ORION ENERGY SYSTEMS, INC.
Form 10-K
June 13, 2018
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-K

ý ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended March 31, 2018

or

¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to

Commission File Number: 001-33887

Orion Energy Systems, Inc.
(Exact name of Registrant as specified in its charter)

Wisconsin	39-1847269
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
2210 Woodland Drive, Manitowoc, WI	54220
(Address of principal executive offices)	(Zip Code)

(920) 892-9340
(Registrant's telephone number, including area code)
Securities registered pursuant to Section 12(b) of the act:

Title of Each Class	Name of Each Exchange on Which Registered
Common stock, no par value	The Nasdaq Stock Market LLC (NASDAQ Captial Market)
Common stock purchase rights	The Nasdaq Stock Market LLC (NASDAQ Captial Market)

Securities registered pursuant to Section 12(g) of the act:
None

Indicate by check mark if the Registrant is a well-known seasoned issuer as defined in Rule 405 of the Securities Act. Yes ¨ No ý
Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes ¨ No ý
Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ý No ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ý No ¨
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or

information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an "emerging growth company". See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ¨	Accelerated filer o
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company ý
	Emerging growth company o

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ¨

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No ý

The aggregate market value of shares of the Registrant’s common stock held by non-affiliates as of September 30, 2017, the last business day of the Registrant’s most recently completed second fiscal quarter, was approximately $25,759,637.

As of May 31, 2018, there were 29,044,357 shares of the Registrant’s common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's Proxy Statement for the 2018 Annual Meeting of Shareholders to be held on September 6, 2018 are incorporated herein by reference in Part III of this Annual Report on Form 10-K.

ORION ENERGY SYSTEMS, INC.
ANNUAL REPORT ON FORM 10-K
FOR THE YEAR ENDED MARCH 31, 2018
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FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K includes forward-looking statements that are based on Orion Energy Systems, Inc's ("Orion", "we", "us", "our" and similar references) beliefs and assumptions and on information currently available to us. When used in this Form 10-K, the words “anticipate,” “believe,” “could,” “estimate,” “expect,” “intend,” “may,” “plan,” “p “predict,” “project,” “should,” “will,” “would” and similar expressions identify forward-looking statements. Although we belie that our plans, intentions, and expectations reflected in any forward-looking statements are reasonable, these plans, intentions or expectations are based on assumptions, are subject to risks and uncertainties, and may not be achieved. These statements are based on assumptions made by us based on our experience and perception of historical trends, current conditions, expected future developments and other factors that we believe are appropriate under the current circumstances. Such statements are subject to a number of risks and uncertainties, many of which are beyond our control. Our actual results, performance or achievements could differ materially from those contemplated, expressed or implied by the forward-looking statements contained in this Form 10-K. Important factors could cause actual results to differ materially from our forward-looking statements. Given these uncertainties, you should not place undue reliance on these forward-looking statements. Also, forward-looking statements represent our beliefs and assumptions only as of the date of this Form 10-K, including particularly the Risk Factors described under Part I. Item 1A. of this Form 10-K. All forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by the cautionary statements set forth in this Form 10-K. Actual events, results and outcomes may differ materially from our expectations due to a variety of factors. Although it is not possible to identify all of these factors, they include, among others, the following:

- our ability to achieve our expected revenue growth, gross margin and other financial objectives in fiscal 2019 and beyond;
- our ability to achieve profitability and positive cash flows;
- our levels of cash and our limited borrowing capacity under our revolving line of credit;
- the availability of additional debt financing and/or equity capital;
- our ability to manage the ongoing decreases in the average selling prices of our products as a result of competitive pressures in the evolving light emitting diode ("LED") market;
- our ability to manage our inventory and avoid inventory obsolescence in a rapidly evolving LED market;
- our lack of major sources of recurring revenue and the potential consequences of the loss of one or more key customers or suppliers, including key contacts at such customers;
- our ability to adapt to increasing convergence in the LED market;
- our ability to differentiate our products in a highly competitive market;
- the reduction or elimination of investments in, or incentives to adopt, LED lighting technologies;
- our increasing emphasis on selling more of our products through third party distributors and sales agents, including our ability to attract and retain effective third party distributors and sales agents to execute our sales model;
- our ability to develop and participate in new product and technology offerings or applications in a cost effective and timely manner;
- the deterioration of market conditions, including our dependence on customers' capital budgets for sales of products and services;
- our ability to complete and execute our strategy in a highly competitive market and our ability to respond successfully to market competition;
- our increasing reliance on third parties for the manufacture and development of products and product components;
- the market acceptance of our products and services;
- our ability to realize expected cost savings from our cost reduction initiatives;
- our failure to comply with the covenants in our revolving credit agreement;
- our fluctuating quarterly results of operations as we continue to implement cost reductions, and continue to focus investing in our third party distribution sales channel;
- our ability to recruit, hire and retain talented individuals in all disciplines of our company;
- our ability to balance customer demand and production capacity;
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- our inability to timely and effectively remediate any material weakness in our internal controls and our failure to maintain an effective system of internal control over financial reporting;
- price fluctuations, shortages or interruptions of component supplies and raw materials used to manufacture our products;
- our ability to defend our patent portfolio;
- a reduction in the price of electricity;
- our ability to regain compliance with Nasdaq's minimum bid price rule;
- the cost to comply with, and the effects of, any current and future government regulations, laws and policies; and
- potential warranty claims in excess of our reserve estimates.

You are urged to carefully consider these factors and the other factors described under Part I. Item 1A. “Risk Factors” when evaluating any forward-looking statements, and you should not place undue reliance on these forward-looking statements.

Except as required by applicable law, we assume no obligation to update any forward-looking statements publicly or to update the reasons why actual results could differ materially from those anticipated in any forward-looking statements, even if new information becomes available in the future.

ITEM 1. BUSINESS

As used herein, unless otherwise expressly stated or the context otherwise requires, all references to “Orion,” “we,” “us,” “our,” “Company” and similar references are to Orion Energy Systems, Inc. and its consolidated subsidiaries.

Overview

We provide enterprise-grade LED lighting and energy project solutions. We research, develop, design, manufacture, market, sell and implement energy management systems consisting primarily of high-performance, energy-efficient commercial and industrial interior and exterior lighting systems and related services. Our products are targeted for applications in three primary market segments: commercial office and retail, area lighting and industrial applications, although we do sell and install products into other markets. Virtually all of our sales occur within North America.

Our lighting products consist primarily of light emitting diode ("LED") lighting fixtures. Our principal customers include national account end-users, electrical distributors, energy service companies ("ESCOs") and electrical contractors. Currently, substantially all of our products are manufactured at our leased production facility located in Manitowoc, Wisconsin, although as the LED market continues to evolve, we are increasingly sourcing products and components from third parties in order to provide versatility in our product development.

We believe the market for lighting products has shifted to LED lighting systems, and that the customer base for our legacy high intensity fluorescent ("HIF") technology products will continue to decline. Compared to our legacy lighting systems, we believe that LED lighting technology allows for better optical performance, significantly reduced maintenance costs due to performance longevity and reduced energy consumption. Due to their size and flexibility in application, we also believe that LED lighting systems can address opportunities for retrofit applications that cannot be satisfied by fluorescent or other legacy technologies. Our LED lighting technologies have become the primary component of our revenue as we continue to strive to be a leader in the LED market. Although we continue to sell some lighting products using our legacy HIF technology, we do not build to stock HIF products and instead build to committed customer orders as received. We plan to maintain our primary focus on developing and selling innovative LED products.

We do not have long-term contracts with our customers that provide us with recurring revenue from period to period and we typically generate substantially all of our revenue from sales of lighting systems and related services to governmental, commercial and industrial customers on a project-by-project basis. We typically sell our lighting systems in replacement of our customers’ existing fixtures. We call this replacement process a “retrofit". We frequently engage our customer’s existing electrical contractor to provide installation and project management services. We also sell our lighting systems on a wholesale basis, principally to electrical contractors, electrical distributors, and ESCOs to sell to their own customer bases.

Our ability to achieve our desired revenue growth and profitability goals depends on our ability to effectively engage distribution and sales agents, develop recurring revenue streams, implement our cost reduction initiatives, and improve our marketing, new product development, project execution, customer service, margin enhancement and operating expense management, as well as other factors. In addition, the gross margins of our products can vary significantly depending upon the types of products we sell, with margins ranging from 15% to 50%. As a result, a change in the total mix of our sales among higher or lower margin products can cause our profitability to fluctuate from period to period.

Our executive leadership team has developed a fiscal year 2019 Strategic Plan to reflect our current business environment and the continuing opportunities and challenges of the LED and connected lighting marketplace. The overall goal of the plan is to grow, become more profitable and increase shareholder value, considering this environment as well as our current financial situation.

Management Restructuring and Focus on Profitability

In early fiscal 2018, our Board of Directors restructured our management team. As part of this restructuring, our Chief Executive Officer, John Scribante, left our Company and Mike Altschaefl, our then-current Board Chair, assumed the role of Chief Executive Officer. In addition, Scott Green, our then-current Executive Vice President, became our new Chief Operating Officer, with ongoing primary responsibility for improving our revenue generation. Mike Potts and Marc Meade, our then-current Executive Vice Presidents, remained in their positions and were assigned primary responsibility for substantially reducing our cost structure and for streamlining operations. Bill Hull remained in his position as Chief Financial Officer.

On August 30, 2017, Mike Potts retired as our Chief Risk Officer and Executive Vice President and continues to serve as a member of our Board of Directors and provides consulting services to us on an as needed basis.

Our market and product strategies have not changed. We have renewed our focus on sales channel execution, including a reduction in our cost structure. Our management team continues to implement its plan to achieve breakeven earnings (excluding employee separation costs) before interest, taxes, depreciation, and amortization, or EBITDA, through the implementation of the following cost reduction measures:

- Constant monitoring and management of manufacturing overhead costs to ensure we continue to deliver strong gross margins amid an increasingly competitive market landscape;
- Reduction of staff positions through a targeted reduction in existing headcount and judicious replacement of staff either retiring or resigning;
- Reduced total compensation for our executive management and board of directors;
- Reductions in operating expenses, including better control of legal spending, elimination of our racing program and removal of various non-critical back office programs and initiatives.

We believe that the cost reduction plan actions taken during fiscal 2018 resulted in annualized cost savings of approximately $6.0 million, which we expect to fully realize beginning in fiscal 2019. These cost reductions, coupled with our renewed focus on sales channel execution, will help to drive revenue growth and accelerate our path to profitability.

Reportable Segments

Reportable segments are components of an entity that have separate financial data that the entity's chief operating decision maker ("CODM") regularly reviews when allocating resources and assessing performance. Our CODM is our chief executive officer. We have three reportable segments: Orion U.S. Markets Division ("USM"), Orion Engineered Systems Division ("OES"), and Orion Distribution Services Division ("ODS").

For financial results by reportable segment, please refer to Note 17, "Segment Data" in our consolidated financial statements included in Item 8. of this Annual Report.

Orion U.S. Markets Division

The USM segment sells commercial lighting systems and energy management systems to the wholesale contractor markets. USM customers include ESCOs and electrical contractors. During fiscal 2017 and 2018, a significant portion of the historic sales of this division migrated to distribution channel sales as a result of the implementation of our agent distribution strategy. The migrated sales are included in our ODS Division.

Orion Engineered Systems Division

The OES segment develops and sells lighting products and provides construction and engineering services for our commercial lighting and energy management systems. OES provides turnkey solutions for large national accounts, governments, municipalities and schools.

Orion Distribution Services Division

The ODS segment focuses on selling lighting products through manufacturer representative agencies and a network of broadline North American distributors. This segment expanded in fiscal 2017 and 2018 as a result of increased sales through distributors as we continue to develop our agent driven distribution strategy. This expansion includes the migration of customers from direct sales previously included in the USM division.

Our Market Opportunity

We provide enterprise-grade LED lighting and energy project solutions. We are primarily focused on providing commercial and industrial facilities lighting retrofit solutions in North America using solid-state LED technology. Although we continue to sell some lighting products using our legacy HIF technology, we believe the market for lighting products has shifted to LED lighting systems, and thus the customer base for our legacy HIF products will continue to decline. Compared to our legacy lighting systems, LED lighting technology allows for better optical performance, significantly reduced maintenance costs due to performance longevity and reduced energy consumption. Due to their size and flexibility in application, we also believe that LED lighting systems can address opportunities for retrofit applications that cannot be satisfied by fluorescent or other legacy technologies.

Our products deliver energy savings and efficiency gains to our commercial and industrial customers without compromising their quantity or quality of light. We estimate that our energy management systems reduce our customers' legacy lighting-related electricity costs by approximately 50% or greater, while increasing their quantity of light by approximately 50% to 80% and improving overall lighting quality when replacing traditional fixtures. Our customers with legacy lighting systems typically realize a one to four-year payback period from electricity cost savings generated by our lighting systems without considering utility incentives or government subsidies. We have sold and installed our lighting products in over 14,500 facilities across North America, representing approximately 2.2

billion square feet of commercial and industrial building space, including sales to 191 of the Fortune 500 companies.

