

**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, 2021

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
(State or Other Jurisdiction
of Incorporation or Organization)

22-2535818
(I.R.S. Employer
Identification No.)

28 ENGELHARD DRIVE, SUITE B, MONROE TOWNSHIP, NJ 08831

(Address of Principal Executive Offices, Including Zip Code)

(609) 730-0400

(Registrant's Telephone Number, Including Area Code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock \$0.001 par value	OPTT	NYSE American

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

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

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

Emerging growth company

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

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

As of December 14, 2021, the number of outstanding shares of common stock of the registrant was 55,873,173.

OCEAN POWER TECHNOLOGIES, INC.
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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”, 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 several risks and uncertainties that are beyond our control, including:

- our ability to commercialize our products, 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 several factors, including market conditions, and our operating performance;
- the impact of the COVID-19 pandemic and its variants on our business, operations, customers, suppliers and manufacturers and personnel;
- future acquisitions, which may use significant resources, may be unsuccessful or may expose us to unforeseen liabilities, as well as our ability to integrate such acquisitions into our operations;
- 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 commercially viable products;
- our ability to successfully develop and market new products;
- that we will be successful in our efforts to commercialize our products or the timetable upon which commercialization can be achieved, if at all;
- our ability to identify and penetrate markets for our products, services, and solutions;
- our ability to implement our commercialization strategy as planned, or at all;
- our relationships with our strategic partners may not be successful and we may not be successful in establishing additional relationships;
- our ability to maintain the listing of our common stock on the NYSE American;
- the reliability of our technology, products and solutions;
- our ability to improve the power output, survivability and reliability of our products;
- 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, 2021, and in our subsequent reports under the Exchange Act. 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
(in \$000's, except share data)

	October 31, 2021	April 30, 2021
	(Unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 72,630	\$ 83,028
Restricted cash, short-term	384	384
Accounts receivable	180	350
Contract assets	325	190
Other current assets	560	487
Total current assets	74,079	84,439
Property and equipment, net	360	406
Intangibles, net	262	274
Right-of-use asset, net	897	1,036
Restricted cash, long-term	222	222
Total assets	\$ 75,820	\$ 86,377
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 277	\$ 687
Accrued expenses	1,576	1,881
Contract liabilities	117	—
Right-of-use liability, current portion	327	347
Litigation payable	—	1,224
Liability classified stock awards	60	60
Paycheck protection program loan- current	—	495
Total current liabilities	2,357	4,694
Paycheck protection program loan, less current portion	—	396
Right-of-use liability, less current portion	690	819
Total liabilities	3,047	5,909
Commitments and contingencies (Note 16)		
Shareholders' Equity:		
Preferred stock, \$0.001 par value; authorized 5,000,000 shares, none issued or outstanding	—	—
Common stock, \$0.001 par value; authorized 100,000,000 shares, issued 52,499,051 and 52,458,011 shares, respectively	52	52
Treasury stock, at cost; 21,040 shares	(338)	(338)
Additional paid-in capital	316,389	315,821
Accumulated deficit	(243,191)	(234,896)
Accumulated other comprehensive loss	(139)	(171)
Total shareholders' equity	72,773	80,468
Total liabilities and shareholders' equity	\$ 75,820	\$ 86,377

See accompanying notes to unaudited consolidated financial statements.

Ocean Power Technologies, Inc. and Subsidiaries
Consolidated Statements of Operations
(in \$000's, except per share data)
Unaudited

	Three months ended October 31,		Six months ended October 31,	
	2021	2020	2021	2020
Revenues	\$ 247	\$ 118	\$ 519	\$ 287
Cost of revenues	300	216	723	550
Gross loss	(53)	(98)	(204)	(263)
Operating expenses:				
Engineering and product development costs	3,082	1,063	5,053	2,315
Selling, general and administrative costs	2,050	1,841	4,958	3,828
Total operating expenses	5,132	2,904	10,011	6,143
Operating loss	(5,185)	(3,002)	(10,215)	(6,406)
Interest income, net	19	8	38	20
Other expense, net	—	(33)	—	(33)
Gain on extinguishment of PPP loan	—	—	891	—
Foreign exchange (loss) gain	(5)	3	(5)	10
Loss before income taxes	(5,171)	(3,024)	(9,291)	(6,409)
Income tax benefit	—	—	1,041	—
Net loss	\$ (5,171)	\$ (3,024)	\$ (8,250)	\$ (6,409)
Basic and diluted net loss per share	\$ (0.10)	\$ (0.15)	\$ (0.16)	\$ (0.36)
Weighted average shares used to compute basic and diluted net loss per share	52,460,233	20,090,000	52,459,122	17,883,666

See accompanying notes to unaudited consolidated financial statements.

Ocean Power Technologies, Inc. and Subsidiaries
Consolidated Statements of Comprehensive Loss
(in \$000's)
Unaudited

	Three months ended October 31,		Six months ended October 31,	
	2021	2020	2021	2020
Net loss	\$ (5,171)	\$ (3,024)	\$ (8,250)	\$ (6,409)
Foreign currency translation adjustment	1	(7)	(13)	8
Total comprehensive loss	<u>(5,170)</u>	<u>(3,031)</u>	<u>(8,263)</u>	<u>(6,401)</u>

See accompanying notes to unaudited consolidated financial statements.

Ocean Power Technologies, Inc. and Subsidiaries
Consolidated Statement of Shareholders' Equity
(in \$000's, except share data)
Unaudited

Six Months Ended October 31, 2021

	Common Shares		Treasury Shares		Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total Shareholders' Equity
	Shares	Amount	Shares	Amount				
Balances at May 1, 2021	52,479,051	\$ 52	(21,040)	\$ (338)	\$ 315,821	\$ (234,896)	\$ (171)	80,468
Net loss	—	—	—	—	—	(8,250)	—	(8,250)
Share-based compensation	—	—	—	—	547	—	—	547
Proceeds from stock options exercises	20,000	—	—	—	21	—	—	21
Other comprehensive gain/(loss)	—	—	—	—	—	(45)	32	(13)
Balance, October 31, 2021	<u>52,499,051</u>	<u>\$ 52</u>	<u>(21,040)</u>	<u>\$ (338)</u>	<u>\$ 316,389</u>	<u>\$ (243,191)</u>	<u>\$ (139)</u>	<u>\$ 72,773</u>

