Ocean Power Technologies, Inc.
Form 10-Q
December 09, 2016

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**Form 10-Q**

(Mark One)

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

**For the Quarterly Period Ended October 31, 2016**

**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: 001-33417**

**OCEAN POWER TECHNOLOGIES, INC.**

*(Exact Name of Registrant as Specified in Its Charter)*

| | |
|---|---|
| **Delaware** | **22-2535818** |
| *(State or Other Jurisdiction of Incorporation or* | *(I.R.S. Employer Identification No.)* |

*Organization)*

**1590 REED ROAD, PENNINGTON, NJ 08534**

*(Address of Principal Executive Offices, Including Zip Code)*

**(609) 730-0400**

*(Registrant's Telephone Number, Including Area Code)*

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically 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 No

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

| | | | |
|---|---|---|---|
| Large accelerated filer | Accelerated filer | Non-accelerated filer<br>(Do not check if a smaller<br>reporting company) | Smaller reporting company |

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

As of November 30, 2016, the number of outstanding shares of common stock of the registrant was 6,321,040.

**OCEAN POWER TECHNOLOGIES, INC.**

**INDEX TO FORM 10-Q**

**FOR THE SIX MONTHS ENDED OCTOBER 31, 2016**

PowerBuoy® is a registered trademark of Ocean Power Technologies, Inc. and the Ocean Power Technologies logo is a trademark of Ocean Power Technologies, Inc. All other trademarks appearing in this report are the property of their respective holders.

**Special Note Regarding Forward-Looking Statements**

We have made statements in this Quarterly Report on Form 10-Q that are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements convey our current expectations or forecasts of future events. Forward-looking statements include statements regarding our future financial position, business strategy, pending, threatened, and current litigation, liquidity, budgets, projected costs, plans and objectives of management for future operations. The words "may," "continue," "estimate," "intend," "plan," "will," "believe," "project," "expect," "anticipate", “goal” and similar expressions may identify forward-looking statements, but the absence of these words does not necessarily mean that a statement is not forward-looking.

The forward-looking statements contained in or incorporated by reference are largely based on our expectations, which reflect estimates and assumptions made by our management. These estimates and assumptions reflect our best judgment based on currently known market conditions and other factors. Although we believe such estimates and assumptions to be reasonable, they are inherently uncertain and involve a number of risks and uncertainties that are beyond our control, including:

- our ability to commercialize our PowerBuoys, and achieve and sustain profitability;
- our continued development of our proprietary technologies, and expected continued use of cash from operating activities unless or until we achieve positive cash flow from the commercialization of our products and services;
- our ability to obtain additional funding, as and if needed which will be subject to a number of factors, including market conditions, and our operating performance;
- our estimates regarding expenses, future revenues and capital requirements;
- the adequacy of our cash balances and our need for additional financings;
- our ability to develop and manufacture a commercially viable PowerBuoy product;
- that we will be successful in our efforts to commercialize our PowerBuoy or the timetable upon which commercialization can be achieved, if at all;
- our ability to identify and penetrate markets for our PowerBuoys and our wave energy technology;
- our ability to implement our commercialization strategy as planned, or at all;
- our ability to maintain the listing of our common stock on the NASDAQ Capital Market;
- the reliability of our technology and our PowerBuoys;
- our ability to improve the power output, survivability and reliability of our PowerBuoys;

- the impact of pending and threatened litigation on our business, financial condition and liquidity;
- changes in current legislation, regulations and economic conditions that affect the demand for renewable energy;
- our ability to compete effectively in our target markets;
- our limited operating history and history of operating losses;
- our sales and marketing capabilities and strategy in the United States and internationally; and
- our ability to protect our intellectual property portfolio.

Any or all of our forward-looking statements in this report may turn out to be inaccurate. We have based these forward-looking statements largely on our current expectations and projections about future events and financial trends that we believe may affect our financial condition, results of operations, business strategy and financial needs. They may be affected by inaccurate assumptions we might make or unknown risks and uncertainties, including the risks, uncertainties and assumptions described in Item 1A "Risk Factors" of our Annual Report on Form 10-K for the year ended April 30, 2016, in our Quarterly Report on Form 10-Q for the quarter ended July 31, 2016, and elsewhere in this report. In light of these risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this report may not occur as contemplated and actual results could differ materially from those anticipated or implied by the forward-looking statements.

Many of these factors are beyond our ability to control or predict. These factors are not intended to represent a complete list of the general or specific factors that may affect us. You should not unduly rely on these forward-looking statements, which speak only as of the date of this filing. Unless required by law, we undertake no obligation to publicly update or revise any forward-looking statements to reflect new information or future events or otherwise.

**PART I — FINANCIAL INFORMATION**

**Item 1.** ***FINANCIAL STATEMENTS***

**Ocean Power Technologies, Inc. and Subsidiaries**

**Consolidated Balance Sheets**

| | October 31, 2016 (Unaudited) | April 30, 2016 |
|---|---|---|
| **ASSETS** | | |
| Current assets: | | |
| Cash and cash equivalents | $12,512,185 | $6,729,814 |
| Marketable securities | 25,000 | 75,000 |
| Restricted cash | 305,690 | 299,543 |
| Unbilled receivables | 102,730 | 37,465 |
| Litigation receivable | 2,500,000 | 2,500,000 |
| Other current assets | 385,308 | 116,805 |
| Total current assets | 15,830,913 | 9,758,627 |
| Property and equipment, net | 220,180 | 273,049 |
| Other noncurrent assets | 320,599 | 319,450 |
| Total assets | $16,371,692 | $10,351,126 |
| **LIABILITIES AND STOCKHOLDERS' EQUITY** | | |
| Current liabilities: | | |
| Accounts payable | $142,781 | $372,700 |
| Accrued expenses | 2,881,505 | 2,674,841 |
| Litigation payable | 2,500,000 | 3,000,000 |
| Unearned revenue | - | 39,146 |
| Warrant liabilities | 548,382 | - |
| Current portion of long-term debt and capital lease obligations | 33,796 | 81,541 |
| Total current liabilities | 6,106,464 | 6,168,228 |
| Long-term debt and capital lease obligations | 41,167 | 54,567 |
| Deferred credits payable non-current | 600,000 | 600,000 |
| Total liabilities | 6,747,631 | 6,822,795 |
| Commitments and contingencies (note 11) | | |
| Ocean Power Technologies, Inc. stockholders’ equity: | | |
| Preferred stock, $0.001 par value; authorized 5,000,000 shares, none issued or outstanding | - | - |
| Common stock, $0.001 par value; authorized 50,000,000 shares, issued 6,321,040 and 2,352,100 shares, respectively | 6,321 | 2,352 |
| Treasury stock, at cost; 13,254 and 6,894 shares, respectively | (174,894) | (137,766) |
| Additional paid-in capital | 192,632,350 | 181,670,121 |

| | | |
|---|---|---|
| Accumulated deficit | (182,676,542) | (177,884,011) |
| Accumulated other comprehensive loss | (163,174) | (122,365) |
| Total equity | 9,624,061 | 3,528,331 |
| Total liabilities and stockholders' equity | $16,371,692 | $10,351,126 |

See accompanying notes to consolidated financial statements (unaudited).

**Ocean Power Technologies, Inc. and Subsidiaries**

**Consolidated Statements of Operations**

**(Unaudited)**

| | Three Months Ended October 31, | | Six Months Ended October 31, | |
|---|---|---|---|---|
| | **2016** | **2015** | **2016** | **2015** |
| Revenues | $169,964 | $494,412 | $372,353 | $600,078 |
| Cost of revenues | 125,146 | 494,412 | 252,431 | 600,078 |
| Gross profit | 44,818 | - | 119,922 | - |
| Operating expenses: | | | | |
| Product development costs | 1,307,734 | 1,177,656 | 2,944,106 | 3,660,444 |
| Selling, general and administrative costs | 1,723,737 | 1,821,993 | 3,242,296 | 3,728,938 |
| Total operating expenses | 3,031,471 | 2,999,649 | 6,186,402 | 7,389,382 |
| Operating loss | (2,986,653) | (2,999,649) | (6,066,480) | (7,389,382) |
| Change in fair value of warrant liabilities | 2,017,557 | - | 1,265,488 | - |
| Interest income, net | 2,232 | 3,712 | 2,046 | 8,835 |
| Other (expense) income, net | - | (8,080) | - | 242,927 |
| Foreign exchange gain (loss) | 1,780 | (24,801) | 6,415 | (5,842) |
| Net loss | (965,084) | (3,028,818) | (4,792,531) | (7,143,462) |
| Less: Net (profit) loss attributable to the non-controlling interest in Ocean Power Technologies (Australasia) Pty Ltd. | - | 2,057 | - | (45,340) |
| Net loss attributable to Ocean Power Technologies, Inc. | $(965,084) | $(3,026,761) | $(4,792,531) | $(7,188,802) |
| Basic and diluted net loss per share | $(0.25) | $(1.71) | $(1.51) | $(4.08) |
| Weighted average shares used to compute basic and diluted net loss per share | 3,891,512 | 1,773,978 | 3,180,501 | 1,762,805 |

(1) Common Stock and share data at October 31, 2015 has been adjusted retroactively to reflect a 1-for-10 reverse stock split effective October 27, 2015.

See accompanying notes to consolidated financial statements (unaudited).

**Ocean Power Technologies, Inc. and Subsidiaries**

**Consolidated Statements of Comprehensive Loss**

**(Unaudited)**

| | Three Months Ended October 31, | | Six Months Ended October 31, | |
|---|---|---|---|---|
| | **2016** | **2015** | **2016** | **2015** |
| Net loss | $(965,084) | $(3,028,818) | $(4,792,531) | $(7,143,462) |
| Foreign currency translation adjustment | (10,537) | 12,615 | (40,809) | (45,458) |
| Total comprehensive loss | (975,621) | (3,016,203) | (4,833,340) | (7,188,920) |
| Comprehensive (income) loss attributable to the non-controlling interest in Ocean Power Technologies (Australasia) Pty Ltd. | - | 2,057 | - | (72,664) |
| Comprehensive loss attributable to Ocean Power Technologies, Inc. | $(975,621) | $(3,014,146) | $(4,833,340) | $(7,261,584) |

See accompanying notes to consolidated financial statements (unaudited).