Energy-efficient lighting systems are cost-effective and environmentally responsible solutions allowing end users to reduce operating expenses. Based on a July 2015 report published by the United States Department of Energy, or DOE, we estimate the potential North American LED retrofit market within our primary markets to be approximately 1.1 billion lighting fixtures. Our primary markets are: commercial office and retail, area lighting and industrial applications.

Commercial office and retail. Our commercial office and retail market includes commercial office buildings, retail store fronts, government offices, schools, hospitals and other buildings with traditional 10 to 12 foot ceiling heights. The DOE estimates that there are approximately 987 million office "troffer" fixtures within the United States, which is a rectangular light fixture that fits into a modular dropped ceiling grid. We believe we have the opportunity to increase our revenue by serving this market with our LED Door Retrofit, or LDR™, lighting solutions.

Area lighting. Our market for area lighting includes parking garages, surface lots, automobile dealerships and gas service stations. The DOE estimates that there are approximately 66 million area lighting fixtures within the United States and an additional 45 million roadway lighting fixtures in the United States.

Industrial applications. Our market for industrial facilities includes manufacturing facilities, distribution and warehouse facilities, government buildings and agricultural buildings. These facilities typically contain "high-bay" lighting fixtures. The DOE estimates that there are approximately 139 million low/high bay fixtures within the United States. We estimate that approximately 50% of this market still utilizes inefficient high intensity discharge ("HID") lighting technologies.

Commercial and industrial facilities in the United States employ a variety of lighting technologies, including HID, traditional fluorescents, LED and incandescent lighting fixtures. Our lighting systems typically replace less efficient HID and HIF fixtures. According to the Electric Power Research Institute, or EPRI, HID fixtures only convert approximately 36% of the energy they consume into visible light. We estimate our lighting systems generally reduce lighting-related electricity costs by approximately 50% or greater compared to HID fixtures, while increasing the quantity of light by approximately 50% to 80% and improving overall lighting quality.

We believe that utilities within the United States recognize the importance of energy efficiency as an economical means to manage capacity constraints and as a low-cost alternative when compared to the construction costs of building new power plants. Accordingly, many of these utilities are continually focused on demand reduction through energy efficiency. According to our research of individual state and utility programs, 50 states, through legislation, regulation or voluntary action, have seen their utilities design and fund programs that promote or deliver energy efficiency. Our products are not solely dependent upon these incentive programs, but we do believe that these incentive programs provide an important benefit as our customers evaluate their out-of-pocket cash investments.

Our Solution

50/50 Value Proposition. We estimate our LED lighting systems generally reduce lighting-related electricity costs by approximately 50% or greater, compared to legacy fixtures, while increasing the quantity of light by approximately 50% to 80% and improving overall lighting quality. In the commercial office and retail markets, we estimate our lighting systems generally reduce electricity costs by 50% or greater compared to legacy fixtures. From December 1, 2001 through March 31, 2018, we believe that the use of LED and HIF fixtures has saved our customers $4.2 billion in electricity costs and reduced their energy consumption by 54.6 billion kWh.

Multi-Facility Roll-Out Capability. We offer our customers a single source, turnkey solution for project implementation in which we manage and maintain responsibility for entire multi-facility roll-outs of our energy management solutions across North American commercial and industrial facility portfolios. This capability allows us to offer our customers an orderly, timely and scheduled process for recognizing energy reductions and cost savings.

Rapid Payback Period. In most retrofit projects where we replace HID and HIF fixtures, our customers typically realize a one to four year payback period on our lighting systems. These returns are achieved without considering utility incentives or government subsidies (although subsidies and incentives are continually being made available to our customers and us in connection with the installation of our systems that further shorten payback periods).

Easy Installation, Implementation and Maintenance. Most of our fixtures are designed with a lightweight construction and modular plug-and-play architecture that allows for fast and easy installation and facilitates maintenance, which allows for easy integration of other components of our energy management system. Our office LED Troffer Door Retrofit ("LDRTM") products are designed to allow for a fast and easy installation without disrupting the ceiling space or the office workspace. We believe our system's design reduces installation time and expense compared to other lighting solutions, which further improves our customers' return on investment. We also believe that our use of standard components reduces our customers' ongoing maintenance costs.

Expanded Product Offerings. We are committed to continue developing LED product offerings in all of the markets we serve. Our third generation of ISON® class of LED interior fixture delivers a market leading 214 lumens per watt. This advancement means our customers can get more light with less energy, and sometimes fewer fixtures, than with any other product on the market.

In fiscal 2017 and 2018, we launched a variety of new products, features and functionality targeting healthcare, food service, high and low temperature environments and other market segments. See "Products and Services" below.

Environmental Benefits. By allowing for the permanent reduction of electricity consumption, our energy management systems reduce indirect CO2 emissions that are a negative by-product of energy generation. We estimate that one of our LED lighting systems, when replacing a standard HID fixture, displaces 0.352 kW of electricity, which, based on information provided by the EPA, reduces a customer’s indirect CO2 emissions by approximately 1.5 tons per year. Based on these figures, we estimate that the use of our products has reduced indirect CO2 emissions by approximately 34.1 million tons through March 31, 2018.

Our Competitive Strengths

Compelling Value Proposition. By permanently reducing lighting-related electricity usage, our systems enable our customers to achieve significant cost savings, without compromising the quantity or quality of light in their facilities. As a result, our products offer our customers a rapid return on their investment, without relying on government subsidies or utility incentives. We also offer our customers a single source solution whereby we manage and are responsible for the entire project, including installation across their entire North American real estate portfolio. Our ability to offer such a turnkey, national solution allows us to deliver energy reductions and cost savings to our customers in timely, orderly and planned multi-facility roll-outs.

Large and Growing Customer Base. We have developed a large and growing national customer base, and have installed our products in more than 14,500 commercial and industrial facilities across North America. We believe that the willingness of our blue-chip customers to install our products across multiple facilities represents a significant endorsement of our value proposition, which in turn helps us sell our energy management systems to new customers. We intend to leverage our expertise in managing projects across multiple facilities within our new LED product markets, which now include new customer opportunities with banks, insurance companies, hospitals, fast food chains, retail storefronts, grocery and pharmacies.

Innovative Technology. We have developed a portfolio of 80 United States patents primarily covering various elements of our products. We believe these innovations allow our products to produce more light output per unit of input energy compared to our competition. We also have 21 patents pending that primarily cover various elements of our newly developed LED products and certain business methods. To complement our innovative energy management products, we have introduced integrated energy management services to provide our customers with a turnkey solution either at a single facility or across their North American facility footprints. Our demonstrated ability to innovate provides us with significant competitive advantages. Our lighting products offer significantly more light output as measured in foot-candles of light delivered per watt of electricity consumed when compared to HID or traditional fluorescent fixtures. Beyond the benefits of our lighting fixtures, we believe that there is also an opportunity to utilize our system platform as a “digital” or “connected ceiling”, or a framework or network that can support the installation and integration of other business solutions on our digital platform. This anticipated potential growth opportunity is also known as the “Industrial Internet of Things” or IoT, and is still early in its development; however, we have already participated in a few compelling applications that deliver cost savings and efficiency in areas outside of lighting.

Expanded Sales and Distribution Network. In addition to selling directly to electrical distribution customers, we sell our lighting products and services to national accounts. We now have relationships with more than 200 resellers and distributors that are represented by a North American network of independent lighting agencies. As of the end of fiscal 2018, we had approximately 50 different lighting agencies representing us in substantially all of North America. We intend to continue to selectively build our sales network in the future, with a focus on geographic regions where we do not currently have a strong sales presence.

Our Growth Strategies

Expanded Sales Network and Salesforce. We believe that partnering with an agency sales force focused on providing technical product and sales support to our customers provides us with a greater potential for revenue growth. We sell our products in one of three ways: (i) directly with our relationships with our national account partners; (ii) indirectly through independent sales agencies and broadline North American distributors; and (iii) through wholesale contractors, including ESCOs and electrical contractors. During fiscal 2016, we engaged more than 18 manufacturer representative agencies to expand our reach with the broadline distributors and further enhance our ability to grow revenue. During fiscal 2017 and fiscal 2018, we engaged approximately 50 manufacturer representative agencies, covering substantially all of North America. At the end of fiscal 2018, we now have relationships with more than 200 resellers and distributors that are represented by a North American network of independent lighting agencies. We continue to expand our sales network and we are also maintaining our in-market sales force which generates revenue through our independent channels.

Leverage Existing Customer Base. Over the last several years, we have focused on expanding our relationships with our existing customers by transitioning from single-site facility implementations to comprehensive enterprise-wide rollouts of our lighting products. We also intend to leverage our large installed base of HIF lighting systems to implement all aspects of our energy management system, particularly LED lighting products, wireless controls, cloud-based power data analysis and storage capabilities for our existing customers.

Continue to Improve Operational Efficiencies. We are focused on continually improving the efficiency of our operations to increase the profitability of our business and allow us to continue to deliver our compelling value proposition.

Create a Culture to Support Growth. We are focused on establishing a corporate culture that embraces high expectations and performance to continue to drive innovation, efficiency and deliver superior results to our customers.

Products and Services

Our primary focus has been, and will continue to be, emphasizing our LED lighting fixtures. Currently, substantially all of our products are manufactured at our leased production facility location in Manitowoc, Wisconsin, although as the LED market continues to evolve, we also source products and components from third parties in order to have versatility in our product development. We are focused on researching, developing and/or acquiring new innovative LED products and technologies for the retrofit markets, such as the LDRTM. We plan to focus our efforts on developing creative new LED retrofit products in order to offer our customers a variety of integrated energy management services, such as system design, project management and installation.

Products

The following is a description of our primary products:

The LED Troffer Door Retrofit (LDRTM): The LDRTM is designed to replace existing 4 foot by 2 foot and 2 foot by 2 foot fluorescent troffers that are frequently found in office or retail grid ceilings. Our LDRTM product is unique in that the LED optics and electronics are housed within the doorframe that allows for installation of the product in approximately one to two minutes. Our LDRTM product also provides reduced maintenance expenses based upon improved LED chips.

Interior LED High Bay Fixtures: Our LED interior high bay lighting products consist of our Harris high bay, Apollo™ high bay and ISON® high bay products. Our ISON® class of LED interior fixture offers a full package of premium features, including low total cost of ownership, optics that currently exceed competitors in terms of lumen package, delivered light, modularity and advanced thermal management. Our third generation of ISON® class of LED interior fixture delivers up to an exceptional 214 lumens per watt. This advancement means our customers can get more light with less energy, and sometimes fewer fixtures, compared to other products on the market. Our Apollo™ class of LED interior fixtures is designed for new construction and retrofit projects where initial cost is the largest factor in the purchase decision. Our Harris high bay is ideal for customers seeking a cost-effective solution to deliver energy savings and maintenance reductions. In addition, our LED interior lighting products are lightweight and easy to handle, which further reduces installation and maintenance costs and helps to build brand loyalty with electrical contractors and installers.

Smart Lighting Controls. We offer a broad array of smart building control systems that have either been developed by us under the InteLite™ brand, or procured from third parties. These control systems provide both lighting control options (such as occupancy, daylight, or schedule control) and data intelligence capabilities for building managers to log, monitor, and analyze use of space, energy savings, and provide physical security of the space.

Other Products. We also offer our customers a variety of other LED, HIF, and induction fixtures to address their lighting and energy management needs, including fixtures designed for agribusinesses, parking lots, roadways, retail, mezzanine, outdoor applications and private label resale.

Warranty Policy. Our warranty policy generally provides for a limited one-year warranty on our HIF products and a limited five-year warranty on our LED products, although we do offer warranties ranging up to 10 years for certain LED products. Ballasts, lamps, drivers, LED chips and other electrical components are excluded from our standard warranty as they are covered by separate warranties offered by the original equipment manufacturers. We coordinate and process customer warranty inquiries and claims, including inquiries and claims relating to ballast and lamp components, through our customer service department.

Services

We provide a range of fee-based lighting-related energy management services to our customers, including:

- comprehensive site assessment, which includes a review of the current lighting requirements and energy usage at the customer’s facility;
- site field verification, or SFV, during which we perform a test implementation of our energy management system at a customer’s facility;

- utility incentive and government subsidy management, where we assist our customers in identifying, applying for and obtaining available utility incentives or government subsidies;
- engineering design, which involves designing a customized system to suit our customers' facility lighting and energy management needs, and providing the customer with a written analysis of the potential energy savings and lighting and environmental benefits associated with the designed system;

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- project management, which involves us working with the electrical contractor in overseeing and managing all phases of implementation from delivery through installation for a single facility or through multi-facility roll-outs tied to a defined project schedule;
- installation services, for our products, which we provide through our national network of qualified third-party installers; and
- recycling in connection with our retrofit installations, where we remove, dispose of and recycle our customer's legacy lighting fixtures.

We also provide other services that comprise a small amount of our revenue. These services primarily include management and control of power quality and remote monitoring and control of our installed systems. We also sell and distribute replacement lamps and fixture components into the after-market.