Six Months Ended October 31, 2020

	Common Shares		Treasury Shares		Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total Shareholders' Equity
	Shares	Amount	Shares	Amount				
Balances at May 1, 2020	12,939,420	\$ 13	(4,251)	\$ (302)	\$ 231,101	\$ (220,136)	\$ (183)	10,492
Net loss	—	—	—	—	—	(6,409)	—	(6,409)
Share-based compensation	—	\$ —	—	\$ —	\$ 223	\$ —	\$ —	223
Issuance of common stock- Aspire financing, net of issuance costs	5,525,000	5	—	—	3,236	—	—	3,241
Issuance of common stock- AGP At The Market offering, net of issuance costs	5,689,134	\$ 6	—	\$ —	\$ 6,088	\$ —	\$ —	6,094
Other comprehensive gain	—	—	—	—	—	—	8	8
Balances at October 31, 2020	<u>24,153,554</u>	<u>\$ 24</u>	<u>(4,251)</u>	<u>\$ (302)</u>	<u>\$ 240,648</u>	<u>\$ (226,545)</u>	<u>\$ (175)</u>	<u>\$ 13,650</u>

Three Months Ended October 31, 2021

	Common Shares		Treasury Shares		Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total Shareholders' Equity
	Shares	Amount	Shares	Amount				
Balances at August 1, 2021	52,479,051	\$ 52	(21,040)	\$ (338)	\$ 316,211	\$ (237,975)	\$ (185)	77,765
Net loss	—	—	—	—	—	(5,171)	—	(5,171)
Share-based compensation	—	—	—	—	157	—	—	157
Proceeds from stock options exercises	20,000	20	—	—	21	—	—	21
Other comprehensive gain/(loss)	—	—	—	—	—	(45)	46	1
Balance, October 31, 2021	<u>52,499,051</u>	<u>52</u>	<u>(21,040)</u>	<u>(338)</u>	<u>316,389</u>	<u>(243,191)</u>	<u>(139)</u>	<u>72,773</u>

Three Months Ended October 31, 2020

	Common Shares		Treasury Shares		Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total Shareholders' Equity
	Shares	Amount	Shares	Amount				
Balances at August 1, 2020	18,624,816	\$ 19	(4,251)	\$ (302)	\$ 234,089	\$ (223,521)	\$ (168)	\$ 10,117
Net loss	—	—	—	—	—	(3,024)	—	(3,024)
Share-based compensation	—	—	—	—	107	—	—	107
Issuance of common stock- Aspire financing, net of issuance costs	500,000	—	—	—	606	—	—	606
Issuance of common	5,028,738	5	—	—	5,846	—	—	5,851

stock- AGP At The
Market offering, net of
issuance costs

Other comprehensive gain	—	—	—	—	—	—	(7)	(7)
Balances at October 31, 2020	<u>24,153,554</u>	<u>\$ 24</u>	<u>(4,251)</u>	<u>\$ (302)</u>	<u>\$ 240,648</u>	<u>\$ (226,545)</u>	<u>\$ (175)</u>	<u>\$ 13,650</u>

See accompanying notes to unaudited consolidated financial statements.

Ocean Power Technologies, Inc. and Subsidiaries
Consolidated Statements of Cash Flows
(in \$000's)
Unaudited

	Six months ended October 31,	
	2021	2020
Cash flows from operating activities:		
Net loss	\$ (8,250)	\$ (6,409)
Adjustments to reconcile net loss to net cash used in operating activities:		
Foreign exchange loss (gain)	5	(10)
Depreciation of fixed assets	70	73
Amortization of intangible assets	12	—
Amortization of right of use asset	139	105
Loss on disposal of property, plant and equipment	—	2
Gain on extinguishment of PPP Loan	(891)	—
Stock-based compensation	547	223
Changes in operating assets and liabilities:		
Accounts receivable	170	105
Contract assets	(135)	154
Other assets	(73)	(499)
Accounts payable	(410)	(72)
Accrued expenses	(305)	812
Change in lease liability	(147)	(110)
Contract liabilities	117	(56)
Litigation payable	(1,224)	—
Net cash used in operating activities	(10,375)	(5,682)
Cash flows from investing activities:		
Purchase of property, plant and equipment	(24)	—
Net cash used in investing activities	(24)	—
Cash flows from financing activities:		
Proceeds from Paycheck Protection Program Loan	—	890
Proceeds from loan payable	—	467
Payments of loan payable	—	(117)
Proceeds from stock option exercises	21	—
Proceeds from issuance of common stock- Aspire financing net of issuance costs	—	3,241
Proceeds from issuance of common stock- AGP At The Market offering, net of issuance costs	—	6,094
Net cash provided by financing activities	21	10,575
Effect of exchange rate changes on cash, cash equivalents and restricted cash	(20)	27
Net (decrease) / increase in cash, cash equivalents and restricted cash	(10,398)	4,920
Cash, cash equivalents and restricted cash, beginning of period	83,634	10,930
Cash, cash equivalents and restricted cash, end of period	\$ 73,236	\$ 15,850
Supplemental disclosure of noncash operating activities:		
Prepaid financing costs reported in accrued expenses	\$ —	\$ 49

See accompanying notes to unaudited consolidated financial statements.

Ocean Power Technologies, Inc. and Subsidiaries
Notes to Unaudited Consolidated Financial Statements

(1) Background, Basis of Presentation and Liquidity

(a) Background

Ocean Power Technologies, Inc. (the “Company”) was founded in 1984 in New Jersey, commenced business operations in 1994 and re-incorporated in Delaware in 2007. We are a complete solutions provider, controlling the design, manufacturing, sales, installation, operations and maintenance of our products while working closely with partners that provide payloads, integration services, and marine installation capabilities. Our solutions provide distributed offshore power which is persistent, reliable, and economical along with power and communications for remote surface and subsea applications. Historically, funding from government agencies, such as research and development grants, accounted for a significant portion of the Company’s revenues. Today our goal is to generate the majority of our revenue from the sale or lease of products and solutions, and sales of services to support our business operations. As we continue to develop and commercialize our products and services, we expect to have a net decrease in cash due to the use of cash from operating activities unless and until we achieve positive cash flow from the commercialization of products, solutions and services.

(b) Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) and for interim financial information in accordance with the Securities and Exchange Commission (“SEC”), instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair 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, 2021, as filed with the SEC and elsewhere in this Form 10-Q. Certain items have been reclassified from prior periods to be consistent with current GAAP presentations.

(c) Liquidity

For the six months ended October 31, 2021, and the fiscal year ended April 30, 2021, the Company incurred net losses of approximately \$8.3 million and \$14.8 million, respectively, and used cash in operations of approximately \$10.4 million and \$11.7 million, respectively. The Company has continued to make investments in ongoing product development efforts in anticipation of future growth, including its recent acquisition of Marine Advanced Robotics, Inc., as described in Note 19. 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, performance of its products, its ability to market and commercialize its products and new products that it may develop, technology development, scalability of technology and production, dependence on skills of key personnel, concentration of customers and suppliers, deployment risks and integration of acquisitions, pending or threatened litigation, and the impact of COVID-19 and any variants on its business. The Company previously obtained equity financing through its At the Market Offering Agreement (“ATM”) with A.G.P./Alliance Global Partners (“AGP”) and through its equity line financing with Aspire Capital, but the Company cannot be sure that additional equity and/or debt financing will be available to the Company as needed on acceptable terms, or at all. For fiscal year 2022 to date, management has not obtained any additional capital financing. Management believes the Company’s current cash balance of \$72.6 million is sufficient to fund its planned expenditures through at least December 2022.