**Ocean Power Technologies, Inc. and Subsidiaries**

**Consolidated Statements of Stockholders' Equity**

**(Unaudited)**

| | **Common Shares** | | **Treasury Shares** | | **Additional Paid-In** | **Accumulated** | **Accumulated Other Comprehensive** | |
|---|---|---|---|---|---|---|---|---|
| | **Shares** | **Amount** | **Shares** | **Amount** | **Capital** | **Deficit** | **Loss** | **Total Equity** |
| Balance, April 30, 2016 | 2,352,100 | $2,352 | (6,894) | $(137,766) | $181,670,121 | $(177,884,011) | $(122,365) | $3,528,331 |
| Net loss | - | - | - | - | - | (4,792,531) | - | (4,792,531) |
| Stock based compensation | - | - | - | - | 141,907 | - | - | 141,907 |
| Issuance of restricted stock, net | 196,940 | 197 | - | - | 486,200 | - | - | 486,397 |
| Sale of stock | 3,772,000 | 3,772 | - | - | 10,334,122 | - | - | 10,337,894 |
| Acquisition of treasury stock | - | - | (6,360) | (37,128) | - | - | - | (37,128) |
| Other comprehensive loss | - | - | - | - | - | - | (40,809) | (40,809) |
| Balance, October 31, 2016 | 6,321,040 | $6,321 | (13,254) | $(174,894) | $192,632,350 | $(182,676,542) | $(163,174) | $9,624,061 |

See accompanying notes to consolidated financial statements (unaudited).

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**Ocean Power Technologies, Inc. and Subsidiaries**

**Consolidated Statements of Cash Flows**

**(Unaudited)**

| | Six Months Ended October 31, 2016 | 2015 |
|---|---|---|
| Cash flows from operating activities: | | |
| Net loss | $(4,792,531) | $(7,143,462) |
| Adjustments to reconcile net loss to net cash used in operating activities | | |
| Foreign exchange (loss) gain | (6,415) | 5,842 |
| Depreciation and amortization | 68,475 | 55,629 |
| Compensation expense related to stock option grants & restricted stock | 628,304 | 276,912 |
| Change in fair value of warrant liabilities | (1,265,488) | - |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | - | (1,357) |
| Unbilled receivables | (65,265) | 34,862 |
| Other current assets | (269,157) | (144,364) |
| Other noncurrent assets | (35,690) | 51,718 |
| Accounts payable | (231,572) | (92,077) |
| Accrued expenses | (275,053) | (28,408) |
| Unearned revenues | (39,146) | - |
| Net cash used in operating activities | (6,283,538) | (6,984,705) |
| Cash flows from investing activities: | | |
| Maturities of marketable securities | 50,000 | 50,000 |
| Restricted cash | (6,147) | 50,829 |
| Purchases of equipment | (11,500) | (11,130) |
| Net cash provided by investing activities | 32,353 | 89,699 |
| Cash flows from financing activities: | | |
| Proceeds from issuance of common stock and related warrants, net of costs | 12,151,764 | 4,798 |
| Repayment of debt | (63,401) | (50,000) |
| Acquisition of treasury stock | (37,128) | (1,724) |
| Net cash provided by (used in) financing activities | 12,051,235 | (46,926) |
| Effect of exchange rate changes on cash and cash equivalents | (17,679) | (54,480) |
| Net increase (decrease) in cash and cash equivalents | 5,782,371 | (6,996,412) |
| Cash and cash equivalents, beginning of period | 6,729,814 | 17,335,734 |
| Cash and cash equivalents, end of period | $12,512,185 | $10,339,322 |

See accompanying notes to consolidated financial statements (unaudited).

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**Ocean Power Technologies, Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements**

**(Unaudited)**

**(1) Background, Basis of Presentation and Liquidity**

***a) Background***

Ocean Power Technologies, Inc. (the "Company") was incorporated in 1984 in New Jersey, commenced business operations in 1994 and re-incorporated in Delaware in 2007. The Company is developing and is seeking to commercialize its proprietary systems that generate electricity by harnessing the renewable energy of ocean waves. The Company uses proprietary technologies that convert the mechanical energy created by the heaving motion of ocean waves into electricity. The Company has designed and continues to develop the PowerBuoy product line which is based on modular, ocean-going buoys, which the Company has been periodically ocean testing since 1997. The Company markets its PowerBuoys in the United States and internationally. Since fiscal 2002, government agencies have accounted for a significant portion of the Company's revenues. These revenues were largely for the support of product development efforts. The Company's goal is that an increased portion of its revenues be from the sale or lease of products and maintenance services, as compared to revenue to support its product development efforts. As the Company continues to advance its proprietary technologies, it expects to continue to have a net decrease in cash from operating activities unless and until it achieves positive cash flow from the planned commercialization of products and services.

***b) Basis of Presentation***

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation have been included. The interim operating results are not necessarily indicative of the results for a full year or for any other interim period. Further information on potential factors that could affect the Company's financial results can be found in the Company's Annual Report on Form 10-K for the year ended April 30, 2016 filed with the Securities and Exchange Commission ("SEC") and elsewhere in this Form 10-Q.

***c) Liquidity/Going Concern***

The consolidated financial statements have been prepared assuming the Company will continue as a going concern. The Company has experienced substantial and recurring losses from operations, which losses have caused an accumulated deficit of $182.7 million at October 31, 2016. At October 31, 2016, the Company had approximately $12.5 million in cash on hand, including $6.9 million resulting from the closing of a public offering of the Company's common stock on October 19, 2016. The Company generated revenues of $0.4 million and $0.6 million in the six months ended October 31, 2016 and 2015, respectively. Based on the Company's cash and cash equivalents and marketable securities as of October 31, 2016, the Company believes that it will be able to finance its capital requirements and operations into at least the quarter ending January 31, 2018. The Company will require additional equity and/or debt financing to continue its operations. The Company cannot assure you that it will be able to secure additional funding when needed or at all, or, if secured, that such funding would be on favorable terms. These factors raise substantial doubt about the Company's ability to continue as a going concern.

The consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and satisfaction of liabilities in the normal course of business. The consolidated financial statements do not include any adjustments relating to the recoverability and classification of recorded assets amounts or the amounts and classification of liabilities that might result from the outcome of this uncertainty.

Management is evaluating different strategies to obtain the required additional funding for future operations. These strategies may include, but are not limited to, additional funding from current or new investors, officers and directors; borrowings of debt; a public offering of the Company's equity or debt securities; partnerships and/or collaborations. There can be no assurance that any of these future-funding efforts will be successful.

**Ocean Power Technologies, Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements**

**(Unaudited)**

In fiscal 2017 and 2016, the Company has continued to make investments in ongoing product development efforts in anticipation of future growth. The Company's future results of operations involve significant risks and uncertainties. Factors that could affect the Company's future operating results and cause actual results to vary materially from expectations include, but are not limited to, risks from lack of available financing and insufficient capital, performance of PowerBuoys, its inability to market and commercialize its PowerBuoys, technology development, scalability of technology and production, dependence on skills of key personnel, concentration of customers and suppliers, deployment risks and laws, regulations and permitting. In order to continue to implement its business strategy, the Company requires additional equity and/or debt financing. The Company closed three equity financing arrangements during the six months ended October 31, 2016. The Company does not currently have any committed sources of debt or equity financing, and the Company cannot assure that additional equity and/or debt financing will be available to the Company as needed on acceptable terms, or at all. Historically, the Company has raised capital through securities sales in the public capital markets. If sufficient additional financing is not obtained when needed, the Company may be required to further curtail or limit operations, product development costs, and/or selling, general and administrative activities in order to reduce its cash expenditures. This could cause the Company to be unable to execute its business plan, take advantage of future opportunities and may cause it to scale back, delay or eliminate some or all of its product development activities and/or reduce the scope of or cease its operations.

In October 2015, the Company entered into an At the Market Offering Agreement ("2015 ATM Agreement") with H.C. Wainwright & Co., LLC ("Wainwright"), under which the Company offered from time to time in an at the market offering (the "2015 ATM Facility") shares of its Common Stock under a shelf registration statement filed in 2013 on Form S-3 (the "2013 Form S-3") and under a subsequent shelf registration statement on Form S-3 (the "2016 Form S-3") filed with the SEC in February 2016 and declared effective by the SEC in April 2016. The 2016 Form S-3 registers for sale up to $15 million in securities by the Company in a public offering, although the Company is limited by Instruction I.B.6 in the amount that it may sell under Form S-3 in any 12 calendar month period to one third of its public float. Form S-3 limits the aggregate market value of securities that the Company is permitted to offer in any 12-month period under its 2013 Form S-3 Shelf, whether under the ATM Agreement, the Underwriting Agreement or otherwise, to one-third of its public float. In 2014, the Company fully utilized its available transaction capacity to sell securities using the 2013 Form S-3 Shelf in the ATM offering. However, the Company regained the ability to utilize the 2013 Form S-3 Shelf as the Company entered fiscal 2016. Under the 2015 ATM Facility, between October 2015 and April 2016, the Company issued and sold 144,571 shares of its Common Stock with an aggregate market value of $293,343 under the 2015 ATM Agreement at an average price of $2.03 per share and paid Wainwright of the 2015 ATM Facility a sales commission of approximately $4,400 related to those shares. The 2015 ATM Agreement was terminated on June 2, 2016, effective immediately, and the 2015 ATM Facility is no longer available for use by the Company. Under the SEC's regulations, the securities registered under its 2013 Form S-3 Shelf may only be offered and sold if not more than three years have elapsed from the initial effective date of the Form S-3, except that if a new shelf registration statement is filed then the Company is permitted to continue to offer and sell securities under the Form S-3 until the earlier of the effective date of the new shelf registration statement or 180 days after the third anniversary of the initial effective date. On February 12, 2016, the Company filed a new Form S-3 shelf registration statement (the “2016 Form S-3”) to register the offering and sale of up to $15 million in securities. The 2016 Form S-3 registration was declared effective by the SEC on April 26, 2016.