Our Customers

We primarily target commercial, institutional and industrial customers who have warehousing, manufacturing, and office facilities. In fiscal 2018, two customers accounted for 11.7% and 10.8% of total revenue. In fiscal 2017 and fiscal 2016, there was no single customer that accounted for more than 10% of our total revenue.

Sales and Marketing

We believe that partnering with an agency sales force focused on providing technical product and sales support to our customers provides us with a greater potential for revenue growth. We sell our products in one of three ways: (i) directly with our relationships with our national account partners; (ii) indirectly through independent sales agencies and broadline North American distributors; and (iii) through wholesale contractors, including ESCOs and electrical contractors. Our ODS segment focuses on developing and expanding customer relationships with independent manufacturer's agents and broadline distributors. During fiscal 2017 and fiscal 2018, we engaged approximately 50 manufacturer representative agencies to expand our reach with broadline distributors and further enhance our ability to increase our revenue. We attempt to leverage the customer relationships of these distributors to further extend the geographic scope of our selling efforts. We work cooperatively with our indirect channels through participation in national trade organizations and by providing training on our sales methodologies. We intend to continue to selectively expand our independent sales agent network, focusing on those geographic regions where we lack sufficient sales coverage.

We have historically focused our marketing efforts on traditional direct advertising, as well as developing brand awareness through customer education and active participation in trade shows and energy management seminars. These efforts have included participating in national, regional and local trade organizations, exhibiting at trade shows, executing targeted direct mail campaigns, advertising in select publications, public relations campaigns, social media and other lead generation and brand-building initiatives.

Competition

The market for energy-efficient lighting products and services is fragmented. We face strong competition primarily from manufacturers and distributors of lighting products and services as well as electrical contractors. We compete primarily on the basis of technology, cost, performance, quality, customer experience, energy efficiency, customer service and marketing support.

There are a number of lighting fixture manufacturers that sell LED and HIF products that compete with our lighting product lines. Lighting companies such as Acuity Brands, Inc., Carmanah Technology Corporation, Energy Focus, Inc., Eaton Corporation plc, Cree, Inc., LSI Industries, Inc., Revolution Lighting Technologies Inc., TCP International Holdings, Inc., and Hubbell Incorporated are some of our main competitors within the commercial office, retail and industrial markets. We are also facing increased competition from manufacturers in low-cost countries.

We also face competition from companies who provide energy management services. Some of these competitors, such as Ameresco, Inc., Johnson Controls, Inc. and Honeywell International, provide basic systems and controls designed to further energy efficiency.

Intellectual Property

As of March 31, 2018, we had been issued 80 United States patents and have applied for 21 additional United States patents. The patented and patent pending technologies cover various innovative elements of our products, including our HIF and LED fixtures. Our patented LDR™ product allows for a significantly quicker installation when compared to competitor's commercial office lighting products. Our smart lighting controls allow our lighting fixtures to selectively provide a targeted amount of light where and when it is needed most.

We believe that our patent portfolio as a whole is material to our business. We also believe that our patents covering our ability to manage the thermal and optical performance of our LED and HIF lighting products are material to our business, and that the loss of these patents could significantly and adversely affect our business, operating results and prospects.

Backlog

Backlog represents the amount of revenue that we expect to realize in the future as a result of firm, committed orders. Our backlog as of March 31, 2018 and March 31, 2017 totaled $3.3 million and $7.3 million, respectively. We generally expect our backlog to be recognized as revenue within one year.

Manufacturing and Distribution

We lease approximately 197,000 square foot manufacturing and distribution facility located in Manitowoc, Wisconsin, where substantially all of our products are manufactured.

We generally maintain a significant supply of raw material and purchased and manufactured component inventory. We contract with transportation companies to ship our products and manage all aspects of distribution logistics. We generally ship our products directly to the end user.

Research and Development

Our research and development efforts are centered on developing new LED products and technologies and enhancing existing products. The products, technologies and services we are developing are focused on increasing end user energy efficiency and enhancing lighting output. Over the last three fiscal years, we have focused our development on additional LED products, resulting in our development and commercialization of several new suites of LED interior high bay products.

Our research and development expenditures were $1.9 million, $2.0 million and $1.7 million for fiscal years 2018, 2017 and 2016, respectively.

We operate research and development lab and test facilities in our Jacksonville, Florida and Manitowoc, Wisconsin locations.

Regulatory Matters

Our operations are subject to federal, state, and local laws and regulations governing, among other things, emissions to air, discharge to water, the remediation of contaminated properties and the generation, handling, storage, transportation, treatment, and disposal of, and exposure to, waste and other materials, as well as laws and regulations relating to occupational health and safety. We believe that our business, operations, and facilities are being operated in compliance in all material respects with applicable environmental and health and safety laws and regulations.

State, county or municipal statutes often require that a licensed electrician be present and supervise each retrofit project. Further, all installations of electrical fixtures are subject to compliance with electrical codes in virtually all jurisdictions in the United States. In cases where we engage independent contractors to perform our retrofit projects, we believe that compliance with these laws and regulations is the responsibility of the applicable contractor.

Our Corporate and Other Available Information

We were incorporated as a Wisconsin corporation in April 1996 and our corporate headquarters are located at 2210 Woodland Drive, Manitowoc, Wisconsin 54220. Our Internet website address is www.orionlighting.com. Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, or the Exchange Act, are available through the investor relations page of our internet website free of charge as soon as reasonably practicable after we electronically file such material with, or furnish it to, the Securities and Exchange Commission, or the SEC.

Employees

As of March 31, 2018, we had 153 full-time and 61 temporary employees, of which 126 work in manufacturing. Our employees are not represented by any labor union, and we have never experienced a work stoppage or strike. We consider our relations with our employees to be good.

ITEM 1A. RISK FACTORS

You should carefully consider the risk factors set forth below and in other reports that we file from time to time with the Securities and Exchange Commission and the other information in this Annual Report on Form 10-K. The matters discussed in the following risk factors, and additional risks and uncertainties not currently known to us or that we currently deem immaterial, could have a material adverse effect on our business, financial condition, results of operations and future growth prospects and could cause the trading price of our common stock to decline.

We have had a history of losses and we may be unable to achieve profitability or positive cash flows in the future.

We have experienced net losses for the past five fiscal years. Generating net income and positive cash flows in the future will depend on our ability to successfully complete and execute our strategic plan and our previously announced cost reduction initiatives. There is no guarantee that we will be able to achieve profitability or positive cash flows in the future. Our inability to successfully achieve profitability and positive cash flows will likely result in our experiencing a serious liquidity deficiency and could threaten our viability.

Our financial performance is dependent on our ability to execute on our strategy, including implementing cost reduction initiatives, and achieve profitability.

Our ability to achieve our desired growth and profitability goals depends on our ability to effectively engage distribution and sales agents, develop recurring revenue streams, and improve our marketing, new product development, project execution, customer service, margin enhancement and operating expense management, as well as other factors. If we are unable to successfully execute in any of these areas or on our growth and profitability strategy, then our business and financial performance will likely be materially adversely affected.

We may not be able to obtain equity capital or debt financing necessary to fund our ongoing operations, effectively pursue our strategy and sustain our growth initiatives.

Our existing liquidity and capital resources may not be sufficient to allow us to fund our ongoing operations, effectively pursue our strategy or sustain our growth initiatives. As of March 31, 2018, we had $9.4 million of cash and approximately $3.9 million of outstanding borrowings and only $0.1 million of remaining borrowing capacity available under our revolving credit facility, compared to $17.3 million of cash and approximately $6.6 million of outstanding borrowings and $0.2 million of remaining borrowing availability as of March 31, 2017. If we require additional capital resources, we may not be able to obtain sufficient equity capital and/or debt financing to allow us to continue our normal course of operations or we may not be able to obtain such equity capital or debt financing on acceptable terms or conditions. Factors affecting the availability to us of equity capital or debt financing on acceptable terms and conditions include:

- Our current and future financial results and position.
- The collateral availability and softening of our otherwise unsecured assets.
- The market’s, investors and lenders' view of our company, industry and products.
- The perception in the equity and debt markets of our ability to execute our business plan or achieve our operating results expectations.
- The price, volatility and trading volume and history of our common stock.

Our inability to obtain the equity capital or debt financing necessary to fund our ongoing operations or pursue our strategies could force us to scale back our operations or our sales initiatives. If we are unable to pursue our strategy and sustain our growth initiatives, our business and operating results will be materially adversely affected.

Our financial performance is dependent on our ability to achieve growth in our average sales margins on our products.

The gross margins of our products can vary significantly, with margins ranging from 15% to 50%. While we continue to implement our strategy of transitioning to higher-margin products and reducing the material cost of our products, a change in the total mix of our sales toward lower margin products, a decrease in the margins on our products as a result of competitive pressures driving down the average selling price of our products, lower sales volumes and promotional programs to increase sales volumes could reduce our profitability and result in a material adverse effect on our business and financial performance. Furthermore, average selling prices may be negatively impacted by market over-supply conditions, product feature cannibalization by competitors or component providers, low-cost non-traditional sales methods by new market entrants, and comparison of our retrofit fixture products with replacement lamp equivalents. In a competitive lighting industry, we must be able to innovate and release new products on a regular basis with features and benefits that generate increases in average selling price or average margins.

We operate in a highly competitive industry and, if we are unable to compete successfully, our revenue and profitability will be adversely affected.

We face strong competition primarily from manufacturers and distributors of energy management products and services, as well as from electrical contractors. We are also facing increased competition from manufacturers in low-cost countries. We compete primarily on the basis of customer relationships, price, quality, energy efficiency, customer service and marketing support. Our products are in direct competition with the expanding availability of LED products, HID technology, as well as HIF products and older fluorescent technology in the lighting systems retrofit market.

Many of our competitors are better capitalized than we are, have strong customer relationships, greater name recognition, and more extensive engineering, manufacturing, sales and marketing capabilities. In addition, the LED market has seen increased convergence in recent years, resulting in our competition gaining increased market share and resources. Competitors could focus their substantial resources on developing a competing business model or energy management products or services that may be potentially more attractive to customers than our products or services. In addition, we may face competition from other products or technologies that reduce demand for electricity. Our competitors may also offer energy management products and services at reduced prices in order to improve their competitive positions. Any of these competitive factors could make it more difficult for us to attract and retain customers, require us to lower our average selling prices in order to remain competitive, and reduce our revenue and profitability, any of which could have a material adverse effect on our results of operations and financial condition.

The success of our business depends upon our adaptation to the quickly changing market conditions in the lighting industry and on market acceptance of our lighting retrofit solutions using new LED technologies.

The market for lighting products has experienced a significant technology shift to LED lighting systems. As a result, we are focusing our business primarily on providing lighting retrofit solutions using new LED technologies in lieu of traditional HIF lighting upon which our business has historically relied. We are also looking at utilizing our system platform as a “digital” or “connected ceiling”, or a framework or network that can support the installation and integration of other business solutions on our digital platform.

As a result, our future success depends significantly upon the adoption rate of LED products within our primary markets and our ability to participate in this ongoing market trend. To be an effective participant in the growing LED market, we must keep up with the evolution of LED technology, which has been moving at a fast pace. We may be unable to successfully develop and market new LED products or services that keep pace with technological or industry changes, differentiate ourselves from our competition, satisfy changes in customer demands or comply with present or emerging government and industry regulations and technology standards. The development and introduction of new LED products may result in increased warranty expenses and other new product introduction expenses. In addition, we will likely continue to incur substantial costs to research and develop new LED products, which will increase our expenses, without guarantee that our new products and services will be commercially viable. We may also spend time and resources to develop and release new LED products only to discover that a competitor has also introduced similar new products with superior performance. Moreover, if new sources of lighting are developed, our current products and technologies could become less competitive or obsolete, which could result in reduced revenue, reduced earnings or increased losses and/or inventory and other impairment charges. Additionally, as the lighting retrofit market continues to shift to LED lighting products from HIF and other traditional lighting products, customer purchasing decisions have been delayed as they evaluate the relative advantages and disadvantages of the lighting retrofit product alternatives and wait for further decreases in the price of LED lighting products. These circumstances have led, and may continue to lead, to reduced revenue for us in the periods affected.

As we attempt to adapt our business organization to this quickly evolving market, we have been managing through significant change in our vendor supply chain as LED product portfolio and our product revenue continue to increase and we place most of our focus on this product line. We currently believe that our continuing efforts to negotiate further lower material input costs will help maintain or improve our LED product gross margins. However, we may not be able to realize the gross margin benefits in the amounts or on the timetable anticipated and we may experience higher warranty expenses in the future as we implement our manufacturing and assembly process changes. It is also possible that, as we continue to focus our sales efforts on our LED product lines, we may increase our risk of inventory obsolescence for our legacy lighting product lines or even for outmoded LED products.

Finally, in connection with our primary focus on selling our LED products, we expect our results of operations to continue to fluctuate from quarter to quarter as customers may continue to delay purchasing decisions as they evaluate their return on investment from purchasing new LED products compared to alternative lighting solutions, the pricing of LED products continues to fall and LED products continue to gain more widespread customer acceptance. Similarly, these circumstances have impacted, and may continue to adversely impact, our product gross margins and our profitability from quarter to quarter.