On January 7, 2019, the Company entered into an At the Market Offering Agreement with AGP (the “2019 ATM Facility”), under which the Company could issue and sell to or through AGP, acting as agent and/or principal, shares of the Company’s common stock having an aggregate offering price of up to \$25.0 million. From inception of the program through its termination on December 8, 2020, under the 2019 ATM Facility, the Company sold and issued an aggregate of 17,595,472 shares of its common stock with an aggregate market value of \$23.4 million at an average price of \$1.33 per share, including 12,342,506 shares in fiscal year 2021 with an aggregate market value of \$18.7 million at an average price of \$1.51 per share and paid AGP a sales commission of approximately \$0.8 million related to those shares. The agreement was fully utilized and terminated on December 8, 2020.

On November 20, 2020, the Company entered into another At the Market Offering Agreement with AGP (the “2020 ATM Facility”), having capacity up to \$100.0 million. On December 4, 2020, the Company filed a prospectus with the Securities and Exchange Commission whereby, the Company could issue and sell to or through AGP, acting as agent and/or principal, shares of the Company’s common stock having an aggregate offering price of up to \$50.0 million. From inception of the 2020 ATM Facility through October 31, 2021, the Company had sold and issued an aggregate of 17,179,883 shares of its common stock with an aggregate market value of \$50.0 million at an average price of \$2.91 per share and paid AGP a sales commission of approximately \$1.6 million related to those shares. A prospectus supplement would need to be filed for the Company to sell an additional amount under the 2020 ATM Facility.

Equity Line Common Stock Purchase Agreements

On October 24, 2019, the Company entered into a common stock purchase agreement with Aspire Capital which provided that, subject to certain terms, conditions and limitations, Aspire Capital was committed to purchase up to an aggregate of \$10.0 million shares of the Company’s common stock over a 30-month period. Through September 18, 2020, the Company had sold an aggregate of 6,424,205 shares of common stock with an aggregate market value of \$4.0 million at an average price of \$0.63 per share pursuant to this common stock purchase agreement, including 5,025,000 shares in fiscal year 2021 with an aggregate market value of \$2.9 million at an average price of \$0.57 per share. The agreement was fully utilized and terminated on September 18, 2020.

On September 18, 2020, the Company entered into a new common stock purchase agreement with Aspire Capital which provided that, subject to certain terms, conditions and limitations, Aspire Capital was committed to purchase up to an aggregate of \$12.5 million shares of the Company’s common stock over a 30-month period subject to a limit of 19.99% of the outstanding common stock on the date of the agreement if the price did not exceed a specified price in the agreement. The number of shares the Company could issue within the 19.99% limit was 3,722,251 shares without shareholder approval. Shareholder approval was received at the Company’s annual meeting of shareholders on December 23, 2020 for the sale of 9,864,706 additional shares of common stock which exceeds the 19.99% limit of the outstanding common stock on the date of the agreement. Through October 31, 2021, the Company had sold an aggregate of 3,722,251 shares of common stock with an aggregate market value of \$11.8 million at an average price of \$3.17 per share pursuant to this common stock purchase agreement with approximately \$1.0 million remaining on the facility as of October 31, 2021.

(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.

(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 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, among other items, estimated costs to complete projects and percentage of completion of customer contracts for purposes of revenue recognition. Actual results could differ from those estimates.

(c) Cash, Cash Equivalents, Restricted Cash and Security Agreements*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 a money market account. The following table summarizes cash and cash equivalents as of October 31, 2021 and April 30, 2021:

	October 31, 2021	April 30, 2021
	(in thousands)	
Checking and savings accounts	\$ 713	\$ 1,850
Money market account	71,917	81,178
	<u>\$ 72,630</u>	<u>\$ 83,028</u>

Restricted Cash and Security Agreements

The Company has a letter of credit agreement with Santander Bank, N.A. (“Santander”). Cash of \$157,000 is on deposit at Santander and serves as security for a letter of credit issued by Santander for the lease of warehouse/office space in Monroe Township, New Jersey. This agreement cannot be extended beyond July 31, 2025 and is cancellable at the discretion of Santander.

Santander also issued two letters of credit to subsidiaries of Enel Green Power (“EGP”) pursuant to the Company’s contracts with EGP. The first letter of credit was issued in the amount of \$126,000 that will be released 12 months after the PB3 PowerBuoy® (“PB3”) is fully deployed. The second letter of credit was issued in the amount of \$645,000 and was reduced to \$323,000 in August 2020. The second letter of credit will be reduced by \$64,000 once the PB3 is fully deployed and passes final acceptance testing. The remaining restricted amount of \$258,000 will be released 12 months after the buoy is fully deployed.

The following table provides a reconciliation of cash, cash equivalents and restricted cash reported within the Consolidated Balance Sheets that total to the same amounts shown in the Consolidated Statements of Cash Flows.

	October 31, 2021	April 30, 2021
	(in thousands)	
Cash and cash equivalents	\$ 72,630	\$ 83,028
Restricted cash- short term	384	384
Restricted cash- long term	222	222
	<u>\$ 73,236</u>	<u>\$ 83,634</u>

(d) Concentration of Credit Risk

Financial instruments that potentially subject the Company to credit risk consist principally of accounts receivable and cash and cash equivalents. The Company believes that its current contracts do not represent a risk of collectability on its receivables. The Company invests its excess cash in a money market account and does not believe that it is exposed to any significant risks related to its cash and money market accounts. Cash and cash equivalents are also maintained at foreign financial institutions. Cash and cash equivalents in foreign financial institutions as of October 31, 2021 was \$32,000.

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The table below shows the amount 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,	
	2021	2020	2021	2020
	(in thousands)		(in thousands)	
Eni S.p.A.	\$ 14	\$ 72	\$ 14	\$ 99
Department of Energy	81	—	81	—
EGP	14	42	163	157
Clark Hill	30	—	37	—
Matthews	30	—	30	—
Valaris	47	—	135	—
Other (no customer over 10%)	31	4	59	31
	<u>247</u>	<u>118</u>	<u>519</u>	<u>287</u>

(e) Share-Based Compensation

Costs resulting from all share-based payment transactions are recognized in the consolidated financial statements at their fair values. The following table summarizes share-based compensation related to the Company's share-based plans by expense category for the three and six months ended October 31, 2021 and 2020:

	Three months ended October 31,		Six months ended October 31,	
	2021	2020	2021	2020
	(in thousands)			
Engineering and product development	\$ 125	\$ 22	\$ 342	\$ 59
Selling, general and administrative	32	85	205	164
Total share-based compensation expense	<u>\$ 157</u>	<u>\$ 107</u>	<u>\$ 547</u>	<u>\$ 223</u>

(f) Revenue Recognition

A performance obligation is the unit of account for revenue recognition. The Company assesses the goods or services promised in a contract with a customer and identifies as a performance obligation either: a) a good or service (or a bundle of goods or services) that is distinct; or b) a series of distinct goods or services that are substantially the same and that have the same pattern of transfer to the customer. A contract may contain a single or multiple performance obligations. For contracts with multiple performance obligations, the Company allocates the contracted transaction price to each performance obligation based upon the relative standalone selling price, which represents the price the Company would sell a promised good or service separately to a customer. The Company determines the standalone selling price based upon the facts and circumstances of each obligated good or service. The majority of the Company's contracts have no observable standalone selling price since the associated products and services are customized to customer specifications. As such, the standalone selling price generally reflects the Company's forecast of the total cost to satisfy the performance obligation plus an appropriate profit margin.