On June 2, 2016, the Company entered into a securities purchase agreement, which was amended on June 7, 2016 (as amended, the “Purchase Agreement”) with certain institutional purchasers (the “June Purchasers”). Pursuant to the terms of the June Purchase Agreement, the Company sold an aggregate of 417,000 shares of Common Stock together with warrants to purchase up to an aggregate of 145,952 shares of Common Stock. Each share of Common Stock was sold together with a warrant to purchase 0.35 of a share of Common Stock at a combined purchase price of $4.60. The net proceeds to the Company from the offering were approximately $1.7 million, after deducting placement agent fees and estimated offering expenses payable by the Company, but excluding the proceeds, if any, from the exercise of the warrants issued in the offering. The warrants have an exercise price of $6.08 per share, will be exercisable on the date that is six months and one day from the date of issuance (“Initial Exercise Date”), and will expire five years following the Initial Exercise Date.

On July 22, 2016, the Company entered into the Second Amendment to the Purchase Agreement (the “Second Amended Purchase Agreement”) with certain purchasers (the “July Purchasers”). Pursuant to the terms of the Second Amended Purchase Agreement, the Company sold an aggregate of 595,000 shares of Common Stock together with warrants to purchase up to an aggregate of 178,500 shares of Common Stock. Each share of Common Stock was sold together with a warrant to purchase 0.30 of a share of Common Stock at a combined purchase price of $6.75. The net proceeds to the Company from the offering were approximately $3.6 million, after deducting placement agent fees and estimated offering expenses payable by the Company, but excluding the proceeds, if any, from the exercise of the warrants issued in the offering. The Warrants were exercisable immediately at an exercise price of $9.36 per share. The Warrants will expire on the fifth (5th) anniversary of the initial date of issuance.

On October 19, 2016, the Company sold 2,760,000 shares of common stock at a price of $2.75 per share, which includes the sale of 360,000 shares of the Company’s common stock sold by the Company pursuant to the exercise, in full, of the over-allotment option by the underwriters in a public offering. The net proceeds to the Company from the offering were approximately $6.9 million, after deducting placement agent fees and offering expenses payable by the Company. The Company is using the net proceeds from this offering for general corporate purposes, which may include additional development, testing and demonstrations of the PowerBuoy system with the goal of furthering and accelerating its commercialization efforts and expanding its sales and marketing functions.

**Ocean Power Technologies, Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements**

**(Unaudited)**

The sale of additional equity or convertible securities could result in dilution to stockholders. If additional funds are raised through the issuance of debt securities, these securities could have rights senior to those associated with the Company's Common Stock and could contain covenants that would restrict its operations. Financing may not be available in amounts or on terms acceptable to the Company, or at all. If the Company is unable to obtain required financing, it may be required to reduce the scope of its operations, including its planned product development and marketing efforts, which could materially and adversely harm its financial condition and operating results. If the Company is unable to secure additional financing, it may be forced to cease operations.

**(2) Summary of Significant Accounting Policies**

***(a) Consolidation***

The accompanying consolidated financial statements include the accounts of the Company and its majority-owned subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation. Participation of stockholders other than the Company in the net assets and in the earnings or losses of a consolidated subsidiary is reflected as a non-controlling interest in the Company's Consolidated Balance Sheets and Statements of Operations, which adjusts the Company's consolidated results of operations to reflect only the Company's share of the earnings or losses of the consolidated subsidiary. As of October 31, 2016 and 2015, respectively, there were no non-controlling interests. As of July 31, 2015, there was one non-controlling interest, consisting of 11.8% of the Company's Australian subsidiary, Ocean Power Technologies (Australasia) Pty. Ltd. ("OPTA"). OPTA owns 100% of Victorian Wave Partners Pty. Ltd. ("VWP"), which is also organized under the laws of Australia.

In September 2015, the Company re-purchased the non-controlling interest (consisting of 11.8%) of OPTA for nominal consideration and now has 100% ownership of OPTA. The Company also periodically evaluates its relationships with other entities to identify whether they are variable interest entities, and to assess whether it is the primary beneficiary of such entities. If the determination is made that the Company is the primary beneficiary, then that entity is included in the consolidated financial statements. As of October 31, 2016, there were no such entities.

***(b) Use of Estimates***

The preparation of the consolidated financial statements requires management of the Company to make a number of estimates and assumptions relating to the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the period. Significant items subject to such estimates and assumptions include the recoverability of the carrying amount of property and equipment; fair value of warrant liabilities, valuation allowances for receivables and deferred income tax assets; estimated costs to complete projects; and percentage of completion of customer contracts for purposes of revenue recognition. Actual results could differ from those estimates. The current economic environment, particularly the macroeconomic pressures in certain European countries, has increased the degree of uncertainty inherent in those estimates and assumptions.

***(c) Revenue Recognition***

The Company's contracts are either cost plus or fixed price contracts. Under cost plus contracts, customers are billed for actual expenses incurred plus an agreed-upon fee. Currently, the Company has two types of fixed price contracts, firm fixed price and cost-sharing. Under firm fixed price contracts, the Company receives an agreed-upon amount for providing products and services specified in the contract. Under cost-sharing contracts, the fixed amount agreed upon with the customer is only intended to fund a portion of the costs on a specific project.

Generally, the Company recognizes revenue using the percentage-of-completion method based on the ratio of costs incurred to total estimated costs at completion. In certain circumstances, revenue under contracts that have specified milestones or other performance criteria may be recognized only when the customer acknowledges that such criteria have been satisfied. In addition, recognition of revenue (and the related costs) may be deferred for fixed price contracts until contract completion if the Company is unable to reasonably estimate the total costs of the project prior to completion. These contracts are subject to interpretation and management may make a judgment as to the amount of revenue earned and recorded. Because the Company has a small number of contracts, revisions to the percentage-of-completion determination, management interpretation or delays in meeting performance and contractual criteria or in completing projects may have a significant effect on revenue for the periods involved. Upon anticipating a loss on a contract, the Company recognizes the full amount of the anticipated loss in the current period.

**Ocean Power Technologies, Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements**

**(Unaudited)**

Under cost plus and firm fixed price contracts, a profit or loss on a project is recognized depending on whether actual costs are more or less than the agreed upon amount. Under cost sharing contracts, an amount corresponding to the revenue is recorded in cost of revenues, resulting in gross profit on these contracts of zero. The Company's share of the costs is recorded as product development expense.

Unbilled receivables represent expenditures on contracts, plus applicable profit margin, not yet billed. Unbilled receivables are normally billed and collected within one year. Billings made on contracts are recorded as a reduction of unbilled receivables, and to the extent that such billings and cash collections exceed costs incurred plus applicable profit margin, they are recorded as unearned revenues.

Some of the Company's projects have been under cost-sharing contracts.

***(d) Cash and Cash Equivalents***

The Company considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. The Company invests excess cash in an overnight U.S. government securities repurchase bank account and a money market account. In accordance with the terms of the repurchase agreement, the Company does not take possession of the related securities. The agreement contains provisions to ensure that the market value of the underlying assets remain sufficient to protect the Company in the event of default by the bank by requiring that the underlying securities have a total market value of at least 100% of the bank's total obligations under the agreement.

| | **October 31, 2016** | **April 30, 2016** |
|---|---|---|
| Checking and savings accounts | $9,990,970 | $4,534,671 |
| Overnight repurchase account | 2,521,215 | 2,195,143 |
| | $12,512,185 | $6,729,814 |

***(e) Marketable Securities***

Marketable securities with original maturities longer than three months but that mature in less than one year from the balance sheet date are classified as current assets. Marketable securities that the Company has the intent and ability to hold to maturity are classified as investments held-to-maturity and are reported at amortized cost. The difference between the acquisition cost and face values of held-to-maturity investments is amortized over the remaining term of the investments and added to or subtracted from the acquisition cost and interest income. As of October 31, 2016 and April 30, 2016, all of the Company’s investments were classified as held-to-maturity.

***(f) Restricted Cash and Credit Facility***

A portion of the Company’s cash is restricted under the terms of two security agreements.

One agreement is between the Company and Barclays Bank. Under this agreement, the cash is on deposit at Barclays Bank and serves as security for letters of credit and bank guarantees that are expected to be issued by Barclays Bank on behalf of OPT LTD, one of the Company's subsidiaries, under a credit facility established by Barclays Bank for OPT LTD. The credit facility carries a fee of 1% per annum of the amount of any such obligations issued by Barclays Bank. The credit facility does not have an expiration date, but is cancelable at the discretion of the bank. As of October 31, 2016, there was €278,828 ($305,690) in letters of credit outstanding under this agreement.

The second agreement is between the Company. and the New Jersey Board of Public Utilities (“NJBPU”). The Company received a $500,000 recoverable grant award from the NJBPU, none of which remains outstanding at October 31, 2016. Under this arrangement, the Company annually assigns to the NJBPU a certificate of deposit in an amount equal to the outstanding grant balance. See Note 6.

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Restricted cash includes the following:

| | **October 31, 2016** | **April 30, 2016** |
|---|---|---|
| NJBPU agreement | $- | $50,000 |
| Barclay's Bank Agreement | 305,690 | 249,543 |
| | $305,690 | $299,543 |

***(g) Foreign Exchange Gains and Losses***

The Company has invested in certain certificates of deposit and has maintained cash accounts that are denominated in British pounds sterling, Euros and Australian dollars. These amounts are included in cash, cash equivalents, restricted cash and marketable securities on the accompanying consolidated balance sheets. Such positions may result in realized and unrealized foreign exchange gains or losses from exchange rate fluctuations, which gains and losses are included in foreign exchange gain in the accompanying consolidated statements of operations.