If we are unable to achieve market acceptance of our lighting retrofit solutions using new LED technologies or realize the expected benefits from our emphasis on promoting our LED technologies, our results of operations and financial condition will likely be materially adversely affected.

The success of our LED lighting retrofit solutions depend, in part, on our ability to claim market share ahead of our competitors.

Participants in the LED market who are able to quickly establish customer relationships and achieve market penetration are likely to gain a competitive advantage as the lighting retrofit solutions offered by us and our competitors generally have a product life of several years following installation. If we are unable to establish customer relationships and achieve market penetration in the LED market in a timely manner, we may lose the opportunity to market our LED products and services to significant portions of the lighting systems retrofit market for several years and may be at a disadvantage in securing future business opportunities from customers that have previously established relationships with one or more of our competitors. These circumstances could reduce our revenue and profitability, which could have a material adverse effect on our results of operations and financial condition.

The reduction or elimination of investments in, or incentives to adopt, LED lighting or the elimination of, or changes in, policies, incentives or rebates in certain states or countries that encourage the use of LEDs over some traditional lighting technologies could cause the growth in demand for our products to slow, which could materially and adversely affect our revenues, profits and margins.

Reductions in (including as a result of any budgetary constraints), or the elimination of, government investment and favorable energy policies designed to accelerate the adoption of LED lighting could result in decreased demand for our products and decrease our revenues, profits and margins. Further, if our products fail to qualify for any financial incentives or rebates provided by governmental agencies or utilities for which our competitors' products qualify, such programs may diminish or eliminate our ability to compete by offering products at lower prices than ours.

We are increasing our emphasis on indirect distribution channels to sell our products and services. If we are unable to attract, incentivize and retain our third-party distributors and sales agents, or our distributors and sales agents do not sell our products and services at the levels expected, our revenues could decline and our costs could increase.

We have significantly expanded the number of our manufacturer representative agencies that sell our products through distributors, many of which are not exclusive, which means that these sales agents and distributors may sell other third-party products and services in direct competition with us. Since many of our competitors use sales agents and distributors to sell their products and services, competition for such agents and distributors is intense and may adversely affect our product pricing and gross margins. Additionally, due to mismanagement, industry trends, macro-economic developments, or other reasons, our sales agents and distributors may be unable to effectively sell our products at the levels desired or anticipated. In addition, we have historically relied on direct sales to sell our products, which were often made in competition with sales agents and distributors. In order to attract and form lasting partnerships with sales agents and distributors, we will be required to overcome our historical perception as a direct sales competitor. As a result, we may have difficulty attracting and retaining sales agents and distributors and any inability to do so could have a negative effect on our ability to attract and obtain customers, which could have an adverse impact on our business.

We do not have major sources of recurring revenue and depend upon a limited number of customers in any given period to generate a substantial portion of our revenue. The loss of significant customers or a major customer could have an adverse effect on our operations.

We do not have long-term contracts with our customers that provide us with recurring revenue from period to period. As a result, we generate a substantial portion of our revenue by securing large retrofit and multi-facility roll-out projects from new and existing customers and our dependence on individual key customers can vary from period to period as a result of the significant size of some of our retrofit and multi-facility roll-out projects. Our top 10 customers accounted for approximately 42%, 33%, and 37% respectively, of our total revenue for fiscal 2018, 2017 and 2016. In fiscal 2018, two customers accounted for 11.7% and 10.8% of total revenue. In fiscal 2017 and fiscal 2016, there was no single customer that accounted for more than 10% of our revenue. While we are making efforts to increase our sources of recurring revenue, we expect large retrofit and rollout projects to continue to remain a significant component of our total revenue. Additionally, commercial office lighting retrofits provide for single large project opportunities. As a result, we may continue to experience customer concentration in future periods. The loss of, or substantial reduction in sales to, any of our significant customers, or a major customer, could have a material adverse effect on our results of operations in any given future period.

We increasingly rely on third-party manufacturers for the manufacture and development of our products and product components.

We have increased our utilization of third-party manufacturers for the manufacture and development of our products and product components. Our business, prospects, results of operations, financial condition or cash flows could be materially adversely affected if our manufacturers were to experience problems with product quality, credit or liquidity issues, or disruptions or delays in the manufacturing process or delivery of the finished products and components or the raw materials used to make such products and components.

Adverse conditions in the global economy have negatively impacted, and could in the future negatively impact, our customers, suppliers and business.

Global economic and political uncertainty has led many customers to adopt strategies for conserving cash, including limits on capital spending. Our lighting systems are often purchased as capital assets and therefore are subject to capital availability. Uncertainty around such availability has led customers to delay purchase decisions, which has elongated the duration of our sales cycles. Weak economic conditions in the past have adversely affected our customers' capital budgets, purchasing decisions and facilities managers and, therefore, have adversely affected our results of operations. The return to a recessionary state of the global economy could potentially have negative effects on our near-term liquidity and capital resources, including slower collections of receivables, delays of existing order deliveries and postponements of incoming orders. Our business and results of operations will be adversely affected to the extent these adverse economic conditions affect our customers' purchasing decisions.

Our products use components and raw materials that may be subject to price fluctuations, shortages or interruptions of supply.

We may be vulnerable to price increases for components or raw materials that we require for our products, including aluminum, copper, certain rare earth minerals, electronic drivers, chips, ballasts, power supplies and lamps. In particular, our cost of aluminum can be subject to commodity price fluctuation. We also source certain finished goods externally. Limitations inherent within the supply chain of certain of these component parts, including competitive, governmental, and legal limitations, natural disasters, and other events, could impact costs, and future increases in the costs of these items could adversely affect our profitability, as there can be no assurance that future price increases will be successfully passed through to customers. Further, suppliers' inventories of certain components that our products require may be limited and are subject to acquisition by others. In the past, we have had to purchase quantities of certain components that are critical to our product manufacturing and were in excess of our estimated near-term requirements as a result of supplier delivery constraints and concerns over component availability, and we may need to do so in the future. As a result, we have had, and may need to continue, to devote additional working capital to support component and raw material inventory that may not be used over a reasonable period to produce saleable products, and we may be required to increase our excess and obsolete inventory reserves to provide for these excess quantities, particularly if demand for our products does not meet our expectations. Also, any shortages or interruptions in supply of our components or raw materials could disrupt our operations. If any of these events occur, our results of operations and financial condition could be materially adversely affected.

The success of our business depends upon market acceptance of our energy management products and services.

Our future success depends on continued commercial acceptance of our energy management products and services. If we are unable to convince current and potential customers of the advantages of our lighting systems and energy management products and services, then our ability to sell our lighting systems and energy management products and services will be limited. In addition, because the market for energy management products and services is rapidly evolving, we may not be able to accurately assess the size of the market, and we may have limited insight into trends that may emerge and affect our business. If the market for our lighting systems and energy management products and services does not continue to develop, or if the market does not accept our products, then our ability to grow our business could be limited and we may not be able to increase our revenue or achieve profitability.

Our ability to balance customer demand and capacity and increased employee turnover could negatively impact our business.

In addition, as customer demand for our products changes, we must be able to adjust our production capacity, including increasing or decreasing our employee workforce, to meet demand. We are continually taking steps to address our manufacturing capacity needs for our products. If we are not able to increase or decrease our production capacity at our targeted rate or if there are unforeseen costs associated with adjusting our capacity levels, our ability to execute our operating plan could be adversely affected

We have, from time to time, experienced increased employee turnover. The increased turnover has resulted in the loss of numerous long-term employees, along with their institutional knowledge and expertise, and the reallocation of certain employment responsibilities, all of which could adversely affect operational efficiencies, employee performance and retention. Such turnover has also placed a significant burden on our continuing employees, has resulted in higher recruiting expenses as we have sought to recruit and train employees, and introduced increased instability in our operations as responsibilities were reallocated to new or different employees. To the extent that we are unable to effectively reallocate employee responsibilities, retain key employees and reduce employee turnover, our operations and our ability to execute our operating plan could be adversely affected.

Our inability to attract and retain key employees, our reseller network or manufacturer representative agencies could adversely affect our operations and our ability to execute on our operating plan and growth strategy.

We rely upon the knowledge, experience and skills of key employees throughout our organization, particularly our senior management team and our sales group that require technical knowledge or contacts in, and knowledge of, the industry. In addition, our ability to attract talented new employees, particularly in our sales group, is also critical to our success. We also depend on our distribution channels and network of manufacturer representative agencies. If we are unable to attract and retain key employees, resellers, and manufacturer representative agencies because of competition or, in the case of employees, inadequate compensation or other factors, our results of operations and our ability to execute our operating plan could be adversely affected.

Product liability claims could adversely affect our business, results of operations and financial condition.

We face exposure to product liability claims in the event that our energy management products fail to perform as expected or cause bodily injury or property damage. Since virtually all of our products use electricity, it is possible that our products could result in injury, whether by product malfunctions, defects, improper installation or other causes. Particularly because our products often incorporate new technologies or designs, we cannot predict whether or not product liability claims will be brought against us in the future or result in negative publicity about our business or adversely affect our customer relations. Moreover, we may not have adequate resources in the event of a successful claim against us. A successful product liability claim against us that is not covered by insurance or is in excess of our available insurance limits could require us to make significant payments of damages and could materially adversely affect our results of operations and financial condition.

Our inability to protect our intellectual property, or our involvement in damaging and disruptive intellectual property litigation, could adversely affect our business, results of operations and financial condition or result in the loss of use of the product or service.

We attempt to protect our intellectual property rights through a combination of patent, trademark, copyright and trade secret laws, as well as employee and third-party nondisclosure and assignment agreements. Our failure to obtain or maintain adequate protection of our intellectual property rights for any reason could have a material adverse effect on our business, results of operations and financial condition.

We own United States patents and patent applications for some of our products, systems, business methods and technologies. We offer no assurance about the degree of protection which existing or future patents may afford us. Likewise, we offer no assurance that our patent applications will result in issued patents, that our patents will be upheld if challenged, that competitors will not develop similar or superior business methods or products outside the protection of our patents, that competitors will not infringe upon our patents, or that we will have adequate resources to enforce our patents. Effective protection of our United States patents may be unavailable or limited in jurisdictions outside the United States, as the intellectual property laws of foreign countries sometimes offer less protection or have onerous filing requirements. In addition, because some patent applications are maintained in secrecy for a period of time, we could adopt a technology without knowledge of a pending patent application, and such technology could infringe a third party’s patent.

We also rely on unpatented proprietary technology. It is possible that others will independently develop the same or similar technology or otherwise learn of our unpatented technology. To protect our trade secrets and other proprietary information, we generally require employees, consultants, advisors and collaborators to enter into confidentiality agreements. We cannot assure you that these agreements will provide meaningful protection for our trade secrets, know-how or other proprietary information in the event of any unauthorized use, misappropriation or disclosure of such trade secrets, know-how or other proprietary information. If we are unable to maintain the proprietary nature of our technologies, our business could be materially adversely affected.

We rely on our trademarks, trade names, and brand names to distinguish our company and our products and services from our competitors. Some of our trademarks may conflict with trademarks of other companies. Failure to obtain trademark registrations could limit our ability to protect our trademarks and impede our sales and marketing efforts. Further, we cannot assure you that competitors will not infringe our trademarks, or that we will have adequate resources to enforce our trademarks.

In addition, third parties may bring infringement and other claims that could be time-consuming and expensive to defend. Also, parties making infringement and other claims may be able to obtain injunctive or other equitable relief that could effectively block our ability to provide our products, services or business methods and could cause us to pay substantial damages. In the event of a successful claim of infringement, we may need to obtain one or more licenses from third parties, which may not be available at a reasonable cost, or at all. It is possible that our intellectual property rights may not be valid or that we may infringe upon existing or future proprietary rights of others. Any successful infringement claims could subject us to significant liabilities, require us to seek licenses on unfavorable terms, prevent us from manufacturing or selling products, services and business methods and require us to redesign or, in the case of trademark claims, re-brand our company or products, any of which could have a material adverse effect on our business, results of operations or financial condition.

We are subject to financial and operating covenants in our credit agreement and any failure to comply with such covenants, or obtain waivers in the event of non-compliance, could limit our borrowing availability under the credit agreement, resulting in our being unable to borrow under our credit agreement and materially adversely impact our liquidity.