The nature of the Company's contracts may give rise to several types of variable consideration, including unpriced change orders and liquidated damages and penalties. Variable consideration can also arise from modifications to the scope of services. Variable consideration is included in the transaction price to the extent it is probable that a significant reversal of cumulative revenue recognized will not occur once the uncertainty associated with the variable consideration is resolved. Our estimates of variable consideration and determination of whether to include such amounts in the transaction price are based largely on our assessment of legal enforceability, performance, and any other information (historical, current, and forecasted) that is reasonably available to us. There was no variable consideration as of October 31, 2021 and 2020. The Company presents shipping and handling costs, that occur after control of the promised goods or services transfer to the customer, as fulfillment costs rather than evaluating whether the shipping and handling activities are promised services to the customer.

The Company recognizes revenue when or as it satisfies a performance obligation by transferring a good or service to a customer, either (1) at a point in time or (2) over time. A good or service is transferred when, or as, the customer obtains control. The evaluation of whether control of each performance obligation is transferred at a point in time or over time is made at contract inception. Input measures such as costs incurred or time elapsed are utilized to assess progress against specific contractual performance obligations for the Company's services. The selection of the method to measure progress towards completion requires judgment and is based on the nature of the services to be provided. For the Company, the input method using costs incurred or time elapsed best represents the measure of progress against the performance obligations incorporated within the contractual agreements. If estimated total costs on any contract project a loss, the Company charges the entire estimated loss to operations in the period the loss becomes known. The cumulative effect of revisions to revenue, estimated costs to complete contracts, including penalties, incentive awards, change orders, claims, anticipated losses, and others are recorded in the accounting period in which the events indicating a loss are known and the loss can be reasonably estimated. These loss projects are re-assessed for each subsequent reporting period until the project is complete. Such revisions could occur at any time and the effects may be material.

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. Under cost plus contracts, a profit or loss on a project is recognized depending on whether actual costs are more or less than the agreed upon amount.

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, and a profit or loss is recognized depending on whether actual costs are more or less than the agreed upon amount. 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. 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. The Company reports its disaggregation of revenue by contract type since this method best represents the Company's business. For the six-month periods ended October 31, 2021 and 2020, all of the Company's contracts were classified as firm fixed price.

As of October 31, 2021, the Company's total remaining performance obligations, also referred to as backlog, totaled \$0.3 million. The Company expects to recognize 100%, or \$0.3 million, of the remaining performance obligations as revenue over the next twelve months.

The Company also enters into lease arrangements for its PB3 with certain customers. Revenue related to multiple-element arrangements is allocated to lease and non-lease elements based on their relative standalone selling prices or expected cost plus a margin approach. Lease elements generally include a PB3 and components, while non-lease elements generally include engineering, monitoring and support services. In the lease arrangement, the customer is provided an option to extend the lease term or purchase the leased PB3 at some point during and/or at the end of the lease term.

Products and Solutions Leasing

The Company enters into lease arrangements with certain customers for their products and solutions. As of October 31, 2021, the Company had one lease arrangement with a remaining operating lease term of less than 7 months. Revenue related to multiple-element arrangements is allocated to lease and non-lease elements based on their relative standalone selling prices or expected cost plus a margin approach. Lease elements generally include a PB3 and components, while non-lease elements generally include engineering, monitoring and support services. In the lease arrangement, the customer is provided an option to extend the lease term or purchase the leased PB3 at some point during and/or at the end of the lease term.

The Company classifies leases as either operating or financing in accordance with the authoritative accounting guidance contained within ASC Topic 842, "Leases". At inception of the contract, the Company evaluates the lease against the lease classification criteria within ASC Topic 842. If the direct financing or sales-type classification criteria are met, then the lease is accounted for as a finance lease. All others are treated as operating leases.

The Company recognizes revenue from operating lease arrangements generally on a straight-line basis over the lease term which is presented in Revenues in the Consolidated Statements of Operations. The lease income for the six months ended October 31, 2021 and 2020 was immaterial.

(g) Net Loss per Common Share

Basic and diluted net loss per common share for all periods presented is computed by dividing net loss by the weighted average number of shares of common stock and common stock equivalents outstanding during the periods. The pre-funded warrants were determined to be common stock equivalents and have been included in the weighted average number of shares outstanding for calculation of the basic earnings per share number. Due to the Company's net losses, potentially dilutive securities, consisting of options to purchase shares of common stock, warrants on common stock and unvested restricted stock issued to employees and non-employee directors, were excluded from the diluted loss per common share calculation due to their anti-dilutive effect.

In computing diluted net loss per common share on the Consolidated Statements of Operations, warrants exercisable for common stock, options to purchase shares of common stock and non-vested restricted stock issued to employees and non-employee directors, totaling 4,928,474 and 5,540,469 for the six months ended October 31, 2021 and 2020, respectively, were excluded from each of the computations as the effect would be anti-dilutive due to the Company's net losses.

(h) Recently Issued Accounting Standards

In June 2016, the Financial Accounting Standards Board ("FASB") issued ASU No. 2016-13, "*Financial Instruments - Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments.*" This amendment replaces the incurred loss impairment methodology in current GAAP with a methodology that reflects expected credit losses on instruments within its scope, including trade receivables. This update is intended to provide financial statement users with more decision-useful information about the expected credit losses. In November 2019, the FASB issued No. 2019-10, "*Financial Instruments—Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842)*", which deferred the effective date of ASU 2016-13 for Smaller Reporting Companies for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years. The Company is currently evaluating the impact the adoption of ASU 2016-13 will have on its consolidated financial statements.

(3) Account Receivable and Contract Assets

The following provides further details on the balance sheet accounts of accounts receivable and contract assets from contracts with customers:

	October 31, 2021	April 30, 2021
	(in thousands)	
Accounts receivable	\$ 180	\$ 350
Contract assets	325	190
Contract liabilities	\$ 117	\$ —

Accounts Receivable

The Company grants credit to its customers, generally without collateral, under normal payment terms (typically 30 to 60 days after invoicing). Generally, invoicing occurs after the related services are performed or control of goods have transferred to the customer. Accounts receivable represent an unconditional right to consideration arising from the Company's performance under contracts with customers. The carrying value of such receivables represents their estimated realizable value.