***(h) Property and Equipment***

Property and equipment is stated at cost, less accumulated depreciation and amortization. Depreciation and amortization is calculated using the straight-line method over the estimated useful lives (three to seven years) of the assets. Leasehold improvements are amortized using the straight-line method over the shorter of the estimated useful life of the asset or the remaining lease term. Expenses for maintenance and repairs are charged to operations as incurred. Property and equipment is also reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of the asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of the asset exceeds its estimated future cash flows, then an impairment charge is recognized in the amount by which the carrying amount of the asset exceeds the fair value of the asset.

***(i) Concentration of Credit Risk***

Financial instruments that potentially subject the Company to concentration of credit risk consist principally of cash balances, bank certificates of deposit and trade receivables. The Company invests its excess cash in highly liquid investments (principally, short-term bank deposits, Treasury bills, Treasury notes and money market funds) and does not believe that it is exposed to any significant risks related to its cash accounts, money market funds or certificates of deposit.

The table below shows the percentage of the Company's revenues derived from customers whose revenues accounted for at least 10% of the Company's consolidated revenues for at least one of the periods indicated:

| | **Three Months Ended October 31,** | | **Six Months Ended October 31,** | |
|---|---|---|---|---|
| | **2016** | **2015** | **2016** | **2015** |
| US Department of Energy | - | 18 % | - | 32 % |
| European Union (WavePort project) | - | 82 % | - | 68 % |
| Mitsui Engineering & Shipbuilding | 95 % | - | 97 % | - |
| U.S. Department of Defense Office of Naval Research | 5 % | - | 3 % | - |
| | 100 % | 100 % | 100 % | 100 % |

The loss of, or a significant reduction in revenues from a current customer could significantly impact the Company's financial position or results of operations. The Company does not require its customers to maintain collateral.

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***(j) Warrant Liabilities***

The Company's warrants to purchase shares of its common stock are classified as warrant liabilities and recorded at fair value. The warrant liabilities are subject to remeasurement at each balance sheet date and the Company recognizes any change in fair value in its statements of operations as a change in fair value of the warrant liabilities. The Company will continue to adjust the carrying value of the warrants for changes in the estimated fair value until such time as these instruments are exercised or expire. At that time, the liabilities will be reclassified to additional paid-in capital, a component of stockholders' equity.

***(k) Net Loss per Common Share***

Basic and diluted net loss per share for all periods presented is computed by dividing net loss by the weighted average number of shares of common stock outstanding during the period. Due to the Company's net losses, potentially dilutive securities, consisting of outstanding stock options and non-vested performance-based shares, were excluded from the diluted loss per share calculation due to their anti-dilutive effect.

In computing diluted net loss per share, options to purchase shares of common stock, warrants on common stock and non-vested restricted stock issued to employees and non-employee directors, totaling 687,825 for the three and six months ended October 31, 2016 and 165,870 for the three and six months ended October 31, 2015, were excluded from each of the computations as the effect would be anti-dilutive due to the Company's losses.

***(l) Recently Issued Accounting Standards***

In May 2014, the FASB issued ASU No. 2014-09, “Revenue from Contracts with Customers”. This guidance requires an entity to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This guidance also requires an entity to disclose sufficient information to enable users of financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

Qualitative and quantitative information is required about:

- Contracts with customers—including revenue and impairments recognized, disaggregation of revenue and information about contract balances and performance obligations (including the transaction price allocated to the remaining performance obligations).
- Significant judgments and changes in judgments—determining the timing of satisfaction of performance obligations (over time or at a point in time), and determining the transaction price and amounts allocated to performance obligations.
- Certain assets—assets recognized from the costs to obtain or fulfill a contract.

In August 2015, the FASB issued updated guidance deferring the effective date of the revenue recognition standard. In March and April 2016, the FASB issued additional updated guidance, which clarifies certain aspects of the ASU and the related implementation guidance issued by the FASB-IASB Joint Transition Resource Group for Revenue Recognition. This guidance is effective for the Company for annual reporting periods beginning after December 15, 2017. The Company is currently evaluating the impact that this guidance will have on its results of operations, financial position and cash flows.

In August 2014, the FASB issued ASU 2014-15, “Disclosure of Uncertainties about an Entity’s Ability to Continue as a Going Concern”, which describes how an entity should assess its ability to meet obligations and sets rules for how this information should be disclosed in the financial statements. The standard provides accounting guidance that will be used along with existing auditing standards. The new standard applies to all entities for the first annual period ending after December 15, 2016, and interim periods thereafter. Early application is permitted. The Company is evaluating the effect ASU 2014-15 will have on its consolidated financial statements and disclosures and have not yet determined the effect of the standard on its ongoing financial reporting at this time.

In January 2016, the FASB issued ASU No. 2016-01, “Recognition and Measurement of Financial Assets and Financial Liabilities”, which makes limited amendments to the guidance in U.S. GAAP on the classification and measurement of financial instruments. The update significantly revises an entity's accounting related to the classification and measurement of investments in equity securities and the presentation of certain fair value changes for financial liabilities measured at fair value. It also amends certain disclosure requirements associated with the fair value of financial instruments. The update will take effect for public companies for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The Company will evaluate the effect of ASU 2016-01 for future periods as applicable.

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In February 2016, the FASB issued ASU No. 2016-02, “Leases (Topic 842)”. The new standard establishes a right-of-use (ROU) model that requires a lessee to record a ROU asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. ASU 2016-02 is effective for annual periods beginning after December 15, 2018, including interim periods within those annual periods, with early adoption permitted. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. The Company is evaluating the effect ASU 2016-02 will have on its consolidated financial statements and disclosures and has not yet determined the effect of the standard on its ongoing financial reporting at this time.

In March 2016, the FASB issued ASU No. 2016-09, “Compensation - Stock Compensation (Topic 718)”, or ASU No. 2016-09. The amendments of ASU No. 2016-09 were issues as part of the FASB's Simplification initiative focused on improving areas of GAAP for which cost and complexity may be reduced while maintaining or improving the usefulness of information disclosed within the financial statements. The amendments focused on simplification specifically with regard to share-based payment transactions, including income tax consequences, classification of awards as equity or liabilities and classification on the statement of cash flows. The guidance in ASU No. 2016-09 is effective for fiscal years beginning after December 15, 2016, and interim periods within those annual periods. Early adoption is permitted. The Company will evaluate the effect of ASU 2016-09 for future periods as applicable.

In June 2016, the FASB issued ASU 2016-13, “Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments”. The standard provides for a new impairment model which requires measurement and recognition of expected credit losses for most financial assets held. The ASU is effective for public companies for annual periods, and interim periods within those annual periods, beginning after December 15, 2019. The Company is evaluating the effect ASU 2016-13 will have on its consolidated financial statements and disclosures and has not yet determined the effect of the standard on its ongoing financial reporting at this time.

In August 2016, the FASB issued ASU 2016-15, “Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments”, providing additional guidance on eight specific cash flow classification issues. The goal of the ASU is to reduce diversity in practice of classifying certain items. The amendments in the ASU are effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years and early adoption is permitted. The Company is evaluating the effect ASU 2016-13 will have on its consolidated financial statements and disclosures and has not yet determined the effect of the standard on its ongoing financial reporting at this time.

**(3) Marketable Securities**

Marketable securities with initial maturities longer than three months but that mature within one year from the balance sheet date are classified as current assets and are summarized as follows:

| | October 31, 2016 | April 30, 2016 |
|---|---|---|
| Certificate of Deposit | $25,000 | $75,000 |

**(4) Balance Sheet Detail**

| | October 31, 2016 | April 30, 2016 |
|---|---|---|
| **Accrued expenses** | | |
| Project costs | $1,300,059 | $817,509 |
| Contract loss reserve | 198,819 | 198,819 |
| Employee incentive payments | 279,042 | 688,389 |
| Accrued salary and benefits | 540,347 | 456,077 |
| Legal and accounting fees | 283,175 | 240,466 |
| Other | 280,063 | 273,581 |
| | $2,881,505 | $2,674,841 |

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**(5) Related Party Transactions**

In April 2014, the Company entered into an Executive Transition Agreement with George W. Taylor, who was formerly employed by the Company as Executive Vice Chairman and served on the Company's Board of Directors prior to that date. Under this agreement, Dr. Taylor received fifteen months of consulting fees at a monthly rate of $20,000 (this period terminated on July 18, 2015). For the three and six months ended October 31, 2016 and 2015, the Company recorded $0 and $52,667, respectively, in expense relating to this agreement, recorded in selling, general and administrative expense in the unaudited consolidated statement of operations.

**(6) Debt**

The Company was awarded a recoverable grant totaling $500,000 between April 2009 and June 2010 from the NJBPU under the Renewable Energy Business Venture Assistance Program. Under the terms of this agreement, the amount to be repaid is a fixed monthly amount of principal only, repayable over a five-year period beginning in November 2011. The terms also required the Company to annually assign to the NJBPU a certificate of deposit in an amount equal to the outstanding grant balance. As of October 31, 2016, there was no outstanding balance, and therefore, there is no certificate of deposit assigned to restricted cash. See Note 2(f).

| | **October 31, 2016** | **April 30, 2016** |
|---|---|---|
| Total debt | $ - | $50,000 |
| Current portion of long-term debt | - | (50,000) |
| Long-term debt | $ - | $- |

**(7) Deferred Credits Payable**

During the year ended April 30, 2001, in connection with the sale of common stock to an investor, the Company received $600,000 from the investor in exchange for an option to purchase up to 500,000 metric tons of carbon emissions credits generated by the Company during the years 2008 through 2012, at a 30% discount from the then-prevailing market rate. If the Company received emission credits under applicable laws and failed to sell to the investor the credits up to the full amount of emission credits covered by the option, the investor was entitled to liquidated damages equal to 30% of the aggregate market value of the shortfall in emission credits (subject to a limit on the market price of emission credits). Under the terms of the agreement, if the Company did not become entitled under applicable laws to the full amount of emission credits covered by the option by December 31, 2012, the Company was obligated to return the option fee of $600,000, less the aggregate discount on any emission credits sold to the investor prior to such date. In December 2012, the Company and the investor agreed to extend the period for the sale of emission credits until December 31, 2017. As of October 31, 2016, the Company has not generated any emissions credits eligible for purchase under the agreement. The $600,000 has been classified as a noncurrent liability as of October 31, 2016 and April 30, 2016.