Our credit agreement with Wells Fargo Bank, National Association contains provisions that limit our future borrowing availability, and may from time to time require us to maintain a minimum fixed charge coverage ratio. The credit agreement also contains other customary covenants, including certain restrictions on our ability to incur additional indebtedness, consolidate or

merge, enter into acquisitions, guarantee obligations of third parties, make loans or advances, declare or pay any dividend or distribution on our stock, redeem or repurchase shares of our stock, or pledge or dispose of assets.
There can be no assurance that we will be able to comply with the financial and other covenants in our credit agreement. Our failure to comply with these covenants could cause us to be unable to borrow under the credit agreement and may constitute an event of default which, if not cured or waived, could result in the acceleration of the maturity of any indebtedness then outstanding under the credit agreement, which would require us to pay all amounts then outstanding. Such an event could materially adversely affect our financial condition and liquidity. Additionally, such events of non-compliance could impact the terms of any additional borrowings and/or any credit renewal terms. Any failure to comply with such covenants would be a disclosable event and may be perceived negatively. Such perception could adversely affect the market price for our common stock and our ability to obtain financing in the future.
If our information technology systems security measures are breached or fail, our products may be perceived as not being secure, customers may curtail or stop buying our products, we may incur significant legal and financial exposure, our business, results of operations and financial condition could be materially adversely affected.
Our information technology systems involve the storage of customers' personal and proprietary information in our equipment, networks and corporate systems. Security breaches expose us to a risk of loss of this information, litigation and increased costs for security measures, loss of revenue, damage to our reputation and potential liability. Security breaches or unauthorized access may in the future result in a combination of significant legal and financial exposure, increased remediation and other costs, damage to our reputation and a loss of confidence in the security of our products, services and networks that could have an adverse effect upon our business. We take steps to prevent unauthorized access to our corporate systems, however, because the techniques used to obtain unauthorized access, disable or sabotage systems change frequently or may be designed to remain dormant until a triggering event, we may be unable to anticipate these techniques or implement adequate preventative measures. In addition, hardware, software or applications we procure from third parties may contain defects in design or manufacture or other problems that could unexpectedly compromise network and data security.
If our information technology systems fail, or if we experience an interruption in their operation, then our business, results of operations and financial condition could be materially adversely affected.
The efficient operation of our business is dependent on our information technology systems. We rely on those systems generally to manage the day-to-day operation of our business, manage relationships with our customers, maintain our research and development data and maintain our financial and accounting records. The failure of our information technology systems, our inability to successfully maintain, enhance and/or replace our information technology systems, or any compromise of the integrity or security of the data we generate from our information technology systems, could adversely affect our results of operations, disrupt our business and product development and make us unable, or severely limit our ability, to respond to customer demands. In addition, our information technology systems are vulnerable to damage or interruption from:
•earthquake, fire, flood and other natural disasters;
•employee or other theft;
•attacks by computer viruses or hackers;
•power outages; and
•computer systems, internet, telecommunications or data network failure.
Any interruption of our information technology systems could result in decreased revenue, increased expenses, increased capital expenditures, customer dissatisfaction and potential lawsuits, any of which could have a material adverse effect on our results of operations or financial condition.
Our retrofitting process frequently involves responsibility for the removal and disposal of components containing hazardous materials.
When we retrofit a customer's facility, we typically assume responsibility for removing and disposing of its existing lighting fixtures. Certain components of these fixtures typically contain trace amounts of mercury and other hazardous materials. Older components may also contain trace amounts of polychlorinated biphenyls, or PCBs. We currently rely on contractors to remove the components containing such hazardous materials at the customer job site. The contractors then arrange for the disposal of such components at a licensed disposal facility. Failure by such contractors

to remove or dispose of the components containing these hazardous materials in a safe, effective and lawful manner could give rise to liability for us, or could expose our workers or other persons to these hazardous materials, which could result in claims against us which may have a material adverse effect on our results of operations, financial condition, cash flows or reputation.

The cost of compliance with environmental laws and regulations and any related environmental liabilities could adversely affect our results of operations or financial condition.

Our operations are subject to federal, state and local laws and regulations governing, among other things, emissions to air, discharge to water, the remediation of contaminated properties and the generation, handling, storage, transportation, treatment and disposal of, and exposure to, waste and other materials, as well as laws and regulations relating to occupational health and safety. These laws and regulations frequently change, and the violation of these laws or regulations can lead to substantial fines, penalties and other liabilities. The operation of our manufacturing facility entails risks in these areas and there can be no assurance that we will not incur material costs or liabilities in the future that could adversely affect our results of operations or financial condition.

We expect our quarterly revenue and operating results to fluctuate. If we fail to meet the expectations of market analysts or investors, the market price of our common stock could decline substantially, and we could become subject to securities litigation.

Our quarterly revenue and operating results have fluctuated in the past and will likely vary from quarter to quarter in the future. The results of one quarter are not an indication of our future performance. Our revenue and operating results may fall below the expectations of market analysts or investors in some future quarter or quarters. Our failure to meet these expectations could cause the market price of our common stock to decline substantially. If the price of our common stock is volatile or falls significantly below our current price, we may be the target of securities litigation. If we become involved in this type of litigation, regardless of the outcome, we could incur substantial legal costs, management’s attention could be diverted from the operation of our business, and our reputation could be damaged, which could adversely affect our business, results of operations or financial condition.

Our net operating loss carry-forwards provide a future benefit only if we are profitable and may be subject to limitation based upon ownership changes.

We have significant federal net operating loss carry-forwards and state net operating loss carry-forwards. While our federal and state net operating loss carry-forwards are fully reserved for, if we are unable to return to and maintain profitability, we may not be able to fully utilize these tax benefits. Furthermore, generally a change of more than 50% in the ownership of a company’s stock, by value, over a three-year period constitutes an ownership change for federal income tax purposes. An ownership change may limit a company’s ability to use its net operating loss carry-forwards attributable to the period prior to such change. We believe that past issuances and transfers of our stock caused an ownership change in fiscal 2007 that may affect the timing of the use of our net operating loss carry-forwards, but we do not believe the ownership change affects the use of the full amount of our net operating loss carry-forwards. As a result, our ability to use our net operating loss carry-forwards attributable to the period prior to such ownership change to offset taxable income will be subject to limitations in a particular year, which could potentially result in increased future tax liability for us.

We have material weakness in our internal control over financial reporting; if we do not remedy the material weakness or if we fail to establish and maintain effective internal controls over financial reporting, our business and financial results could be harmed.

Our management is responsible for establishing and maintaining effective internal control over financial reporting. Internal control over financial reporting is a process to provide reasonable assurance regarding the reliability of financial reporting for external purposes in accordance with accounting principles generally accepted in the United States. Because of its inherent limitations, internal control over financial reporting is not intended to provide absolute assurance that we would prevent or detect a misstatement of our financial statements or fraud. As of March 31, 2018, March 31, 2017 and March 31, 2016, our Chief Executive Officer and Chief Financial Officer concluded that our internal controls were not effective due to certain identified material weaknesses. The material weakness identified as of March 31, 2017 was the result of operating ineffectiveness of controls related to management's review over the accounting close process, contract costs, and forecasts used to support certain fair value estimates. This material weakness was not fully remedied as of March 31, 2018 and therefore remains a material weakness as of that date. The material weaknesses identified as of March 31, 2016 were a result of our insufficient review of non-routine revenue transactions and the related accounting entries and were remediated during fiscal 2017. These material weaknesses were a result of our insufficient review of non-routine revenue transactions and the related accounting entries. A material weakness is defined as a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the annual or interim financial statements will not be prevented or detected on a timely basis. If the remedial measures implemented are determined to be insufficient to address our current material weakness, if we are unable to successfully remediate our current material weakness related to our accounting close process, or if additional material weaknesses or significant deficiencies in our internal control are discovered or occur in the future, our consolidated financial statements may contain material misstatements and we could be required to restate our financial results. Our failure to maintain an effective system of internal control over financial reporting could limit our ability to report our financial results accurately and in a timely manner or to detect and prevent fraud, could result in a restatement of our financial statements, and could also cause a loss of investor confidence and decline in the market price of our common stock.

If securities or industry analysts do not continue to publish research or publish inaccurate or unfavorable research about our business, our stock price and trading volume could decline.

The trading market for our common stock will continue to depend in part on the research and reports that securities or industry analysts publish about our business or us. If these analysts do not continue to provide adequate research coverage or if one or more of the analysts who covers us downgrades our stock or publishes inaccurate or unfavorable research about our business, our stock price would likely decline. If one or more of these analysts ceases coverage of our company or fails to publish reports on us regularly, demand for our stock could decrease, which could cause our stock price and trading volume to decline.

The market price of our common stock could be adversely affected by future sales of our common stock in the public market by us or our executive officers and directors.

We and our executive officers and directors may from time to time sell shares of our common stock in the public market or otherwise. We cannot predict the size or the effect, if any, that future sales of shares of our common stock by us or our executive officers and directors, or the perception of such sales, would have on the market price of our common stock.

If our stock price does not increase, our common stock may be subject to delisting from the NASDAQ Capital Market.

Our common stock is currently listed on The NASDAQ Capital Market. Continued listing of a security on The NASDAQ Capital Market is conditioned upon compliance with certain continued listing requirements and continued listing standards set forth in the NASDAQ Listing Rules.

On November 28, 2017, we received written notice from the Listing Qualifications Department of The NASDAQ Stock Market LLC notifying us that we were is not in compliance with the minimum bid price requirements set forth in Nasdaq Listing Rule 5550(a)(2) for continued listing on The Nasdaq Capital Market due to the shares of our common stock trading below the minimum bid price of $1.00 per share for a period of thirty (30) consecutive business days.

To regain compliance, the bid price of our common stock must have a closing bid price of at least $1.00 per share for a minimum of ten (10) consecutive business days. We were unable to regain compliance with the minimum bid price requirement during the initial 180-day compliance period. On May 30, 2018, we were granted an additional 180-day compliance period following our written notification to NASDAQ of our intention to cure the deficiency during the second compliance period. If we fail to regain compliance during the second 180-day period, then NASDAQ will notify us of its determination to delist our common stock, at which point we would have an opportunity to appeal the delisting determination to a hearings panel.

If we are unable to regain compliance with the minimum bid price requirement and our common stock is delisted from Nasdaq, this could, among other things, reduce the liquidity and trading price of our common stock, negatively impact our ability to raise additional funds and result in a loss of institutional investor interest.

We are not currently paying dividends and will likely continue not paying dividends for the foreseeable future.

We have never paid or declared any cash dividends on our common stock. We currently intend to retain all available funds and any future earnings to fund the development and expansion of our business, and we do not anticipate paying any cash dividends in the foreseeable future. In addition, the terms of our existing revolving credit agreement restrict the payment of cash dividends on our common stock. Any future determination to pay dividends will be at the discretion of our board of directors and will depend on our financial condition, results of operations, capital requirements, contractual restrictions and other factors that our board of directors deems relevant. The restriction on and decision not to pay dividends may impact our ability to attract investors and raise funds, if necessary, in the capital markets.

Anti-takeover provisions included in the Wisconsin Business Corporation Law, provisions in our amended and restated articles of incorporation or bylaws and the common share purchase rights that accompany shares of our common stock could delay or prevent a change of control of our company, which could adversely impact the value of our common stock and may prevent or frustrate attempts by our shareholders to replace or remove our current board of directors or management.

A change of control of our company may be discouraged, delayed or prevented by certain provisions of the Wisconsin Business Corporation Law. These provisions generally restrict a broad range of business combinations between a Wisconsin corporation and a shareholder owning 15% or more of our outstanding common stock. These and other provisions in our amended and restated articles of incorporation, including our staggered board of directors and our ability to issue “blank check” preferred stock, as well as the provisions of our amended and restated bylaws and Wisconsin law, could make it more difficult for shareholders or potential acquirers to obtain control of our board of directors or initiate actions that are opposed by the then-current board of directors, including to delay or impede a merger, tender offer or proxy contest involving our company.

Each currently outstanding share of our common stock includes, and each newly issued share of our common stock will include, a common share purchase right. The rights are attached to, and trade with, the shares of common stock and generally are not exercisable. The rights will become exercisable if a person or group acquires, or announces an intention to acquire, 20% or more of our outstanding common stock. The rights have some anti-takeover effects and generally will cause substantial dilution to a person or group that attempts to acquire control of us without conditioning the offer on either redemption of the rights or amendment of the rights to prevent this dilution. The rights could have the effect of delaying, deferring or preventing a change of control.

In addition, our employment arrangements with senior management provide for severance payments and accelerated vesting of benefits, including accelerated vesting of stock options and restricted stock awards, upon a change of control and a subsequent qualifying termination. These provisions could limit the price that investors might be willing to pay in the future for shares of our common stock, thereby adversely affecting the market price of our common stock. These provisions may also discourage or prevent a change of control or result in a lower price per share paid to our shareholders.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

On March 31, 2016, we entered into a purchase and sale agreement with a third party to sell and leaseback our manufacturing and distribution facility located in Manitowoc, Wisconsin. The transaction closed on June 30, 2016. Pursuant to the agreement, a lease was entered into on June 30, 2016, in which we are leasing approximately 197,000 square feet of the building for not less than three years. The lease contains options by either party to reduce the amount of leased space after March 1, 2017. On March 22, 2018, we renewed the lease for our manufacturing and distribution facility for an additional 18 months until December 31, 2020.

We own our approximately 70,000 square foot technology center and corporate headquarters adjacent to our leased Manitowoc manufacturing and distribution facility, of which we lease a portion to a third party. We also lease 10,500 square feet of office space in Jacksonville, Florida.

In fiscal 2018, we did not renew the leases for our 5,600 square foot of office space in Houston, Texas and our 3,100 square foot of office space in Chicago, Illinois. The leases terminate as of April 30, 2018 and May 31, 2018, respectively.

Facilities noted above are utilized by all our business segments.