Contract Assets

Significant changes in the contract assets balances during the period were as follows:

	Six months ended October 31, 2021	
	(in thousands)	
Transferred to receivables from contract assets recognized at the beginning of the period	\$	(190)
Revenue recognized and not billed as of the end of the period		325
Net change in contract assets	\$	<u>135</u>

Contract assets include unbilled amounts typically resulting from arrangements whereby the right to payment is conditioned on completing additional tasks or services for a performance obligation.

(4) Other Current Assets

Other current assets consisted of the following at October 31, 2021 and April 30, 2021:

	October 31, 2021		April 30, 2021	
	(in thousands)			
Deposits	\$	37	\$	68
Other receivables		17		21
Prepaid insurance		130		194
Prepaid recruiting		135		12
Prepaid expenses- other		241		192
	\$	<u>560</u>	\$	<u>487</u>

(5) Property and Equipment, net

The components of property and equipment, net as of October 31, 2021 and April 30, 2021 consisted of the following:

	October 31, 2021		April 30, 2021	
	(in thousands)			
Equipment	\$	313	\$	291
Computer equipment & software		501		498
Office furniture & equipment		339		341
Leasehold improvements		474		474
Construction in process		15		15
		<u>1,642</u>		<u>1,619</u>
Less: accumulated depreciation		<u>(1,282)</u>		<u>(1,213)</u>
	\$	<u>360</u>	\$	<u>406</u>

Depreciation expense was approximately \$70,000 and \$73,000 for the six month periods ended October 31, 2021 and 2020, respectively.

(6) Leases*Lessor Information*

As of October 31, 2021, the Company has one lease which has been classified as an operating lease per accounting guidance contained within ASC Topic 842, "Leases". The Company's remaining term on this operating lease is less than 10 months. The maturity of lease payments remaining on this lease is immaterial.

Lessee Information

The Company has one lease for its facility located in Monroe Township, New Jersey that is used as warehouse/production space and the Company's principal offices and corporate headquarters. The initial lease term is for seven years which expires in November of 2024 with an option to extend the lease for another five years. The lease is classified as an operating lease. The operating lease is included in right-of-use assets, lease liabilities- current and lease liabilities- long-term on the Company's Consolidated Balance Sheets.

The Company also has one lease located in Houston, Texas that was acquired as part of the 3Dent acquisition (see Note 18) that is used as office space. The lease term is for 3 years and is set to expire in January of 2023. The lease is classified as an operating lease and included in the right-of-use assets, lease liabilities- current and lease liabilities- long-term on the Company's Consolidated Balance Sheets.

The Company has one lease for additional office space also located in Houston, Texas. The lease was renewed for a 12-month term ending on June 30, 2022. In accordance with ASC 842-20-5-2, since the lease term is 12 months, the asset was recognized directly to the profit and loss statement on a straight-line basis and was not recognized as a right-of-use asset.

Right-of-use asset and operating lease liabilities are recognized based on the present value of future minimum lease payments over the lease term at commencement date. When the implicit rate of the lease is not provided or cannot be determined, the Company uses the incremental borrowing rate based on the information available at the effective date to determine the present value of future payments. Lease terms may include options to extend or terminate the lease when it is reasonably certain that the Company will exercise those options. The renewal options have not been included in the lease term as they are not reasonably certain of exercise. Lease expense for minimum lease payments is recognized on a straight- line basis over the lease term and consists of interest on the lease liability and the amortization of the right of use asset. Variable lease expenses, if any, are recorded as incurred.

The operating lease cash flow payments for the three months ended October 31, 2021 and 2020 were \$102,000 and \$85,000, respectively. The operating lease cash flow payments for the six months ended October 31, 2021 and 2020 were \$204,000 and \$168,000, respectively.

The components of lease expense in the Consolidated Statements of Operations for the three and six months ended October 31, 2021 and 2020 were as follows:

	Three months ended October 31,		Six months ended October 31,	
	2021	2020	2021	2020
	(in thousands)			
Operating lease cost	\$ 92	\$ 80	\$ 184	\$ 159
Short-term lease cost	5	3	10	5
Total lease cost	<u>\$ 97</u>	<u>\$ 83</u>	<u>\$ 194</u>	<u>\$ 164</u>

Information related to the Company's right-of use assets and lease liabilities as of October 31, 2021 was as follows:

	<u>October 31, 2021</u> (in thousands)
Operating lease:	
Operating right-of-use asset, net	\$ 897
Right-of-use liability- current	\$ 327
Right-of-use liability- long term	690
Total lease liability	<u>\$ 1,017</u>
Weighted average remaining lease term- operating leases	2.86 years
Weighted average discount rate- operating leases	8.2%

Total remaining lease payments under the Company's operating leases are as follows:

	<u>October 31, 2021</u> (in thousands)
Remainder of fiscal year 2022	\$ 199
2023	391
2024	362
2025	182
Total future minimum lease payments	\$ 1,134
Less imputed interest	(117)
Total	<u>\$ 1,017</u>

(7) Accrued Expenses

Accrued expenses consisted of the following at October 31, 2021 and April 30, 2021:

	<u>October 31, 2021</u> (in thousands)	<u>April 30, 2021</u>
Project costs	\$ 257	\$ 368
Contract loss reserve	328	328
Employee incentive payments	275	283
Accrued salary and benefits	426	631
Professional fees	241	200
Other	49	71
	<u>\$ 1,576</u>	<u>\$ 1,881</u>

(8) Warrants

Liability Classified Warrants

On June 2, 2016, the Company entered into a securities purchase agreement, which was amended on June 7, 2016 (as amended, the “June Purchase Agreement”) with certain institutional purchasers (the “June Purchasers”). Pursuant to the terms of the June Purchase Agreement, the Company sold an aggregate of 20,850 shares of Common Stock together with warrants to purchase up to an aggregate of 7,298 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 \$92.00. The warrants have an exercise price of \$121.60 per share, became exercisable on December 3, 2016 (“Initial Exercise Date”), and will expire on December 3, 2021, five years following the Initial Exercise Date. As of October 31, 2021, none of the warrants had been exercised.

On July 22, 2016, the Company entered into a 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 29,750 shares of Common Stock together with warrants to purchase up to an aggregate of 8,925 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 \$135.00. The warrants were exercisable immediately at an exercise price of \$187.20 per share. The warrants will expire on the fifth (5th) anniversary of the initial exercise date of January 23, 2017. As of October 31, 2021, none of the warrants had been exercised.