**(8) Warrants**

On June 2, 2016, the Company entered into a securities purchase agreement, which was amended on June 7, 2016 (as amended, the “Purchase Agreement”) with certain institutional purchasers (the “June Purchasers”). Pursuant to the terms of the June Purchase Agreement, the Company sold an aggregate of 417,000 shares of Common Stock together with warrants to purchase up to an aggregate of 145,952 shares of Common Stock. Each share of Common Stock was sold together with a warrant to purchase 0.35 of a share of Common Stock at a combined purchase price of $4.60. The warrants have an exercise price of $6.08 per share, will be exercisable on the date that is six months and one day from the date of issuance (“Initial Exercise Date”), and will expire five years following the Initial Exercise Date.

On July 22, 2016, the Company entered into the Second Amendment to the Purchase Agreement (the “Second Amended Purchase Agreement”) with certain institutional purchasers (the “July Purchasers”). Pursuant to the terms of the Second Amended Purchase Agreement, the Company sold an aggregate of 595,000 shares of Common Stock together with warrants to purchase up to an aggregate of 178,500 shares of Common Stock. Each share of Common Stock was sold together with a warrant to purchase 0.30 of a share of Common Stock at a combined purchase price of $6.75. The Warrants were exercisable immediately at an exercise price of $9.36 per share. The Warrants will expire on the fifth (5th) anniversary of the initial date of issuance.

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The warrants contain a feature whereby they could require the transfer of assets and therefore are liability classified in accordance with ASC 480. As such, the warrants with a value of $548,382 and $0 at October 31, 2016 and April 30, 2016, respectively, are reflected as warrant liabilities in the unaudited condensed consolidated balance sheets. Unrealized gains of $2,017,557 and $1,265,448 were included as change in fair value of warrant liabilities in the consolidated statements of operations for the three and six months ended October 31, 2016, respectively. There are no unrealized losses for the three and six months ended October 31, 2015. The Company determined the fair value using the Black-Scholes option pricing model with the following assumptions:

| | **October 31, 2016** |
|---|---|
| Dividend rate | 0% |
| Risk-free rate | 1.3% |
| Expected life (years) | 4.7 - 5.1 |
| Expected volatility | 126.7% |

**(9) Stock-Based Compensation**

The aggregate stock-based compensation expense related to all stock-based transactions recorded in the consolidated statements of operations was approximately $628,000 and $277,000 for the six months ended October 31, 2016 and 2015, respectively.

***(a) Stock Options***

**Valuation Assumptions for Options Granted During the Six Months Ended October 31, 2016 and 2015**

The fair value of each stock option granted, for both service-based and performance-based vesting requirements during the six months ended October 31, 2016, was estimated at the date of grant using the Black-Scholes option pricing model, assuming no dividends and using the weighted average valuation assumptions noted in the following table. The risk-free rate is based on the US Treasury yield curve in effect at the time of grant. The expected life (estimated period of time outstanding) of the stock options granted was estimated using the "simplified" method as permitted by the SEC's Staff Accounting Bulletin No. 107, *Share-Based Payment.* Expected volatility was based on the Company's historical volatility for the six months ended October 31, 2016.

| | **Six Months Ended October 31, 2016** | **2015** |
|---|---|---|
| Risk-free interest rate | 1.3 % | 1.6 % |
| Expected dividend yield | 0.0 % | 0.0 % |
| Expected life (in years) | 5.5 | 5.5 |
| Expected volatility | 103.96% | 85.74% |

The above assumptions were used to determine the weighted average per share fair value of $2.53 and $4.05 for stock options granted during the six months ended October 31, 2016 and 2015, respectively.

A summary of stock options under our stock incentive plans is as follows:

| | **Shares Underlying Options** | **Weighted Average Exercise Price** | **Weighted Average Remaining Contractual Term (In Years)** |
|---|---|---|---|
| Outstanding as of April 30, 2016 | 89,303 | $ 42.90 | 3.6 |
| Forfeited | (841) | 51.50 | |
| Exercised | - | - | |
| Granted | 171,749 | 2.12 | |
| Outstanding as of October 31, 2016 | 260,211 | 15.96 | 7.4 |
| Exercisable as of October 31, 2016 | 156,466 | $ 24.44 | 5.8 |

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As of October 31, 2016, the total intrinsic value of outstanding and exercisable options was approximately $96,000 and $90,000, respectively. As of October 31, 2016, approximately 101,959 additional options are expected to vest in the future with an intrinsic value of approximately $4,000 and a weighted average remaining contractual term of 9.9 years. There was approximately $142,000 and $110,000 of total recognized compensation cost related to stock options for the six months ended October 31, 2016 and 2015, respectively. As of October 31, 2016, there was approximately $314,000 of total unrecognized compensation cost related to non-vested stock options granted under the plans. This cost is expected to be recognized over a weighted-average period of 1.0 years. The Company typically issues newly authorized but unissued shares to satisfy option exercises under these plans.

***(b) Restricted Stock***

Compensation expense for non-restricted stock is generally recorded based on its market value on the date of grant and recognized ratably over the associated service and performance period. During the six months ended October 31, 2016, the Company granted 203,662 shares subject to service-based vesting requirements and no shares subject to performance-based vesting requirements. The achievement or vesting requirement of the performance-based grants is tied to the Company's total shareholder return (TSR) relative to the total shareholder return of three alternative energy Exchange Traded Funds as measured over a specific performance period. No vesting of the relevant shares will occur in instances where the Company's TSR for the relevant period is below 80% of the peer group. However, additional opportunities to vest some or all of a portion of the shares in a subsequent period may occur. Compensation expense for these awards with market-based vesting is calculated based on the estimated fair value as of the grant date utilizing a Monte Carlo simulation model and is recognized over the service period on a straight-line basis. In January 2016, the Board of Directors authorized a modification to certain outstanding restricted stock grants, which converted certain grants with performance-based grants to service based grants. The modification of the restricted stock grants did not have a material impact on the Company's statement of operations for the six months ended October 31, 2016. Restricted stock issued and unvested at October 31, 2016 included 4,000 shares of unvested restricted stock subjected to performance-based vesting requirements.

A summary of non-vested restricted stock under our stock incentive plans is as follows:

| | Number | Weighted Average Price per |
|---|---|---|

| | of Shares | Share |
|---|---|---|
| Issued and unvested at April 30, 2016 | 44,022 | $ 6.51 |
| Granted | 203,662 | 4.03 |
| Forfeited | (31,528 ) | 3.15 |
| Vested | (112,994) | 5.00 |
| Issued and unvested at October 31, 2016 | 103,162 | $ 4.30 |

There was approximately $486,000 and $167,000 of total recognized compensation cost related to restricted stock for the six months ended October 31, 2016 and 2015, respectively. As of October 31, 2016, there was approximately $418,000 of total unrecognized compensation cost related to unvested restricted stock granted under our plans. This cost is expected to be recognized over a weighted average period of 0.6 years.

***(c)Treasury Stock***

During the six months ended October 31, 2016 and 2015, 6,360 and 452 shares, respectively, of common stock were purchased by the Company from employees to pay taxes related to the vesting of restricted stock.

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## (10) Fair Value Measurements

The Company measures and reports certain financial and non-financial assets and liabilities on a fair value basis. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (exit price). GAAP specifies a three-level hierarchy that is used when measuring and disclosing fair value. The fair value hierarchy gives the highest priority to quoted prices available in active markets (i.e., observable inputs) and the lowest priority to data lacking transparency (i.e., unobservable inputs). An instrument's categorization within the fair value hierarchy is based on the lowest level of significant input to its valuation. The following is a description of the three hierarchy levels.

| | |
|---|---|
| Level 1 | Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities. Active markets are considered to be those in which transactions for the assets or liabilities occur in sufficient frequency and volume to provide pricing information on an ongoing basis. |
| Level 2 | Quoted prices in markets that are not active, or inputs which are observable, either directly or indirectly, for substantially the full term of the asset or liability. This category includes quoted prices for similar assets or liabilities in active markets and quoted prices for identical or similar assets or liabilities in inactive markets. |
| Level 3 | Unobservable inputs are not corroborated by market data. This category is comprised of financial and non-financial assets and liabilities whose fair value is estimated based on internally developed models or methodologies using significant inputs that are generally less readily observable from objective sources. |

Transfers into or out of any hierarchy level are recognized at the end of the reporting period in which the transfers occurred. There were no transfers between any levels during the six months ended October 31, 2016 and 2015.

The following information is provided to help readers gain an understanding of the relationship between amounts reported in the accompanying consolidated financial statements and the related market or fair value. The disclosures include financial instruments and derivative financial instruments, other than investment in affiliates.

Following are descriptions of the valuation methodologies used to measure material assets and liabilities at fair value and details of the valuation models, key inputs to those models and significant assumptions utilized.

Warrant Liabilities

The fair value of the Company's warrant liabilities (refer to Note 8) recorded in the Company's financial statements is determined using the Black-Scholes option pricing model and the quoted price of the Company's common stock in an active market, volatility and expected life, is a Level 3 measurement. Volatility is based on the actual market activity of the Company's stock. The expected life is based on the remaining contractual term of the warrants and the risk free interest rate is based on the implied yield available on U.S. Treasury Securities with a maturity equivalent to the warrants' expected life.