ITEM 3. LEGAL PROCEEDINGS

We are subject to various claims and legal proceedings arising in the ordinary course of business. As of the date of this report, we are unable to currently assess whether the final resolution of any of such claims or legal proceedings may have a material adverse effect on our future results of operations. In addition to ordinary-course litigation, we were a party to the proceedings described below.

On March 27, 2014, we were named as a defendant in a civil lawsuit filed by Neal R. Verfuerth, a former chief executive officer who left the company in November 2012, in the United States District Court for the Eastern District of Wisconsin (Green Bay Division). The plaintiff alleged, among other things, that we breached certain agreements entered into with the plaintiff, including the plaintiff’s employment agreement, and violated certain laws. The complaint sought, among other relief, unspecified pecuniary and compensatory damages, fees and such other relief as the court may deem just and proper.

On January 11, 2018, a three-judge panel of the United States Court of Appeals Seventh Circuit unanimously affirmed the dismissal of all of the plaintiff’s claims against us. With the conclusion of this case during the fourth quarter of fiscal 2018, we released our loss contingency accrual of $1.4 million dollars, the impact of which is included in our general and administrative expenses on the face of our consolidated statement of operations.

On November 10, 2017, a purported shareholder, Stephen Narten, filed a civil lawsuit in the Circuit Court for Manitowoc County against those individuals who served on our Board of Directors during fiscal years 2015, 2016, and 2017 and certain current and former officers during the same period. The plaintiff, who purports to bring the suit derivatively on behalf of our company, alleged that the director defendants breached their fiduciary duties in connection with granting certain stock-based incentive awards under our 2004 Stock and Incentive Awards Plan and that the directors and current and former officers breached their fiduciary duties by accepting those awards. On January 22, 2018, we moved to dismiss the lawsuit on the grounds that the complaint failed to state a claim upon which relief may be granted. Subsequent to the end of fiscal 2018, the parties reached a settlement of the claims, filed a stipulation for dismissal of the case and the judge is expected to approve the settlement. The settlement did not, and will not, have a material impact on our results of operations or financial condition.

ITEM 4. MINE SAFETY DISCLOSURES

None.

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED SHAREHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Price Range of our Common Stock

Our common stock is currently listed on The NASDAQ Capital Market under the symbol "OESX". The following table sets forth the range of high and low sales prices per share as reported on The NASDAQ Capital Market for the periods indicated.

	High	Low
Fiscal 2018		
First Quarter	$1.95	$1.24
Second Quarter	$1.32	$0.85
Third Quarter	$1.08	$0.83
Fourth Quarter	$0.93	$0.77
Fiscal 2017		
First Quarter	$1.55	$1.13
Second Quarter	$1.45	$1.18
Third Quarter	$2.49	$1.17
Fourth Quarter	$2.31	$1.76

Shareholders

As of May 31, 2018, there were approximately 216 record holders of the 29,044,357 outstanding shares of our common stock. The number of record holders does not include shareholders for whom shares are held in a "nominee" or "street" name.

Dividend Policy

We have never paid or declared any cash dividends on our common stock. We currently intend to retain all available funds and any future earnings to fund the development and expansion of our business, and we do not anticipate paying any cash dividends in the foreseeable future. In addition, the terms of our existing credit agreement restrict the payment of cash dividends on our common stock. Any future determination to pay dividends will be at the discretion of our board of directors and will depend on our financial condition, results of operations, capital requirements, contractual restrictions (including those under our loan agreements) and other factors that our board of directors deems relevant.

Securities Authorized for Issuance under Equity Compensation Plans

The following table represents shares outstanding under our 2003 Stock Option Plan, our 2004 Stock and Incentive Awards Incentive Plan, and our 2016 Omnibus Incentive Plan as of March 31, 2018.

Equity Compensation Plan Information

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options and Vesting of Restricted Shares	Weighted Average Exercise Price of Outstanding Options and Restricted Shares	Number of Securities Remaining Available for Future Issuances Under the Equity Compensation Plans (1)
Equity Compensation plans approved by security holders	2,115,466	$ 2.01	601,064
Equity Compensation plans not approved by security holders	—	—	—
Total	2,115,466	$ 2.01	601,064

(1) Excludes shares reflected in the column titled “Number of Securities to be Issued Upon Exercise of Outstanding Options and Vesting of Restricted Shares”.

Issuer Purchase of Equity Securities

We did not purchase shares of our common stock during the fiscal fourth quarter ended March 31, 2018.

Unregistered Sales of Securities

We did not make any unregistered sales of our common stock during the year ended March 31, 2018 that were not previously disclosed in a Quarterly Report on form 10-Q or a current report on Form 8-K during such period.

Stock Price Performance Graph

The following graph shows the total shareholder return of an investment of $100 in cash on March 31, 2013 through March 31, 2018, for (1) our common stock, (2) the Russell 2000 Index and (3) The NASDAQ Clean Edge Green Energy Index. Data for the Russell 2000 Index and the NASDAQ Clean Edge Green Energy Index assume reinvestment of dividends. The stock price performance graph should not be deemed filed or incorporated by reference into any other filing made by us under the Securities Act of 1933 or the Securities Exchange Act of 1934, except to the extent that we specifically incorporate the stock performance graph by reference in another filing.

ITEM 6. SELECTED FINANCIAL DATA

You should read the following selected consolidated financial data in conjunction with Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated financial statements and the related notes included in Item 8. "Financial Statements and Supplementary Data" of this report. The selected historical consolidated financial data are not necessarily indicative of future results.

	Fiscal Year Ended March 31,				
	2018	2017	2016	2015	2014
	(in thousands, except per share amounts)				
Consolidated statements of operations data:					
Product revenue	$55,595	$66,224	$64,897	$65,881	$71,954
Service revenue	4,705	3,987	2,745	6,329	16,669
Total revenue	60,300	70,211	67,642	72,210	88,623
Cost of product revenue (1)(2)	41,415	49,630	49,630	68,388	54,423
Cost of service revenue	4,213	3,244	2,015	4,959	11,220
Total cost of revenue	45,628	52,874	51,645	73,347	65,643
Gross profit	14,672	17,337	15,997	(1,137)	22,980
General and administrative expenses (1)(3)	13,159	14,777	16,884	14,908	14,951
Impairment of assets (4)	710	250	6,023	—	—
Acquisition and integration related expenses (5)	—	—	—	47	819
Sales and marketing expenses (1) (6)	11,879	12,833	11,343	13,290	13,527
Research and development expenses (1) (7)	1,905	2,004	1,668	2,554	2,026
Loss from operations	(12,981)	(12,527)	(19,921)	(31,936)	(8,343)
Other income	248	215	—	—	—
Interest expense	(425)	(273)	(297)	(376)	(481)
Dividend and interest income	15	36	128	300	567
Loss before income tax	(13,143)	(12,549)	(20,090)	(32,012)	(8,257)
Income tax (benefit) expense (8)	(15)	(261)	36	49	(2,058)
Net loss and comprehensive loss	$(13,128)	$(12,288)	$(20,126)	$(32,061)	$(6,199)
Net loss per share attributable to common shareholders:					
Basic	$(0.46)	$(0.44)	$(0.73)	$(1.43)	$(0.30)
Diluted	$(0.46)	$(0.44)	$(0.73)	$(1.43)	$(0.30)
Weighted-average shares outstanding:					
Basic	28,784	28,156	27,628	22,353	20,988
Diluted	28,784	28,156	27,628	22,353	20,988

(1) Includes stock-based compensation expense recognized under Financial Accounting Standards Board Accounting Standards Codification Topic 718, or ASC Topic 718, as follows:

	Fiscal Year Ended March 31,				
	2018	2017	2016	2015	2014
	(in thousands)				
Cost of product revenue	$12	$30	$36	$50	$70
General and administrative expenses	929	1,337	1,148	1,056	1,025
Sales and marketing expenses	155	139	235	360	485
Research and development expenses	6	99	43	33	13
Total stock-based compensation expense	$1,102	$1,605	$1,462	$1,499	$1,593

(2) In fiscal 2018, includes expenses of $34 related to restructuring expense. In fiscal 2017, includes expenses of $2,209 related to an increase in inventory reserves and other inventory adjustments. In fiscal 2015, includes expenses of $12,130 related to the impairment of wireless control inventory, fixed assets and intangible assets.

(3) In fiscal 2018, includes a $1,822 restructuring expense and a $1,400 accrual for a loss contingency reversal. In fiscal 2016, includes a $1,400 loss contingency. In fiscal 2014, includes a $1,507 loss on the sale of a leased corporate jet.

(4) In fiscal 2018, includes an intangible asset impairment of $710. In fiscal 2017, includes an intangible asset impairment of $250. In fiscal 2016, includes expenses of $4,409 related to the impairment of goodwill and $1,614 related to the write-down to fair value of the manufacturing facility.

(5) In fiscal 2014, includes expenses of $515 related to the acquisition and integration of Harris.

(6) In fiscal 2018, includes expenses of $211 related to restructuring.

(7) In fiscal 2018, includes expenses of $79 related to restructuring.

(8) In fiscal 2014, includes a $2,315 benefit for deferred tax liabilities created by the acquisition of Harris.

	As of March 31,				
	2018	2017	2016	2015	2014
	(in thousands)				
Consolidated balance sheet data:					
Cash and cash equivalents	$9,424	$17,307	$15,542	$20,002	$17,568
Short-term investments	—	—	—	—	470
Total assets	45,325	62,051	70,875	87,805	98,940
Long term borrowings	4,013	6,819	4,021	3,222	3,151
Shareholder notes receivable	—	(4)	(4)	(4)	(50)
Total shareholders’ equity	23,424	35,450	45,983	64,511	77,012

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ITEM 7. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of our financial condition and results of operations should be read together with our audited consolidated financial statements and related notes included in this Annual Report on Form 10-K for the fiscal year ended March 31, 2018. See also “Forward-Looking Statements” and Item 1A “Risk Factors”.

Overview

We provide enterprise-grade LED lighting and energy project solutions. We research, develop, design, manufacture, market, sell and implement energy management systems consisting primarily of high-performance, energy-efficient commercial and industrial interior and exterior lighting systems and related services. Our products are targeted for applications in three primary market segments: commercial office and retail, area lighting and industrial applications, although we do sell and install products into other markets. Virtually all of our sales occur within North America.

Our lighting products consist primarily of light emitting diode ("LED") lighting fixtures. Our principal customers include national account end-users, electrical distributors, energy service companies ("ESCOs") and electrical contractors. Currently, substantially all of our products are manufactured at our leased production facility location in Manitowoc, Wisconsin, although as the LED market continues to evolve, we are increasingly sourcing products and components from third parties in order to provide versatility in our product development.

We believe the market for lighting products has shifted to LED lighting systems, and that the customer base for our legacy high intensity fluorescent ("HIF") technology products will continue to decline. Compared to our legacy lighting systems, we believe that LED lighting technology allows for better optical performance, significantly reduced maintenance costs due to performance longevity and reduced energy consumption. Due to their size and flexibility in application, we also believe that LED lighting systems can address opportunities for retrofit applications that cannot be satisfied by fluorescent or other legacy technologies. Our LED lighting technologies have become the primary component of our revenue as we continue to strive to be a leader in the LED market. Although we continue to sell some lighting products using our legacy HIF technology, we do not build to stock HIF products and instead build to committed customer orders as received. We plan to maintain our primary focus on developing and selling innovative LED products.

We do not have long-term contracts with our customers that provide us with recurring revenue from period to period and we typically generate substantially all of our revenue from sales of lighting systems and related services to governmental, commercial and industrial customers on a project-by-project basis. We typically sell our lighting systems in replacement of our customers’ existing fixtures. We call this replacement process a "retrofit". We frequently engage our customer’s existing electrical contractor to provide installation and project management services. We also sell our lighting systems on a wholesale basis, principally to electrical contractors, electrical distributors, and ESCOs to sell to their own customer bases.

Our ability to achieve our desired revenue growth and profitability goals depends on our ability to effectively engage distribution and sales agents, develop recurring revenue streams, implement our cost reduction initiatives, and improve our marketing, new product development, project execution, customer service, margin enhancement and operating expense management, as well as other factors. In addition, the gross margins of our products can vary significantly depending upon the types of products we sell, with margins ranging from 15% to 50%. As a result, a change in the total mix of our sales among higher or lower margin products can cause our profitability to fluctuate from period to period.

Our fiscal year ends on March 31. We refer to our just completed fiscal year, which ended on March 31, 2018, as “fiscal 2018”, and our prior fiscal year which ended on March 31, 2017 as "fiscal 2017". Our fiscal first quarter of each fiscal year ends on June 30, our fiscal second quarter ends on September 30, our fiscal third quarter ends on December 31 and our fiscal fourth quarter ends on March 31.

Reportable segments are components of an entity that have separate financial data that the entity's chief operating decision maker ("CODM") regularly reviews when allocating resources and assessing performance. Our CODM is our chief executive officer. Orion has three reportable segments: Orion U.S. Markets Division ("USM"), Orion Engineered Systems Division ("OES"), and Orion Distribution Services Division ("ODS").