Equity Classified Warrants

On April 8, 2019, the Company issued and sold 1,542,000 shares of common stock and pre-funded warrants to purchase up to 3,385,680 shares of common stock and common warrants to purchase up to 4,927,680 shares of our common stock in an underwritten public offering. The public offering price for the pre-funded warrants was equal to the public offering price of the common stock, less the \$0.01 per share exercise price of each warrant. The pre-funded warrants have no expiration date. As of October 31, 2021, all of the pre-funded warrants had been exercised. The common stock warrants have an exercise price of \$3.85 per share and expire five years from the issuance date. As of October 31, 2021, all of the common warrants had been exercised.

The Company accounts for warrants issued in connection with its June 2016 and July 2016 public offerings in accordance with the guidance on “Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity” in Topic 480 which provides that the Company classify the warrant instruments as a liability at its fair value. The warrant liabilities are subject to re-measurement at each balance sheet date using the Black-Scholes option pricing model. The June 2016 and July 2016 warrants contain a feature whereby they could require the transfer of assets and therefore are classified as a liability award in accordance with the guidance in Topic 480. The warrants had a value near zero at October 31, 2021 and April 30, 2021. The pre-funded and common warrants issued in the Company’s April 8, 2019 public offering did not meet the criteria to be classified as a liability award and therefore were treated as an equity award and recorded as a component of shareholders’ equity in the Consolidated Balance Sheets.

(9) Paycheck Protection Program Loan

On March 27, 2020, the U.S. Government passed into law the Coronavirus Aid, Relief and Economic Security Act, or the (“CARES Act”). On May 3, 2020, the Company signed a Paycheck Protection Program (“PPP”) loan with Santander as the lender for approximately \$891,000 in support through the Small Business Association (“SBA”) under the PPP Loan. The PPP Loan was unsecured and evidenced by a note in favor of Santander as the lender and governed by a Loan Agreement with Santander. The loan contained an interest rate of 1% and was repayable over two years. The loan contained customary events of defaults relating to, among other things, payment defaults or breaches of the terms of the loan. Upon the occurrence of an event of default, the lender could have required immediate repayment of all outstanding amounts under the loan. Interest and principal payments were deferred for the first 6 months from the date of the loan. Principal and interest were payable monthly commencing 6 months after the disbursement date and were allowed to be repaid by the Company at any time prior to maturity with no prepayment penalties. The Company received the proceeds on May 5, 2020.

The Company filed its loan forgiveness application at the end of February 2021 asking for 100% forgiveness of the loan. In June 2021, the Company was informed that its application was approved, and that the loan is now fully forgiven. The Company recognized a gain on extinguishment of PPP loan of approximately \$891,000 during the six months ended October 31, 2021 as reflected on the Consolidated Statement of Operations.

(10) Preferred Stock

The Company has authorized 5,000,000 shares of undesignated preferred stock with a par value of \$0.001 per share. As of October 31, 2021, no shares of preferred stock had been issued.

(11) Common Stock

The Company has authorized 100,000,000 shares of common stock with a par value of \$0.001 per share. As of October 31, 2021, 52,499,051 shares had been issued and are outstanding.

(12) Treasury Shares

During each of the six months ended October 31, 2021 and 2020, no shares of common stock were purchased by the Company from employees to pay taxes related to the vesting of restricted stock.

(13) Share-Based Compensation

In 2015, upon approval by the Company's shareholders, the Company's 2015 Omnibus Incentive Plan (the "2015 Plan") became effective. A total of 1,332,036 shares were authorized for issuance under the 2015 Omnibus Incentive Plan, including shares available for awards under the 2006 Stock Incentive Plan remaining at the time that plan terminated, or that were subject to awards under the 2006 Stock Incentive Plan that thereafter terminated by reason of expiration, forfeiture, cancellation or otherwise. If any award under the 2006 Stock Incentive Plan or 2015 Plan expires, is cancelled, terminates unexercised or is forfeited, those shares become again available for grant under the 2015 Plan. The 2015 Plan will terminate ten years after its effective date, in October 2025, but is subject to earlier termination as provided in the 2015 Plan. As of October 31, 2021, the Company has 193,928 shares available for future issuance under the 2015 Plan which reflects adjustments made for the departure of our former CEO as well as other departures.

On January 18, 2018, the Company's Board of Directors adopted the Company's Employment Inducement Incentive Award Plan (the "2018 Inducement Plan") pursuant to which the Company reserved 25,000 shares of common stock for issuance under the Inducement Plan. In accordance with Rule 711(a) of the NYSE American Company Guide, awards under the Inducement Plan may only be made to individuals not previously employees of the Company (or following such individuals' bona fide period of non-employment with the Company), as an inducement material to the individuals' entry into employment with the Company. An award is any right to receive the Company's common stock pursuant to the 2018 Inducement Plan, consisting of a performance share award, restricted stock award, a restricted stock unit award or a stock payment award. As of October 31, 2021, there were 11,487 shares available for grant under the 2018 Inducement Plan.

Stock Options

The Company estimates the fair value of each stock option award granted with service-based vesting requirements, 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 is estimated using the “simplified” method as permitted by the SEC’s Staff Accounting Bulletin No. 110, *Share-Based Payment*. Expected volatility is based on the Company’s historical volatility over the expected life of the stock option granted. The Company did not grant any stock options during the three and six months ended October 31, 2021 and 2020. A summary of stock options under our stock incentive plans is detailed in the following table.

	Shares Underlying Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (In Years)
Outstanding as of April 30, 2021	516,827	\$ 3.89	9.0
Granted	—	\$ —	
Exercised	(6,666)	\$ 1.05	
Expired	(1,806)	\$ 32.62	
Cancelled/forfeited	(110,382)	\$ 2.58	
Outstanding as of October 31, 2021	397,973	\$ 4.16	8.4
Exercisable as of October 31, 2021	239,780	\$ 4.98	7.8

As of October 31, 2021, the total intrinsic value of outstanding and exercisable options was approximately \$0.2 million. As of October 31, 2021, approximately 158,000 additional options were unvested, which had an intrinsic value of zero and a weighted average remaining contractual term of 9.2 years. There was approximately \$115,000 and \$188,000 of total recognized compensation cost related to stock options during each of the six months ended October 31, 2021 and 2020, respectively. As of October 31, 2021, there was approximately \$0.2 million 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 year.

The Company’s acquisition of 3Dent (See Note 18) was valued at the fair value of the stock on the acquisition date of \$1,451,584 (361,991 shares at \$4.01). Since the shares will be restricted for one year and lack marketability, the Company applied a 20% discount to the purchase price making the adjusted fair value \$1,161,267. Additionally, as the sellers must be employed for 12 months from the date of acquisition to retain all of their shares, the difference between the calculated fair value and the net assets acquired represents the value of the compensation expense to be recognized over the period of the agreed upon employment.