The following table presents financial assets and liabilities measured at fair value on a recurring basis as of October 31, 2016:

| | **Total Carrying Value in Consolidated Balance Sheet** | **Quoted prices in active markets for identical assets or liabilities (Level 1)** | **Significant other observable inputs (Level 2)** | **Significant unobservable inputs (Level 3)** |
|---|---|---|---|---|
| **Financial Liabilities:** | | | | |
| Warrant liabilities | $ 548,382 | $ — | $ — | $ 548,382 |

The changes on the value of the warrant liabilities during the six months ended October 31, 2016 were as follows:

| | |
|---|---|
| Fair value – April 30, 2016 | $— |
| Issuance | 1,813,870 |
| Transfers | — |
| Change in fair value | (1,265,488) |
| Fair value – October 31, 2016 | $548,382 |

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There were no remeasured assets or liabilities at fair value on a non-recurring basis during the six months ended October 31, 2016 and 2015, respectively.

## (11) Commitments and Contingencies

### *(a) Litigation*

### Shareholder Litigation and Demands

The Company and its former Chief Executive Officer Charles Dunleavy are defendants in consolidated securities class action lawsuits pending in the United States District Court for the District of New Jersey captioned In Re: Ocean Power Technologies, Inc. Securities Litigation, Civil Action No. 14-3799 (FLW) (LHG). The consolidated actions are Roby v. Ocean Power Technologies, Inc., et al., Case No. 3:14-cv-03799-FLW-LHG (filed June 13, 2014); Chew, et al. v. Ocean Power Technologies, Inc. et. al., Case No 3:14-cv-03815 (filed June 13, 2014); Konstantinidis v. Ocean Power Technologies, Inc., et al., Case No. 3:14-cv-04015 (filed June 23, 2014); and Turner v. Ocean Power Technologies, Inc., et al., Case No. 3:14-cv-04592 (filed July 22, 2014). On March 17, 2015, the court entered an order appointing Five More Special Situation Fund Ltd. as the lead plaintiff.

On October 9, 2015, the lead plaintiff filed a third amended class action complaint which alleges claims for violations of sections 12(a) (2) and 15 of the Securities Act of 1933 and for violations of §10(b) and §20(a) of the Securities Exchange Act of 1934 arising out of public statements relating to the Company’s technology and a now terminated agreement between Victorian Wave Partners Pty. Ltd. (VWP) and the Australian Renewable Energy Agency (ARENA) for the development of a wave power station (the "VWP Project"). The third amended class action complaint seeks unspecified monetary damages and other relief. On November 5, 2015, defendants filed a motion to dismiss the third amended class action complaint. The lead plaintiff filed a brief in opposition to the motion on December 7, 2015, and defendants filed a reply in support of the motion on December 21, 2015. On May 5, 2016, the parties entered into a Stipulation and Agreement of Class Settlement (“Stipulation”) in which they agreed to a settlement of the consolidated securities class action lawsuits, subject to Court approval. The Stipulation provides, among other things, for a settlement payment by or on behalf of the Company of $3,000,000 in cash, of which the Company was to pay $500,000 and the Company’s insurer will pay $2,500,000, and the issuance by the Company of 380,000 shares (valued at $596,000 on the date the Stipulation was signed by the parties) of its Common Stock to the class members. In connection with the settlement, the parties have agreed to execute mutually agreeable releases. On June 7, 2016, the Court entered an Order Granting Preliminary Approval of Settlement. The Court scheduled a hearing for November 14, 2016 to determine, among other things, whether to grant final approval of the settlement. The amounts agreed in the Stipulation agreement, including the amount to be contributed by our insurance carrier, have been reflected in the Company’s Consolidated Financial Statements as of April 30, 2016. In July 2016, the Company paid the $500,000 portion of the settlement and the remaining balance of $2,500,000 was paid by the Company’s insurer in August 2016. On November 14, 2016, the Court held its previously scheduled Settlement Hearing to consider whether to grant final approval of the settlement, and on November 15, 2016, the Court issued its Final Judgment approving the settlement and dismissing the proceeding with prejudice. The distribution of the $3,000,000 in cash and 380,000 shares of the Company’s common stock is scheduled to occur 30 days after the date of the Final Judgment.

On July 10, 2014, the Company received a demand letter ("Demand Letter") from an attorney claiming to represent a shareholder demanding that the Company's Board of Directors establish an independent committee to investigate and remedy alleged breaches of fiduciary duties by the Board of Directors and management relating to the VWP Project. The Company invited the attorney to participate in the Section 220 Demand process discussed below. On February 6, 2015, the Company produced documents to the attorney pursuant to a confidentiality agreement in connection with the Section 220 Demand process.

The Company also received a letter, dated August 19, 2014, (the "Section 220 Demand") from another attorney claiming to represent a shareholder demanding, pursuant to 8 Del. C. §220, to inspect certain books and records of the Company relating to the VWP Project and the termination of Charles Dunleavy as the Company's Chief Executive Officer. The Company has received two additional Section 220 Demands relating to the same subject matter from attorneys claiming to represent two different shareholders. The Company has responded in writing to the three Section 220 Demands and on February 6, 2015 produced documents to each of the attorneys pursuant to confidentiality agreements.

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**(Unaudited)**

The Company and certain of its current and former directors and officers are defendants in a derivative lawsuit filed on March 18, 2015 in the United States District Court for the District of New Jersey captioned Labare v. Dunleavy, et. al., Case No. 3:15-cv-01980-FLW-LHG. The derivative complaint alleges claims for breach of fiduciary duty, abuse of control, gross mismanagement and unjust enrichment relating to the now terminated agreement between VWP and ARENA referred to above. The derivative complaint seeks unspecified monetary damages and other relief. On May 18, 2015, the plaintiff and all the defendants agreed to stay the derivative lawsuit pending action in the consolidated class action securities litigation discussed above (namely, a court order denying any motions to dismiss the commencement of discovery, a joint request to lift the stay, or further order of the court).

On July 10, 2015, a second derivative lawsuit, captioned Rywolt v. Dunleavy, et al., Case No. 3:15-cv-05469, was filed by another shareholder against the same defendants in the United States District Court for the District of New Jersey alleging similar claims for breach of fiduciary duty, gross mismanagement, abuse of control, and unjust enrichment relating to the now terminated agreement between VWP and ARENA. The Rywolt complaint also seeks unspecified monetary damages and other relief. On September 2, 2015, the plaintiff and all the defendants agreed to stay the Rywolt derivative lawsuit pending action in the consolidated class action securities litigation discussed above (namely, a court order denying any motions to dismiss the commencement of discovery, a joint request to lift the stay, or further order of the court). In addition, on September 2, 2015, the plaintiffs in the Labare and Rywolt derivative lawsuits filed an unopposed motion to consolidate the two actions. On February 8, 2016, the Court entered an order (i) consolidating the Labare and Rywolt actions; (ii) appointing Labare and Rywolt as co-lead plaintiffs; (iii) appointing The Rosen Law Firm P.C. as lead counsel; and (iv) directing the co-lead plaintiffs to file a consolidated amended complaint within 30 days of the order. The co-lead plaintiffs filed a consolidated complaint on March 9, 2016. Defendants have not responded to the consolidated complaint because of the pending stay.

On April 21, 2016, a third derivative lawsuit, captioned LaCalamito v. Dunleavy, et al., Case No. 3:16-cv-02249, was filed by another shareholder against certain current and former directors and officers of the Company in the United States District Court for the District of New Jersey alleging similar claims for breach of fiduciary duty relating to the now terminated agreement between VWP and ARENA. The LaCalamito complaint seeks unspecified monetary damages and other relief. The Company has not been formally served and has not yet responded to the complaint.

On June 9, 2016, a fourth derivative lawsuit, captioned Pucillo v. Dunleavy, et al., was filed by another shareholder against certain current and former directors and officers of the Company in the United States District Court for the District of New Jersey alleging similar claims for breach of fiduciary duty, unjust enrichment, and abuse of control relating to the now terminated agreement between VWP and ARENA. The Pucillo complaint seeks unspecified monetary damages and other relief. On August 2, 2016, the parties in the *Pucillo* lawsuit filed a Stipulation and

Proposed Order pursuant to which: (i) the defendants agreed to accept service of the *Pucillo* complaint; (ii) the parties agreed to stay the *Pucillo* action pending the filing and resolution of a motion to consolidate the *Pucillo* action with the *Labar*e and *Rywolt* actions; and (iii) the parties agreed that the defendants shall not be required to respond to the *Pucillo* complaint during the pendency of the stay. The Court approved the Stipulation on August 3, 2016.

On October 25, 2016, the Court approved and entered a Stipulation and Order that, among other things, (i) consolidated the four derivative actions; (ii) substituted plaintiff Pucillo for plaintiffs Labare and Rywolt as the lead plaintiff in the consolidated actions; and (iii) stayed the consolidated actions pending the settlement hearing scheduled for November 14, 2016 in the securities class action and further order of the Court.

The Company and certain of its current directors are defendants in a lawsuit filed by an alleged shareholder in the Superior Court of New Jersey, Mercer County Chancery Division on January 25, 2016, captioned Stern v. Ocean Power Technologies, Inc., et al., Civil Action No. C-5-16. The complaint alleges that certain provisions of the Company's Certificate of Incorporation and By-laws providing that the Company's directors may be removed only for cause and only by an affirmative vote of at least 75% of the votes which all the stockholders would be entitled to cast in any annual election of directors are invalid under Section 141(k) of the Delaware General Corporation Law. The Complaint asserts a breach of fiduciary claim against the director defendants and a declaratory judgment claim against all defendants seeking, among other things, to invalidate the current provisions and declare that the Company's directors may be removed and replaced without cause and by a simple majority vote. The Complaint seeks declaratory and injunctive relief as well as unspecified costs and attorneys' fees. Defendants have not yet responded to the Complaint. By Unanimous Written Consent dated June 17, 2016, the Company's Board of Directors amended the Company's By-laws to delete the "only for cause" requirement, thereby allowing for removal of directors with or without cause by the Company's stockholders. In addition, the Board proposed, subject to approval by the Company's stockholders at the next annual general meeting of stockholders, a similar amendment to the director removal provision in the Company's Certificate of Incorporation. On June 22, 2016, the parties to the lawsuit submitted a Stipulation and Proposed Order Staying Proceedings that (1) stays the case pending the stockholder vote on the proposed amendment to the Company's Certificate of Incorporation; (2) provides for dismissal of the action with prejudice if the stockholders approve the amendment, subject to plaintiff's right to make a fee application to the court and defendants' right to oppose any such application; and (3) provides for the stay to be lifted and the action to resume, without waiver of any parties' rights, if the stockholders do not approve the amendment. The Court approved the Stipulation on June 30, 2016. On September 2, 2016, the Company filed a definitive proxy statement with the SEC which includes this proposal. At the annual shareholder meeting on October 21, 2016, the proposal was not approved because an insufficient number of votes were cast to satisfy the requirement that the proposal be approved by the holders of at least 75% of the outstanding shares of common stock entitled to vote at the meeting.  However, stockholders approved an amendment to the Company's Certificate of Incorporation to add a provision which requires that any provision of the Certificate of Incorporation that is contrary to a requirement of the Delaware General Corporate Law shall be read in conformity with the applicable requirement of the Delaware General Corporate Law. The parties have agreed that the case shall remain stayed until further steps, if any, can be agreed to and taken as needed.

