms of our chief executive officer's former employment agreement, his base salary

was subject to a guaranteed increase of 8% each year, so the compensation committee did not review his base salary for potential increases in fiscal 2008 along with the other NEOs. Under the terms of our new employment agreement with our chief executive officer, the compensation committee may increase our chief executive officer's base salary from time to time in its discretion, and there is no guaranteed annual increase in his salary.

Effective at the beginning of fiscal 2008, we increased Mr. Verfuert's base salary by 8%, from \$270,000 to \$291,600, pursuant to the terms of his former employment agreement that was in place at the time. In fiscal 2008, we also increased the base salaries of Ms. Verfuert and Messrs. Waibel and Potts by \$15,000 each, to \$165,000. We increased Ms. Verfuert's base salary in light of the length of time since her base salary had last been adjusted and her increasing responsibilities associated with our growth, including her oversight of increasingly significant transactions with vendors and complex scheduling and production issues. We increased Mr. Waibel's base salary in

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light of the length of time since his base salary had last been adjusted and his increasing responsibilities associated with our growth, including his oversight of the growing capital needs of our company. We increased Mr. Potts's base salary in light of the length of time since his base salary had last been adjusted and his increasing responsibilities associated with our growth, including his oversight of the formalization and systematization of our company's management procedures and processes.

As a Public Company

Our compensation committee believes that, as a public company, annual base salaries for our executives should generally be established at a relative level that is equal to or exceeds the median level for similarly situated executives at comparable public companies. In the case of individual executives who are deemed to be key contributors to our current and future performance, we believe that, as a public company, we should establish annual base salaries at a relative level that equals or exceeds the 75th percentile for similarly situated executives at comparable public companies. These general philosophies and relative target levels are subject to exceptions based on the judgment of our compensation committee in order to further reward and incentivize outstanding key contributors to our current and future performance, 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 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).

For fiscal 2009, our compensation committee approved the following base salaries for our NEOs:

Name and Position	Base Salary (\$)
Neal R. Verfuert President and Chief Executive Officer	460,000
Daniel J. Waibel Chief Financial Officer & Treasurer	225,000
John H. Scribante Senior Vice President of Business Development	225,000
Michael J. Potts Executive Vice President	225,000
Patricia A. Verfuert Vice President of Operations	175,000

Our compensation committee based the fiscal 2009 salaries on the recommendations of our chief executive officer (other than with respect to his base salary), the benchmarking data provided by Towers Perrin, data relating to the industry peer group companies described above, and our compensation committee's views of the relative contributions of the NEOs to our company's current and future performance. Mr. Verfuert's base salary for fiscal 2009 was established at the 75th percentile of the benchmarking data for chief executive officers provided by Towers Perrin and is higher than the base salaries of our other NEOs due in part to our use of benchmarking data, which indicates that chief executive officers typically receive higher base salaries than other executive officers in their organizations, and in part to our compensation committee's recognition of Mr. Verfuert's critical importance to our company and his key role in our past performance and our future performance. We established the fiscal 2009 base salaries of Mr. Potts and Ms. Verfuert at approximately the median level for similarly-situated executives based on the benchmarking data provided by Towers Perrin. We set the base salaries of Messrs. Waibel and Scribante for fiscal 2009 at a level higher than the 75th percentile of the benchmarking data provided by Towers Perrin based on the recommendation of our chief executive officer and our compensation committee's view that Messrs. Waibel and Scribante are key contributors

to our company's current and future performance. Since we believe that each of Messrs. Potts, Waibel and Scribante are equally important to our company, we set Mr. Waibel's and Mr. Scribante's respective base salaries at a level that is \$5,000 and \$90,000 above their applicable 75th percentile benchmark so that their base salaries would be equal to Mr. Potts' fiscal 2009 base salary.

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We intend our annual cash bonus program to reward executives with annual cash bonuses based on a broad combination of factors, including our financial performance and the executive's individual performance. Our compensation committee believes that an executive's annual cash performance bonus potential should generally be established at a relative level that is equal to or exceeds the median level for similarly situated executives at comparable public companies. In the case of individual executives who are deemed to be key contributors to our company's current and future performance, our compensation committee believes we should establish potential annual cash bonus amounts at a level that equals or exceeds the 75th percentile for similarly situated executives at comparable public companies. This general philosophy is subject to exceptions based on the judgment of our compensation committee in order to further reward and incentivize outstanding key contributors to our company's current and future performance, 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 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 compensation).

For fiscal 2008, consistent with this philosophy, and based on the recommendations of Towers Perrin, our compensation committee approved an Executive Fiscal Year 2008 Annual Cash Incentive Program, which we refer to as our Cash Incentive Program, under our 2004 Stock and Incentive Awards Plan. Our compensation committee set payout ranges for our NEOs, expressed as a percentage of fiscal 2008 base salary, as follows:

Name and Position	Approximate Fiscal 2008 Bonus Range (% of Fiscal 2008 Base Salary)
Neal R. Verfuert President and Chief Executive Officer	75-125
Daniel J. Waibel Chief Financial Officer & Treasurer	29-49
John H. Scribante Senior Vice President of Business Development	30-50
Michael J. Potts Executive Vice President	29-49
Patricia A. Verfuert Vice President of Operations	23-38

Our compensation committee established these bonus ranges, which are reflected in the Grants of Plan-Based Awards Table below, with reference to the benchmarking data described above. For Ms. Verfuert and Mr. Potts, our compensation committee established bonus ranges at a level centered near the median of the target annual bonuses indicated by the benchmarking data. For Messrs. Verfuert and Waibel, our compensation committee established ranges centered at the 75th percentile, and for Mr. Scribante at 60% above the 75th percentile, of base salary indicated by the benchmarking data, because our compensation committee (i) views Messrs. Verfuert, Waibel and Scribante as key contributors to our company's current and future performance and (ii) desired each of Messrs. Waibel and Scribante to be entitled to approximately the same bonus opportunity as Mr. Potts because of their equivalent relative importance to our company.

Our compensation committee determined the final bonus payout amounts payable to our NEOs under our Cash Incentive Program in its subjective judgment based on a range of fiscal 2008 financial performance guidelines and each NEO's individual performance for fiscal 2008. The range of fiscal 2008 financial performance-based bonus guidelines under our Cash Incentive Program