Fair Value of Purchase	\$ 1,161,267
Total Acquired Assets	\$ (593,571)
Total Acquired Liabilities	\$ 117,106
Compensation Expense	\$ 684,802
Quarterly Compensation Expense	\$ 171,201

The Company will recognize approximately \$171,000 of compensation expense on a quarterly basis for the consideration paid until 12 months from the acquisition date of February 2, 2022.

Performance Stock Options

In January of 2020, the Company issued 81,337 performance-based stock options to two of its executives. There were 40,668 shares that were unvested and outstanding at October 31, 2021 which expire on December 15, 2021, 40,000 of which were exercised in December 2021.

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In January of 2021, the Company issued 344,723 performance-based stock options to employees and executives. The awards vest over 2 years provided there is positive total shareholder return (e.g. share price increase) as measured by the closing share price on January 14, 2022 and January 14, 2023. There were 257,356 shares unvested and outstanding at October 31, 2021. None of the shares granted to our former President and CEO under this issuance vested and lapsed as of June 18, 2021. A summary of performance stock options under our stock incentive plans is detailed in the following table.

	Shares Underlying Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (In Years)
Outstanding as of April 30, 2021	424,790	\$ 2.57	9.5
Granted	66,667	\$ 0.62	
Exercised	(13,334)	\$ 1.05	
Cancelled/forfeited	(193,433)	\$ 2.80	
Outstanding as of October 31, 2021	<u>284,690</u>	<u>\$ 2.03</u>	<u>9.1</u>
Exercisable as of October 31, 2021	<u>27,334</u>	<u>\$ 1.05</u>	<u>8.2</u>

As of October 31, 2021, the total intrinsic value of both outstanding and exercisable options was approximately \$30,000 and zero, respectively. As of October 31, 2021, approximately 257,000 additional options were unvested, which had an intrinsic value of \$30,000 and a weighted average remaining contractual term of 9.1 years. There was approximately \$61,000 and \$187,000 of total recognized compensation cost related to stock options during each of the six months ended October 31, 2021 and 2020, respectively. As of October 31, 2021, there was approximately \$0.3 million 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 1.3 years.

Restricted Stock

Compensation expense for non-vested 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, 2021 and 2020, the Company granted 33,333 shares that were subject to service-based vesting requirements.

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

	Number of Shares	Weighted Average Price per Share
Issued and unvested at April 30, 2021	10,000	\$ 2.93
Granted	33,333	\$ 2.37
Vested	—	\$ —
Cancelled/forfeited	—	\$ —
Issued and unvested at October 31, 2021	<u>43,333</u>	<u>\$ 2.50</u>

There was approximately \$29,000 and \$10,000 of total recognized compensation cost related to restricted stock for the six months ended October 31, 2021 and 2020, respectively. As of October 31, 2021, there is approximately \$70,000 of unrecognized compensation cost remaining related to unvested restricted stock granted under our plans. This cost is expected to be recognized over a weighted-average period of 1.5 years.

In December 2019, the Company granted 51,547 shares to an employee, subject to service-based vesting requirements, that were outside the Company stock incentive plans. There was approximately zero and \$12,000 of total recognized compensation cost related to this award for the three months ended October 31, 2021 and 2020, respectively. As of October 31, 2021, there was no unrecognized compensation cost remaining related to this award.

(14) Fair Value Measurements

ASC Topic 820, “Fair Value Measurements” states that fair value is an exit price, representing the amount 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. Assets and liabilities that are measured at fair value are reported using a three-level fair value hierarchy that prioritizes the inputs used to measure fair value. This hierarchy maximizes the use of observable input and minimizes the use of unobservable inputs. The following is a description of the three hierarchy levels.

- Level 1 Unadjusted quoted prices in active markets for identical assets or liabilities that the Company has the ability to access at the measurement date.
- Level 2 Inputs other than quoted prices in active markets that are observable for the asset or liability, either directly or indirectly.
- Level 3 Inputs that are unobservable for the asset or liability.

Disclosure of Fair Values

The Company’s financial instruments that are not re-measured at fair value include cash, cash equivalents, restricted cash, accounts receivable, contract assets and liabilities, deposits, accounts payable, and accrued expenses. The carrying values of these financial instruments approximate their fair values and are viewed as Level 1 items. The Company’s warrant liabilities represent the only asset or liability classified financial instrument that is measured at fair value on a recurring basis.

The fair value of the Company’s warrant liabilities (refer to Note 8) is based on the Black-Scholes pricing model which is based on Level 3 unobservable inputs for which there is little or no market data, requiring the Company to develop its own assumptions. The assumptions used by the Company are the quoted price of the Company’s common stock in an active market, risk-free interest rate, volatility and expected life, and assumes no dividends. 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 fair value on a recurring basis as of October 31, 2021 and April 30, 2021 was near zero.

There were no unrealized gains or losses for the three and six months ended October 31, 2021 and 2020. When incurred, gains and losses are included within “Gain (loss) due to change in fair value of warrant liabilities” in the Consolidated Statements of Operations. The Company determined the fair value using the Black-Scholes pricing model with the following assumptions:

	<u>October 31, 2021</u>	<u>October 31, 2020</u>
Dividend rate	0.0%	0.0%
Risk-free rate	0.06% - 0.08%	0.12% - 0.13%
Expected life (years)	0.1	0.8 - 1.1
Expected volatility	122.2%	139.1%

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 hierarchy levels during each of the three and six months ended October 31, 2021 and 2020.

(15) Commitments and Contingencies

Employment Litigation

On August 28, 2018, counsel for Charles Dunleavy, the Company's former President & Chief Executive Officer who was terminated for cause effective June 9, 2014, filed a demand for arbitration, captioned Charles F. Dunleavy v. Ocean Power Technologies, Inc., Case No. 01-18-0003-2374, before the American Arbitration Association in New Jersey. The demand alleged various claims relating to Mr. Dunleavy's termination. After the hearings in the proceeding were conducted, on December 11, 2020, the arbitration panel issued an interim award finding, among other things, that the termination for cause of Mr. Dunleavy was in breach of his employment contract and awarded him compensatory damages in the amount of \$438,254.54. On May 3, 2021, the panel issued a second interim award and therein awarded Mr. Dunleavy attorneys' fees, costs and pre-judgment interest. The Company agreed, on May 24, 2021, to pay Mr. Dunleavy \$1,223,963.14, representing the total compensatory damages, attorneys' fees, costs and pre-judgment interest, which is the full amount awarded by the arbitration panel. The Company made the required payment on May 26, 2021, and the matter is now closed.