**Ocean Power Technologies, Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements**

**(Unaudited)**

**Employment Litigation**

On June 10, 2014, the Company announced that it had terminated Charles Dunleavy as its Chief Executive Officer and as an employee of the Company for cause, effective June 9, 2014, and that Mr. Dunleavy had also been removed from his position as Chairman of the Board of Directors. On June 17, 2014, Mr. Dunleavy wrote to the Company stating that he had retained counsel to represent him in connection with an alleged wrongful termination of his employment. On July 28, 2014, Mr. Dunleavy resigned from the Board and the boards of directors of the Company's subsidiaries. The Company and Mr. Dunleavy have agreed to suspend his alleged employment claims pending resolution of the shareholder litigation.

Except for the Stipulation agreement noted previously, we have not established any provision for losses relating to these claims and pending litigation. Due to the stages of these proceedings, and considering the inherent uncertainty of these claims and litigation, at this time we are not able to predict or reasonably estimate whether we have any possible loss exposure or the ultimate outcome of these claims.

***(b) Regulatory Matters:***

**SEC Investigation**

On February 4, 2015, the Company received a subpoena from the SEC requesting information related to the VWP Project. The Company has provided information to the SEC in response to that subpoena. As part of the same investigation, on July 12, 2016, the SEC issued a second subpoena requesting information related to the Company’s April 4, 2014 public offering. The Company has provided information to the SEC in response to that subpoena. The SEC investigation is ongoing and the Company continues to cooperate with the SEC in its investigation. We are unable to predict what action, if any, might be taken by the SEC or its staff as a result of this investigation or what impact, if any, the cost of responding to the SEC’s investigation or its ultimate outcome might have on our financial position, results of operations or liquidity. We have not established any provision for losses relating to this matter.

***Spain IVA (sales tax)***

In June 2012, the Company received notice that the Spanish tax authorities are inquiring into its 2010 IVA (value-added tax) filing for which the Company benefitted from the offset of approximately $250,000 of input tax. The Company believes that the inquiry will find that the tax credit was properly claimed and, therefore, no liability has been recorded. The Company issued two letters of credit in the amount of €278,828 ($305,690) at the request of the Spanish tax authorities. This is a customary request during the inquiry period. In November 2014, March 2015 and September 2015, the Company received partial refunds of the amount under dispute and continues to expect that this matter will be resolved in the Company's favor.

***Spain Income Tax Audit***

We are currently undergoing an income tax audit in Spain for the period from 2008 to 2014, when our Spanish branch was closed. The branch reported net operating losses for each of the years reported. We have not established any provision for losses related to this matter.

**Ocean Power Technologies, Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements**

**(Unaudited)**

## (12) Income Taxes

The Company did not recognize any consolidated income tax benefit (expense) for the three and six month periods ended October 31, 2016 and 2015. The Company has recorded a valuation allowance to reduce its net deferred tax asset to an amount that is more likely than not to be realized in future years. Accordingly, the benefit of the net operating loss that would have been recognized was offset by changes in the valuation allowance.

During the six months ended October 31, 2016, the Company had no material changes in uncertain tax positions.

## (13) Operating Segments and Geographic Information

The Company's business consists of one segment as this represents management's view of the Company's operations. The Company operates on a worldwide basis with one operating company in the US and operating subsidiaries in the UK and in Australia. Revenues and expenses are generally attributed to the operating unit that bills the customers.

Geographic information is as follows:

| | North America | Europe | Asia and Australia | Total |
|---|---|---|---|---|
| **Three months ended October 31, 2016** | | | | |
| Revenues from external customers | $169,964 | $- | $- | $169,964 |
| Operating loss | (2,883,434) | (95,702) | (7,517) | (2,986,653) |
| **Three months ended October 31, 2015** | | | | |
| Revenues from external customers | $494,412 | $- | $- | $494,412 |
| Operating loss | (2,880,664) | (78,259) | (40,726) | (2,999,649) |

| | | | | |
|---|---|---|---|---|
| **Six months ended October 31, 2016** | | | | |
| Revenues from external customers | $372,353 | $- | $- | $372,353 |
| Operating loss | (5,909,078 ) | (143,442) | (13,960 ) | (6,066,480 ) |
| | | | | |
| **Six months ended October 31, 2015** | | | | |
| Revenues from external customers | $600,078 | $- | $- | $600,078 |
| Operating loss | (7,096,878 ) | (165,982) | (126,522) | (7,389,382 ) |
| | | | | |
| **October 31, 2016** | | | | |
| Long-lived assets | $220,180 | $- | $- | $220,180 |
| Total assets | 15,717,801 | 266,348 | 387,543 | 16,371,692 |
| | | | | |
| **April 30, 2016** | | | | |
| Long-lived assets | $273,049 | $- | $- | $273,049 |
| Total assets | 9,553,033 | 395,389 | 402,704 | 10,351,126 |

**(14) Subsequent Events**

On November 7, 2016, the Company received approximately $700,000 through the State of New Jersey's Business Tax Certificate Transfer Program (the “Program”). The Program enables companies to raise cash to finance their growth and operations. The Program is administered by the New Jersey Economic Development Authority (“NJEDA”) and the New Jersey Department of the Treasury's Division of Taxation. Under the Program, New Jersey-based technology or biotechnology companies with fewer than 225 US employees may be eligible to sell net operating losses (“NOLs”) and research and development tax credits to unaffiliated corporations, for at least 80 percent of their value, up to a maximum lifetime benefit of $15 million per business.

## Item 2. *MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS*

The following discussion and analysis should be read in conjunction with the accompanying unaudited consolidated financial statements and related notes included in this Quarterly Report on Form 10-Q. Some of the information contained in this management's discussion and analysis or set forth elsewhere in this Form 10-Q, including information with respect to our plans and strategy for our business, pending and threatened litigation and our liquidity includes forward-looking statements that involve risks and uncertainties. You should review the "Risk Factors" section of our Annual Report on Form 10-K for fiscal 2016 for a discussion of important factors that could cause actual results to differ materially from the results described in or implied by the forward-looking statements contained in the following discussion and analysis. References to a fiscal year in this Form 10-Q refer to the year ended April 30 of that year (e.g., fiscal 2016 refers to the year ended April 30, 2016).

### Overview

Nearly 70% of the earth's surface is covered by water, with over 40% of the world's population living within approximately 150 miles of a coast. Thousands of information gathering and/or power systems are deployed in the oceans today to increase understanding of weather, climate change, biological processes, and marine mammal patterns and to support exploration and operations for industries such as oil and gas. Most of these systems are powered by battery, solar, wind, fuel cell, or fossil fuel generators that are expensive to operate while also limited in their electric power delivery. These incumbent systems often require significant tradeoffs in sensor accuracy, data processing and communications bandwidth and frequency in order to operate with available power. More persistent power systems requiring less maintenance, like our systems, may have the ability to save costs over current operating systems. Just as importantly, increases in available power may allow for better sensors and shorter data sampling and communication intervals up to real-time which could as a result improve scientific and economic returns.

Incorporated in 1984 and headquartered in Pennington, New Jersey, we believe we are the leader in ocean wave power. We are developing and seeking to commercialize our proprietary systems that generate electricity by harnessing the renewable energy of ocean waves. Our PowerBuoys use proprietary technologies that convert the mechanical energy created by the heaving motion of ocean waves into electricity. We currently have designed and continue to develop our PowerBuoy product line which is based on modular, ocean-going buoys, which we have been periodically ocean testing since 1997.

We have designed our autonomous PowerBuoy to generate power for use in remote locations, independent of an existing power grid. Our current PowerBuoy product, the PB3, incorporates a unique power take-off ("PTO") and onboard system for energy storage and management, and is significantly smaller than our previous iteration utility-scale PowerBuoy. We are continuing to develop and test our PowerBuoys, which we believe could be utilized in a variety of applications.

Our PB3 PowerBuoy design leverages portions of earlier features that we do not believe require further validation prior to implementation in our current products. Currently, our product development and engineering efforts are focusing primarily on developing technologies that will increase the energy output and reliability of our product through design scalability to maintain quality and speed time to our targeted markets. Our marketing and development efforts are targeting applications that require reliable, persistent, and sustainable power sources operating independently of the utility grid, either by supplying electric power to payloads that are integrated directly in our PowerBuoy or located in its vicinity including on the seabed.

Based on our market research and available public data, management believes that there is the potential for us to pursue business opportunities in multiple markets that would have a direct need for our PowerBuoys including oil and gas, ocean observing, defense and security, communications, and offshore wind. Depending on power needs, sensor types and other considerations, we believe our PowerBuoy could have the ability to satisfy several application requirements within these markets. We believe that the PB3 generates sufficient persistent power to meet the application needs of many of the potential customers within our target markets. We are continuing our development efforts to increase the energy output of the PowerBuoy to generate more power required for other applications within these markets.