Market Shift to Light Emitting Diode Products

The rapid market shift in the lighting industry from legacy lighting products to LED lighting products has caused us to adopt new strategies, approaches and processes in order to respond proactively to this industry transition. These changing underlying business fundamentals in this transition include:

- Rapidly declining LED component costs and LED product end user customer pricing pressure.

- Improving LED product performance and reducing customer return on investment payback periods resulting in increased customer preference for LED lighting products compared to legacy lighting products.
- Increasing LED lighting product customer sales compared to decreasing HIF product sales.
- A broader and more diverse customer base and market opportunities compared to our historical commercial and industrial facility customers.
- Increased importance of highly innovative product designs and features and enhanced product research and development capabilities requiring rapid new product introduction and new methods of product and company differentiation.
- Significantly reduced product technology life cycles; significantly shorter product inventory shelf lives and the related increased risk of rapidly occurring product technology obsolescence.
- Increased reliance on international component sources.
- Less internal product fabrication and production capabilities needed to support LED product assembly.
- Different and broader types of components, fabrication and assembly processes needed to support LED product assembly compared to our legacy products.
- Expanding customer bases and sales channels.
- Significantly longer end user product warranty requirements for LED products compared to our legacy products.

As we continue to focus our primary business on selling our LED product lines to respond to the rapidly changing market dynamics in the lighting industry, we face intense competition from an increased number of other LED product companies, a number of which have substantially greater resources and more experience and history with LED lighting products than we do.

Management Restructuring and Focus on Profitability

In early fiscal 2018, our Board of Directors restructured our management team. As part of this restructuring, our Chief Executive Officer, John Scribante, left our company and Mike Altschaefl, our then-current Board Chair, assumed the role of Chief Executive Officer. In addition, Scott Green, our then-current Executive Vice President, became our new Chief Operating Officer, with ongoing primary responsibility for improving our revenue generation. Mike Potts and Marc Meade, our then-current Executive Vice Presidents, remained in their positions and were assigned primary responsibility for substantially reducing our cost structure and for streamlining operations. Bill Hull remained in his position as Chief Financial Officer.

On August 30, 2017, Mike Potts retired as our Chief Risk Officer and Executive Vice President and continues to serve as a member of our Board of Directors and provides consulting services to us on an as needed basis.

Our market and product strategies have not changed. We have renewed our focus on sales channel execution, and implemented a reduction in our cost structure. Our management team continues to implement its plan to achieve breakeven earnings (excluding employee separation costs) before interest, taxes, depreciation, and amortization, or EBITDA, through the implementation of the following cost reduction measures:

- Constant monitoring and management of manufacturing overhead costs to ensure we continue to deliver strong gross margins amid an increasingly competitive market landscape;
- Reduction of staff positions through a targeted reduction in existing headcount;
- Reduced total compensation of our executive management and board of directors;
- Reductions in operating expenses, including better control of legal spending, elimination of our racing program and removal of various non-critical back office programs and initiatives.

We believe that our cost reduction plan taken during fiscal 2018 resulted in annualized cost savings of approximately $6.0 million, which we expect to be fully recognized beginning in fiscal 2019. These cost reductions, coupled with our renewed focus on sales channel execution, will help to drive revenue growth and accelerate our path to profitability.

During fiscal 2018, we executed on this cost reduction plan by entering into separation agreements with multiple employees and recognized $2.1 million of expense in fiscal 2018 in employee separation related costs. Our restructuring expense for fiscal 2018 is reflected within our consolidated statements of operations as follows (dollars in thousands):

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	Year Ended March 31, 2018
Cost of product revenue	$34
General and administrative	1,822
Sales and marketing	211
Research and development	79
Total	$2,146

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

	Year Ended March 31, 2018
Orion Distribution Systems	$117
Corporate and Other	2,029
Total	$2,146

We recorded no restructuring expense to the Orion U.S. Markets or Orion Engineered Systems segments.

Cash payments for employee separation costs in connection with our reorganization and cost reduction plan were $1.8 million for fiscal 2018. The remaining reorganization of business accruals as of March 31, 2018 were $0.3 million, of which $0.2 million relates to employee separation costs that are expected to be paid within one year. The remaining accrual of $0.1 million represents post-retirement medical benefits for one former employee which will be paid over several years.

Impairment of Intangible Assets

During the second quarter of fiscal 2018, we reviewed our definite and indefinite lived assets for impairment as a result of our lower than anticipated operating results and forecast revisions. As a result of these assessments, we determined that the carrying value of our indefinite lived intangible asset related to the Harris trade name exceeded the asset's fair value. As a result, we recorded an impairment charge of $0.7 million. A change in these assumptions or a change in circumstances could result in an additional impairment charge in a future period.

Fiscal 2019 Outlook

Despite lower than anticipated results for fiscal year ended March 31, 2018, we remain optimistic about our near-term and long-term financial performance. Our executive leadership team has developed a fiscal 2019 strategic plan to reflect our current business environment and the continuing opportunities and challenges of the LED and connected lighting marketplace. The overall goal of the plan is to grow, become more profitable and increase shareholder value, considering this environment as well as our current financial situation.

Our outlook for fiscal 2019 is positive as we believe that the following factors will directly or indirectly drive customer spending on lighting solutions:

- LED adoption continues to grow in all sectors;
- Commercial and industrial sentiment remains strong;
- Utility incentives continue to be available and are increasing as a percent of project costs in many areas;
- Capital spending is increasing;
- Business profits are increasing; and
- Consumer spending remains strong.

Beyond the benefits of our lighting fixtures, we believe that there is also an opportunity to utilize our system platform as a "digital" or "connected ceiling", or a framework or network that can support the installation and integration of other business solutions on our digital platform. This anticipated potential growth opportunity is also known as the "Industrial Internet of Things" or IoT, and is still early in its development; however, we have already participated in a few compelling applications that deliver cost savings and efficiency in areas outside of lighting.

Results of Operations: Fiscal 2018 versus Fiscal 2017

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

	Fiscal Year Ended March 31,				
	2018	2017		2018	2017
	Amount	Amount	% Change	% of Revenue	% of Revenue
Product revenue	$55,595	$66,224	(16.1)%	92.2 %	94.3 %
Service revenue	4,705	3,987	18.0 %	7.8 %	5.7 %
Total revenue	60,300	70,211	(14.1)%	100.0 %	100.0 %
Cost of product revenue	41,415	49,630	(16.6)%	68.7 %	70.7 %
Cost of service revenue	4,213	3,244	29.9 %	7.0 %	4.6 %
Total cost of revenue	45,628	52,874	(13.7)%	75.7 %	75.3 %
Gross profit	14,672	17,337	(15.4)%	24.3 %	24.7 %
General and administrative expenses	13,159	14,777	(10.9)%	21.8 %	21.0 %
Impairment of assets	710	250	NM	1.2 %	0.3 %
Sales and marketing expenses	11,879	12,833	(7.4)%	19.7 %	18.3 %
Research and development expenses	1,905	2,004	(4.9)%	3.1 %	2.9 %
Loss from operations	(12,981)	(12,527)	(3.6)%	(21.5)%	(17.8)%
Other income	248	215	15.3 %	0.4 %	0.3 %
Interest expense	(425)	(273)	55.7 %	(0.7)%	(0.4)%
Interest income	15	36	(58.3)%	— %	— %
Loss before income tax	(13,143)	(12,549)	(4.7)%	(21.8)%	(17.9)%
Income tax (benefit) expense	(15)	(261)	NM	— %	(0.4)%
Net loss and comprehensive loss	$(13,128)	$(12,288)	(6.8)%	(21.8)%	(17.5)%

*NM = Not Meaningful

Revenue. Product revenue decreased 16.1%, or $10.6 million, for fiscal 2018 versus fiscal 2017. The decrease in product revenue was primarily a result of the continued decline in fluorescent product sales, $6.5 million year over year, and a decrease of $3.9 million in LED lighting revenue. LED lighting revenue decreased 6.2% from $53.1 million in fiscal 2017 to $49.8 million in fiscal 2018, primarily as a result of a decrease in our LED Troffer Door Retrofit product as well as the impact of our transition of our distribution sales channel to an agent driven model. Service revenue increased 18.0%, or $0.7 million, primarily due to the timing of installation projects in fiscal 2018 compared to fiscal 2017. Total revenue decreased by 14.1%, or $9.9 million, due to the items discussed above.

Cost of Revenue and Gross Margin. Cost of product revenue decreased 16.6%, or $8.2 million, in fiscal 2018 versus the comparable period in fiscal 2017 primarily due to the decline in sales and the resulting lower overhead absorption compared to the prior year period. Cost of service revenue increased 29.9%, or $1.0 million, in fiscal 2018 versus fiscal 2017 primarily due to the timing of completion and costs on large projects. Gross margin decreased from 24.7% of revenue in fiscal 2017 to 24.3% in fiscal 2018. Our product gross margin decreased as a result of under-absorption within our manufacturing facility and an increase in sales of products sourced from third party manufacturers.

Operating Expenses

General and Administrative. General and administrative expenses decreased 10.9%, or $1.6 million, in fiscal 2018 compared to fiscal 2017, primarily due to decreases in employee costs of $1.6 million due to headcount reductions, the release of a loss contingency reserve for $1.4 million, and a decrease in amortization of $0.3 due to a lower intangible balance, partially offset by employee separation costs of $1.8 million. The decrease in employee costs of $1.6 million included the reduction of stock-based compensation expense of $0.4 million. Excluding the employee separation costs and the loss contingency release, general and administrative expenses decreased $2.0 million, or 13.8%.

Impairment of assets. During fiscal 2018 and fiscal 2017, we performed a review of our definite and indefinite-lived tangible and intangible assets for impairment. In conjunction with this review, we determined that the carrying value of our Harris trade name intangible asset exceeded its fair value. As a result, we recorded an impairment charge of $0.7 million and $0.3 million, respectively in fiscal 2018 and fiscal 2017.

Sales and Marketing. Our sales and marketing expenses decreased 7.4%, or $0.9 million, in fiscal 2018 compared to fiscal 2017. The decrease was primarily due to lower employee costs and reduced consulting and professional fees related to special events and field sales, partially offset by $0.2 million in employee separation costs.

Research and Development. Research and development expenses decreased by 4.9%, or $0.1 million in fiscal 2018 compared to fiscal 2017 primarily due to a decreased testing and supply costs, partially offset by $0.1 million in employee separation costs.

Other income. Other income in fiscal 2018 and fiscal 2017 represented product royalties received from licensing agreements for our patents.

Interest Expense. Interest expense in fiscal 2018 increased by 55.7%, or $0.1 million, from fiscal 2017. The increase in interest expense was due to increased third party financing costs.

Interest Income. Interest income in fiscal 2018 decreased by 58.3%, or twenty-one thousand dollars, from fiscal 2017. Our interest income decreased as a result of the continued run-off legacy customer financed projects.

Income Taxes. Income tax benefit in fiscal 2018 decreased $0.2 million from fiscal 2017. In fiscal 2017, we received refunds from previously filed tax returns and reversed a valuation allowance resulting in a tax benefit in fiscal 2017. In fiscal 2018 we received refunds from previously filed tax returns. Both periods include income tax expense for minimum state tax liabilities. In fiscal 2018, the impact of the Tax Cuts and Jobs Act on tax expense was immaterial due to the full valuation allowance.

Results of Operations: Fiscal 2017 versus Fiscal 2016

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

	Fiscal Year Ended March 31,				
	2017	2016		2017	2016
	Amount	Amount	% Change	% of Revenue	% of Revenue
Product revenue	$66,224	$64,897	2.0 %	94.3 %	95.9 %
Service revenue	3,987	2,745	45.2 %	5.7 %	4.1 %
Total revenue	70,211	67,642	3.8 %	100.0 %	100.0 %
Cost of product revenue	49,630	49,630	— %	70.7 %	73.4 %
Cost of service revenue	3,244	2,015	61.0 %	4.6 %	3.0 %
Total cost of revenue	52,874	51,645	2.4 %	75.3 %	76.4 %
Gross profit	17,337	15,997	8.4 %	24.7 %	23.6 %
General and administrative expenses	14,777	16,884	(12.5)%	21.0 %	25.0 %
Impairment of assets	250	6,023	NM	0.3 %	8.9 %
Sales and marketing expenses	12,833	11,343	13.1 %	18.3 %	16.8 %
Research and development expenses	2,004	1,668	20.1 %	2.9 %	2.4 %
Loss from operations	(12,527)	(19,921)	37.1 %	(17.8)%	(29.5)%
Other income	215	—	NM	0.3 %	— %
Interest expense	(273)	(297)	8.1 %	(0.4)%	(0.4)%
Interest income	36	128	(71.9)%	— %	0.2 %
Loss before income tax	(12,549)	(20,090)	37.5 %	(17.9)%	(29.7)%
Income tax (benefit) expense	(261)	36	NM	(0.4)%	0.1 %
Net loss and comprehensive loss	$(12,288)	$(20,126)	38.9 %	(17.5)%	(29.8)%

Revenue. Product revenue increased 2.0%, or $1.3 million. The increase in product revenue in fiscal 2017 was primarily a result of strengthening sales volume of LED fixtures and sales of new products introduced during the year. Our increase in product

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revenue was partially offset by negative impacts resulting from the transition of our distribution sales channel to an agent driven model, that did not gain traction until late in the second quarter of fiscal 2017. LED lighting revenue increased by 16.3% to $53.1 million in fiscal 2017 as compared to $45.7 million in fiscal 2016. Service revenue increased 45.2%, or $1.2 million, primarily due to more installation project revenue in fiscal 2017 when compared to fiscal 2016. Total revenue increased by 3.8%, or $2.6 million, primarily due to the items discussed above.