Since fiscal 2002, government agencies have accounted for a significant portion of our revenues. These revenues were largely for the support of our development efforts relating to our technology and development of our PowerBuoys. Our goal is that an increased portion of our revenues be from the sale or lease of our products and sales of services, as compared to revenue from grants to support our business operations. As we continue to develop and commercialize our products, we expect to have a net loss of cash from operating activities unless and until we achieve positive cash flow from the commercialization of our products and services. During fiscal 2015 and 2016, we continued work on projects with the U.S. Department of Energy (“DOE”), and Mitsui Engineering and Shipbuilding Co., Ltd. (“MES”), with whom we signed our first commercial leasing agreement in May 2016, and we continued our efforts to increase the reliability and power output of our PowerBuoys.

**Product Development**

The development of our technology has been funded by capital we raised and by development engineering contracts we received starting in fiscal 1995, including projects with the DOE, the U.S. Navy, the Department of Homeland Security and MES. Through these historic projects, we also continued development of our current and our next generation PowerBuoy technology.

During fiscal 2017, we are continuing to focus on the commercialization of our PowerBuoy technology in autonomous application markets. We completed our work under our DOE contract that focused on further optimization of our modular PTO technology and delivered the project final report to the DOE in February 2016. In January 2016, we successfully completed the final stage and associated review with the DOE of the contract deliverables during which the DOE reviewed advancements related to PTO design aspects such as reliability, cost take out, manufacturability and scalability. As we continued to focus on the development and validation of our PB3 PowerBuoy commercial product, our activities concentrated mainly on implementing all of our lessons learned during our efforts in the prior fiscal year from our ocean deployments and accelerated life testing (“ALT”). The resulting improved PB3 PowerBuoy was deployed off the coast of New Jersey in July of 2016 and was retrieved early December 2016 upon completing all intended testing and validation. Upon inspection and refurbishment, we anticipate the PB3 PowerBuoy will be shipped to Japan to fulfill the requirements of our lease with MES including a deployment off of Kozu-Island in the Pacific Ocean. ALT of the PB3 commercial PTO is ongoing with no failures to date. In addition to the deployment of the PB3 PowerBuoy, the prior generation PB3-A1, was fitted with a sensor that collects tagged marine mammal migration information as well as with a Self-Contained Ocean Observing Payload (“SCOOP”).The marine mammal migration detection sensor was attached to the PB3-A1 PowerBuoy as part of an agreed scope of work with the Wildlife Conservation Society (“WCS”) through a memorandum of agreement between WCS and OPT. The SCOOP payload was integrated into PB3-A1 to complete the Phase 1 work scope of a Cooperative Research and Development Agreement (“CRADA”) between the National Data Buoy Center (NDBC) and OPT. The PB3-A1, deployed off the coast of New Jersey in May 2016, was retrieved in October 2016**.** From July 2016 through October 2016, both PB3-A1 and PB3 were simultaneously deployed generating valuable performance validation data. Both the NDBC SCOOP as well as the WCS tagged mammal migration detection sensor met all of their performance requirements. Our intent is to upgrade this pre-commercial design PowerBuoy to the full commercial design by retrofitting it with the final commercial PTO including our modular energy storage system, and to make it available to support our on-going commercialization efforts. In addition to the PB3 commercial product validation activities, a concerted effort has been underway which focuses on proactively implementing additional features driven by extensive and direct discussions with potential users and customers in our target markets. Such features include:

- The design, development and implementation of a versatile mooring interface that allows the PB3 to accommodate various types of mooring configurations depending on the specifics and the needs of the customer, eliminating the need for a redesign to the device.
- The design, development and implementation of a flexible power transmission system intended to support delivery of power and communication capabilities to customer payloads which are external to the PowerBuoy, and which may reside in the water column or on the seabed.

Additionally, and building upon our initial success in implementing an auto-ballast system in our commercial PB3, we are further enhancing this feature in order to achieve faster and more cost effective PB3 deployments and retrievals.

Further, we have initiated the development of our PB15, the next scale-up of our autonomous PowerBuoy, which is in accordance with our product roadmap. Our intent is to complete the preliminary design of our PB15 in fiscal 2017. We believe the PB15 PowerBuoy would have a peak rating of 15kW and an average continuous power output that depends on the deployment site's metocean conditions. While this scale-up leverages every aspect of the product development and validation of the PB3, it also strategically positions the product to allow OPT to respond to higher power needs as expressed by potential end-users and customers in our target markets.

As previously stated, the PB3 has achieved commercial status through a series of design iterations which focused on improving its reliability and survivability in the ocean environment. Though the PB3 will continue to undergo further enhancements through customary product life cycle management, we believe the PB3 has achieved a maturity level for immediate commercial use. We believe that the PB3 will generate and store sufficient power to address various application requirements in our target markets. Our product development and engineering efforts are focused, in part, on increasing the energy output and efficiency of our PowerBuoys and, if we are able to do so, we believe the PowerBuoy would be useful for additional applications where cost savings and additional power are required by our potential customers. We continue to explore opportunities in these target markets, and we have not yet finalized any product offerings in these potential markets. We believe that by increasing the energy output of our PowerBuoys we may be able to address larger segments of our target markets. By improving our design and manufacturing, we also seek to reduce the cost of our PowerBuoys through further design iterations and manufacturing ramp-up. In so doing, we seek to improve customer value, displace additional incumbent solutions, and become a viable power source for new applications in our target markets.

**Commercial Activities**

We are seeking to develop strategic alliances with other companies that have developed or are developing in-ocean applications requiring a persistent source of power to address potential customer needs. As announced in October 2015, we signed a memorandum of understanding (“MOU”) with Gardline Environmental, Ltd. to jointly investigate innovative metocean monitoring and maritime security systems for prospective customers using both companies’ technologies. The MOU can be terminated by either party, and each party will bear its own respective costs associated with the MOU.

In September, 2016, we entered into a contract with the Department of Defense Office of Naval Research totaling approximately $250,000 to carry out the first phase of a project which focuses on the initial concept design and development of a mass-on-spring PTO-based PowerBuoy leveraging a number of OPT patents covering such a technology. If successful, this device is expected to be able to respond to the unique set of requirements expected in various military marine applications.

In November, 2016, we entered into a joint marketing agreement with Sonalysts, Inc. The purpose of this agreement is for OPT and Sonalysts to collaboratively identify and pursue opportunities leveraging our individual products and capabilities. Sonalysts has primary capabilities in operations and analysis; modeling and simulation; systems engineering and integration; program support; and undersea wireless communications technologies.

During the six months ended October 31, 2016, we deployed the PB3-A1 PowerBuoy and deployed the commercial PB3 PowerBuoy. The PB3-A1 included a payload from the NBDC, under a CRADA to conduct ocean demonstrations of its innovative SCOOP monitoring system as well as a WCS tagged marine mammal migration pattern monitoring sensor. The WCS sensor was used in a first step to assess whether the PB3 could ultimately provide power to WCS’ sensors, transmit data, and provide real-time data communication for acoustic monitoring of the movements of marine wildlife in certain waters. In June 2016, we deployed the PB3-A1 off the coast of New Jersey. The SCOOP was powered by the PB3-A1, where it provided metocean data to OPT and to NDBC without issue. The data collected by the WCS sensor is currently being processed by WCS. The PB3-A1was retrieved in October 2016 and is undergoing a full system update by incorporating the full commercial PTO to be brought up to full commercial status similar to the PB3.

On May 31, 2016, we entered into a contract with MES totaling $975,587, a portion of which was performed in fiscal 2016 as agreed under a letter of intent signed in March 2016. The contract with MES included certain engineering and other services, and a six-month lease of our PB3 PowerBuoy, commencing in March 2017, and extending through August 2017.

During the six months ended October 31, 2016, we progressed discussions with our Technical Advisory Panel members and conducted extensive business development meetings and other activities with potential customers and business partners. We also continued our accelerated life testing to further validate the reliability and durability of our PowerBuoys.

**Capital Raises**

In October 2015, we entered into an At the Market Offering Agreement (the "2015 Offering Agreement") with Rodman & Renshaw, a unit of H. C. Wainwright & Co., LLC ("H. C. Wainwright") under which we offered shares of our common stock, from time to time through or to the H. C. Wainwright, acting as sales agent and/or principal, (the "2015 ATM Offering"). Under the 2015 Offering Agreement, during the year ended April 30, 2016, we sold 144,571 shares of Common Stock with an aggregate market value of $293,343 under the Offering Agreement and paid the H. C. Wainwright a sales commission of approximately $4,400 related to those shares.

On June 2, 2016, we entered into a securities purchase agreement, which was amended on June 7, 2016 (as amended, the "Purchase Agreement") with certain institutional purchasers (the "June Purchasers"). Pursuant to the terms of the June Purchase Agreement, we sold an aggregate of 417,000 shares of Common Stock together with warrants to purchase up to an aggregate of 145,952 shares of Common Stock. Each share of Common Stock was sold together with a warrant to purchase 0.35 of a share of Common Stock at a combined purchase price of $4.60. The net proceeds to the Company from the offering were approximately $1.7 million, after deducting placement agent fees and estimated offering expenses payable by the Company, but excluding the proceeds, if any, from the exercise of the warrants issued in the offering. The warrants have an exercise price of $6.08 per share, will be exercisable on the date that is six months and one day from the date of issuance ("Initial Exercise Date"), and will expire five years following the Initial Exercise Date.

On July 22, 2016, we entered into the Second Amendment to the Purchase Agreement (the "Second Amended Purchase Agreement") with certain purchasers (the "July Purchasers"). Pursuant to the terms of the Second Amended Purchase Agreement, we sold an aggregate of 595,000 shares of Common Stock together with warrants to purchase up to an aggregate of 178,500 shares of Common Stock. Each share of Common Stock was sold together with a warrant to purchase 0.30 of a share of Common Stock at a combined purchase price of $6.75. The net proceeds to the Company from the offering were approximately $3.6 million, after deducting placement agent fees and estimated offering expenses payable by the Company, but excluding the proceeds, if any, from the exercise of the warrants issued in the offering. The Warrants will be exercisable immediately at an exercise price of $9.36 per share. The Warrants will expire on the fifth (5th) anniversary of the initial date of issuance.