Cost of Revenue and Gross Margin. Our cost of product revenue remained the same although fiscal 2017 had higher sales and better absorption. Our fiscal 2017 gross margin includes the adverse impact of $2.2 million of charges to increase the inventory reserve by $1.7 million and an adjustment to write off supplies inventory of $0.5 million. The increase to the reserve reflects a growing customer preference for higher performing LED lighting technologies and the related slowdown in demand for lower priced earlier generation solutions. Our cost of service revenue increased 61.0%, or $1.2 million in fiscal 2017 versus fiscal 2016 primarily due to additional costs associated with our increased service revenue in fiscal 2017. Gross margin increased from 23.6% of revenue in fiscal 2016 to 24.7% in fiscal 2017. Lighting gross margin was positively impacted by a favorable mix of higher-priced and higher-margin LED high bay fixtures, better absorption due to higher volumes, negotiated price decreases for lighting components, and the benefits of our cost containment initiatives.

Operating Expenses

General and Administrative. Our general and administrative expenses decreased 12.5%, or $2.1 million, in fiscal 2017 primarily due to a reduction in legal costs, depreciation and amortization expense, offset by increases in employee costs, stock compensation, auditing and consulting expenses.

Impairment of assets. We performed an impairment test as of March 31, 2017 due to a triggering event for our indefinite-lived intangible asset. As a result of this impairment test, we determined that $0.3 million of our intangible asset for the Harris trade name was impaired. In 2016, we performed our annual goodwill impairment test in the fourth quarter and we determined that the entire amount of our recorded goodwill of $4.4 million was impaired. Also in fiscal 2016, our long-lived assets related to the pending sale and leaseback of our manufacturing facility were impaired by $1.6 million to properly represent the fair value of the property being sold.

Sales and Marketing. Our sales and marketing expenses increased 13.1%, or $1.5 million, in fiscal 2017 compared to fiscal 2016. The increase was primarily due to increased commissions related to our agency channel and rebranding costs, offset by a reduction in bad debt expense incurred in fiscal 2017 when compared to fiscal 2016.

Research and Development. Our research and development expenses increased 20.1% or $0.3 million, in fiscal 2017 primarily due to our investment in product innovation related to new product development.

Other income. Other income in fiscal 2017 represented product royalties received from licensing agreements for our patents.

Interest Expense. Our interest expense in fiscal 2017 decreased by 8.1% or $24,000 from fiscal 2016. The reduction in interest expense is attributable to the decrease in our outstanding debt.

Interest Income. Our interest income in fiscal 2017 decreased by 71.9% or $0.1 million from fiscal 2016. Our interest income decreased due to an increase in customers opting to utilize outside third party finance providers.

Income Taxes. Our income tax benefit decreased $0.3 million from fiscal 2017. In fiscal 2017, we received refunds from previously filed tax returns and reversed a valuation allowance resulting in a tax benefit in fiscal 2017. Our income tax expense is typically due to changes in expected minimum state tax liabilities.

U.S. Markets Division

The USM segment sells commercial lighting systems and energy management systems to the wholesale contractor markets. USM customers include ESCOs and electrical contractors. During fiscal 2017 and fiscal 2018, a significant portion of the historic sales of this division have migrated to distribution channel sales as a result of the implementation of our agent distribution strategy. The migrated sales are included in our ODS Division.

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

	For the year ended March 31,		
	2018	2017	2016
Revenues	$8,567	$17,852	$38,841
Operating loss	$(3,123)	$(1,357)	$(4,958)
Operating margin	(36.5)%	(7.6)%	(12.8)%

Fiscal 2018 Compared to Fiscal 2017

USM segment revenue decreased from fiscal 2017 by 52.0%, or $9.3 million. The decrease in revenue during fiscal 2018 compared to fiscal 2017 included the continued transition to our distribution sales model through the migration of sales to our ODS segment. Sales made through independent manufacturer representative agents are reflected within our ODS segment. The decrease also reflects a $1.3 million decline in sales to select large direct customers.

The USM segment's operating loss increased $1.8 million in fiscal 2018 as compared to fiscal 2017. The segment's operating loss was the result of the significant decline in sales due to the migration of customers to the distribution sales channel resulting in lost operating expense leverage and an intangible asset impairment in the second quarter of fiscal 2018 of $0.2 million.

Fiscal 2017 Compared to Fiscal 2016

USM segment revenue decreased from fiscal 2016 by 54.0%, or $21.0 million. The decrease in revenue during fiscal 2017 compared to fiscal 2016 was primarily due to our transition to more sales through manufacturer representative agents. These sales are now reflected within ODS.

USM segment operating loss improved from fiscal 2016 by 72.6%, or $3.6 million. The decrease in operating loss in fiscal 2017 was primarily due to the non-recurrence of costs associated with the segment's fiscal 2016 goodwill impairment charge of $2.4 million and fiscal 2016 fixed asset impairment charge of $0.7 million.

Engineered Systems Division

The OES segment develops and sells lighting products and provides construction and engineering services for Orion's commercial lighting and energy management systems. OES provides turnkey solutions for large national accounts, governments, municipalities and schools.

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

	For the year ended March 31,		
	2018	2017	2016
Revenues	$23,827	$29,501	$26,325
Operating income (loss)	$(3,792)	$(3,647)	$(6,982)
Operating margin	(15.9)%	(12.4)%	(26.5)%

Fiscal 2018 Compared to Fiscal 2017

OES revenue decreased in fiscal 2018 by 19.2%, or $5.7 million, compared to fiscal 2017 primarily as a result of the timing of delivery of our turnkey projects and reduced florescent purchases by a large retail customer.

OES segment operating loss in fiscal 2018 increased by $0.1 million from fiscal 2017. The segment's operating loss was the result of the decline in sales resulting in lost operating leverage and an intangible asset impairment in the second quarter of fiscal 2018 of $0.5 million.

Fiscal 2017 Compared to Fiscal 2016

OES revenue increased in fiscal 2017 by 12.1%, or $3.2 million compared to fiscal 2016. This increase in revenue was primarily driven by an increase in lighting revenue due to an increase in customer capital spending within the manufacturing and industrial sector. OES completed more turnkey jobs in fiscal 2017 when compared to fiscal 2016

OES segment operating loss decreased 47.8%, or $3.3 million from fiscal 2017 compared to fiscal 2016. The decreased loss was due to improvements to fiscal 2017 revenues and increases in gross margin related to cost decreases on LED components. The decrease in operating loss was also due to non-recurrence of the segment's fiscal 2016 goodwill impairment charge of $2.0 million and fiscal 2016 fixed asset impairment charge of $0.8 million.

Orion Distribution Services Division

The ODS segment focuses on selling lighting products through manufacturer representative agencies and a network of broadline North American distributors. This segment has expanded in fiscal 2017 and fiscal 2018 as a result of increased sales through distributors as Orion continues to develop its agent distribution strategy. This expansion includes the migration of customers from direct sales previously included in the USM division.

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

	For the year ended March 31,		
	2018	2017	2016
Revenues	27,906	22,858	2,476
Operating loss	(325)	(927)	(632)
Operating margin	(1.2)%	(4.1)%	(25.5)%

Fiscal 2018 Compared to Fiscal 2017

ODS segment revenue increased in fiscal 2018 from fiscal 2017 by $5.0 million. The increase in revenue was primarily due to our transition to a distribution channel sales model migrating direct sales through our manufacturer representative agents. In addition, ODS revenue grew as a result of our expanding manufacturer representative agencies and the continued ramp of sales through these agencies. The total number of manufacturer representative agencies were approximately 50 in fiscal 2017 and fiscal 2018.

ODS segment operating loss decreased by $0.6 million in fiscal 2018 compared to fiscal 2017, primarily due to a decrease in selling expenses.

Fiscal 2017 Compared to Fiscal 2016

ODS segment revenue increased in fiscal 2017 from fiscal 2016 by $20.4 million. The increase in revenue in fiscal 2017 was due to our transition from ESCOs to distribution channel sales through manufacturer representative agents expanding our customer base. Sales further increased due to the shift of customers from the USM division to this division as a result of our transition to the distribution model.

ODS segment operating loss increased by 46.7%, or $0.3 million in fiscal 2017. The operating loss increase was minimized by our continued investment in selling costs and increasing commission expenses due to our manufacturer representative agents as we complete our selling channel transition.

Liquidity and Capital Resources

Overview

We had $9.4 million in cash and cash equivalents as of March 31, 2018, compared to $17.3 million at March 31, 2017. Our cash position decreased primarily as a result of our net loss, separation payments to terminated employees in conjunction with our management reorganization and cost reduction initiatives, and the net repayment of $2.7 million on our revolving credit facility.

In February 2015, we entered into a credit and security agreement ("Credit Agreement") with Wells Fargo Bank, National Association. In fiscal 2017, we amended the Credit Agreement to extend the maturity date to February 6, 2019 and eliminate a $5.0 million excess availability reserve that had limited the amount available to be drawn under the Credit Agreement by such amount. In fiscal 2018, we again amended the Credit Agreement to extend the maturity date to February 6, 2021. The Credit Agreement provides for a revolving credit facility ("Credit Facility") subject to a borrowing base requirement based on eligible receivables and inventory. As of March 31, 2018, our borrowing base was approximately $4.0 million. Borrowings under the Credit Agreement outstanding as of March 31, 2018, amounted to approximately $3.9 million. As a result, we estimate that as of March 31, 2018, we were eligible to borrow an additional $0.1 million under the Credit Facility based upon current levels of eligible inventory and accounts receivable. The Credit Facility includes a $2.0 million sublimit for the issuance of letters of credit.

Our future liquidity needs and forecasted cash flows are dependent upon many factors, including our relative revenue, gross margins, cash management practices, cost reduction initiatives, working capital management, capital expenditures, pending or future litigation results and cost containment measures. In addition, we tend to experience high working capital costs when we increase sales from existing levels. Based on our current expectations, while we anticipate realizing improved operating results in the future, we also currently believe that we may experience negative working capital cash flows during some interim periods.

While we believe that we will likely have adequate available cash and equivalents and credit availability under our Credit Agreement to satisfy our currently anticipated working capital and liquidity requirements during the next 12 months based on our current cash flow forecast, there can be no assurance to that effect. We are pursuing various alternative sources of liquidity, including exploring a sale or mortgage of our tech center office building, to help ensure that we will have the best allocation of investing capital to satisfy our working capital needs. We are also implementing certain inventory management practices that we anticipate will help to reduce our inventory levels and enhance our cash position. If we experience significant liquidity constraints, we may be required to reduce our sales efforts, implement additional cost savings initiatives or undertake other efforts to conserve our cash.

In February 2017, we filed a universal shelf registration statement with the Securities and Exchange Commission. Under our shelf registration statement, we currently have the flexibility to publicly offer and sell from time to time up to $75.0 million of debt and/or equity securities, although, we are currently limited to selling an amount of securities equal to one-third of our public float on such registration statement. The filing of the shelf registration statement may help facilitate our ability to raise public equity or debt capital to expand existing businesses, fund potential acquisitions, invest in other growth opportunities, repay existing debt, or for other general corporate purposes.

On November 28, 2017, we received written notice from the Listing Qualifications Department of The NASDAQ Stock Market LLC notifying us that we were is not in compliance with the minimum bid price requirements set forth in Nasdaq Listing Rule 5550(a)(2) for continued listing on The Nasdaq Capital Market due to the shares of our common stock trading below the minimum bid price of $1.00 per share for a period of thirty (30) consecutive business days.

To regain compliance, the bid price of our common stock must have a closing bid price of at least $1.00 per share for a minimum of ten (10) consecutive business days. We were unable to regain compliance with the minimum bid price requirement during the initial 180-day compliance period. On May 30, 2018, we were granted an additional 180-day compliance period following our written notification to NASDAQ of our intention to cure the deficiency during the second compliance period. If we fail to regain compliance during the second 180-day period, then NASDAQ will notify us of its determination to delist our common stock, at which point we would have an opportunity to appeal the delisting determination to a hearings panel. We would remain listed on Nasdaq pending the hearings panel's decision. There can be no assurance that, if we do appeal any delisting determination by Nasdaq to the hearings panel, that such appeal would be successful.

We intend to continue to monitor the closing bid price of our common stock and may, if appropriate, consider implementing available options to regain compliance with the minimum bid price requirement under the Nasdaq Listing Rules.

Cash Flows

The following table summarizes our cash flows for our fiscal 2018, fiscal 2017 and fiscal 2016:

	Fiscal Year Ended March 31,		
	2018	2017	2016
	(in thousands)		
Operating activities	$(4,415)	$(1,903)	