Spain Income Tax Audit

The Company underwent an income tax audit in Spain for the period from 2011 to 2014, when our Spanish branch was closed. On July 30, 2018, the Spanish tax inspector concluded that although there was no tax owed in light of losses reported, the Company's Spanish branch owed penalties for failure to properly account for the income associated with the funding grant. During the six months ended October 31, 2020, the Company received notice from the Spanish Central Economic and Administrative Tribunal that it agreed with the inspector and ruled that the Company owes the full amount of the penalty in the amount of €279,870 or approximately \$331,000. On January 25, 2021, the Company paid to the Spanish Tax Administration €279,870. Notwithstanding that payment, on April 30, 2021, the Company filed its appeal of the decision of the Central Court to the Spanish National Court. There is no schedule for a ruling from the Spanish National Court.

(16) Income Taxes

Uncertain Tax Positions

The Company applies the guidance issued by the FASB for the accounting and reporting of uncertain tax positions. The guidance requires the Company to recognize in its consolidated financial statements the impact of a tax position if that position is more likely than not to be sustained upon examination, based on the technical merits of the position. At October 31, 2021, the Company had no unrecognized tax positions. The Company does not expect any material increase or decrease in its income tax expense in the next twelve months, related to examinations or uncertain tax positions. U.S. federal and state income tax returns were audited through fiscal 2014 and fiscal 2010 respectively. Net operating loss and credit carry forwards since inception remain open to examination by taxing authorities and will continue to remain open for a period of time after utilization.

Income Tax Benefit

The Company sold New Jersey State net operating losses and research development credits (“NJ NOL”) under the NJEDA Tax Transfer program in the amount of approximately \$12 million for the year ended April 30, 2021, for net proceeds of approximately \$1.0 million which was received in May 2021 and recorded in the Company’s Statement of Operations in fiscal year 2022.

(17) Operating Segments and Geographic Information

The Company’s business consists of one segment as this represents how our Chief Operating Decision Maker views the Company’s operations and financial position. The Company operates on a worldwide basis with one operating company in the U.S. and subsidiaries in the UK and in Australia. Revenues and expenses are generally attributed to the operating company that bills the customers. During each of the six months ended October 31, 2021 and 2020, the Company’s primary business operations were in North America.

(18) Acquisition of 3dent Technologies, LLC

On February 1, 2021, the Company acquired all of the outstanding equity interest of 3dent Technologies, LLC (“3Dent”), a Houston, Texas based company that offers offshore energy engineering and design services that are complementary to the Company’s technology and products. As consideration for the purchase, the Company issued 361,991 shares of its common stock to the sellers, subject to a 12-month post acquisition employment condition. In addition, the former owners of 3Dent will be eligible for awards of performance stock with a potential value of \$360,000 if certain revenue targets are achieved over the 12 month-period post acquisition. There were no changes during the three and six months ended October 31, 2021 that would affect this valuation.

The Company accounted for the transaction as a business combination under ASC 805, “*Business Combinations*.” Accordingly, the assets and liabilities acquired were recorded at their estimated fair value on the date of acquisition. Under ASC 805, acquisition-related transaction costs (such as advisory, legal, valuation, other professional fees) were expensed in the Consolidated Statement of Operations in the period incurred.

(19) Subsequent Events

On November 15, 2021, the Company acquired all of the outstanding equity interest of Marine Advanced Robotics, Inc. (“MAR”), a Richmond (San Francisco Bay Area), California-based developer and manufacturer of autonomous surface vehicles (ASVs).

The Company paid \$11.0 million at closing, consisting of \$4.0 million in cash and \$7.0 million in common stock (3,330,162 shares). Additional earn-out opportunities for the selling shareholders of MAR exist based on revenue performance through April 2023. The MAR management team and employees have joined the Company and MAR continues to operate under its current brand name as a wholly owned subsidiary of the Company.

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 is 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 the year ended April 30, 2021 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 2021 refers to the year ended April 30, 2021).

Overview

We are a marine power equipment, data solutions and consulting services provider. We control the design, manufacture, sales, installation, operations and maintenance of our solutions and services while working closely with commercial, technical, and other development partners that provide software, controls, mechatronics, sensors, integration services, and marine installation services. We believe our renewable autonomous ocean solutions deliver power and data collection, analysis and communication in remote ocean environments, allowing users to generate actionable intelligence and control certain equipment. Our mission and purpose are to provide intelligent maritime solutions and services that enable safer and more productive ocean operations for the defense and security, offshore oil and gas, science and research, and offshore wind markets. We achieve this through our proprietary, state-of-the-art technologies that are at the core of our clean and renewable energy platforms upon which we offer our solutions and services as well as through working with select partners.

We continue to develop and commercialize our proprietary systems that generate electricity by harnessing the renewable energy of ocean waves for our PowerBuoy® (“PB3”), and solar power for our hybrid PowerBuoy® (the “hybrid”). The PB3 uses proprietary technologies that convert the kinetic energy created by the heaving motion of ocean waves into electricity. Our strategy includes developing complete solutions and services, including cloud-based delivery systems for ocean data and predictive analytics to provide actionable intelligence for our clients. Based on feedback from our current customers, discussions with potential customers in the defense and security, offshore oil and gas, science and research, and offshore wind markets, as well as government applications in fishery protection and marine protected areas, together with our market research and publicly available data, we believe that numerous markets have a direct need for our solutions. Our recent projects have been in the offshore oil and gas and science and research industries. We believe there is an increasing need for our products and services in areas such as fishery protection, offshore windfarm support, and maritime domain awareness applications. We believe that having demonstrated the capability of our solutions, we can advance our product and services and gain further adoption from our target markets. Our marketing efforts are focused on offshore locations that require a cost-efficient solution for renewable, reliable, and persistent power and communications, either by supplying electric power to payloads that are integrated directly with our product or located in its vicinity, such as on the seabed and in the water column. We believe we can become a leader in offshore autonomous ocean wave power conversion technology which provides renewable power for offshore operations that were previously logistically problematic and difficult to decarbonize.

We were incorporated under the laws of the State of New Jersey in April 1984 and began commercial operations in 1994. On April 23, 2007, we reincorporated in Delaware. We are continuing to build upon our mission of connecting the oceans with those who operate, and manage the resource, in that environment. We do this through our solutions’ offerings, that are based on our proprietary renewable power platforms and engineering skills. Our solutions focus on three major services areas, Data as a Service, supported and enabled by Power as a Service, and underpinned by our Strategic Consulting Services, which we expanded with the acquisition of 3dent Technology, LLC (“3Dent”), in February 2021. Over the course of fiscal 2022, we intend to continue to grow our service sectors and develop, evolve, and strengthen our solutions through internal developments, partnerships, and potential acquisitions. On November 15, 2021, the Company acquired all of the outstanding equity interest of MAR. This acquisition immediately provided the Company with an established, innovative offshore product line that features roaming capability that highly complements the Company’s business strategy.

Founded in 2004, MAR is the developer of Wave Adaptive Modular Vessel (WAM-V®) technology, which enables roaming capabilities for uncrewed equipment in waters around the world. MAR launched the first WAM-V in 2007 as a new vessel class with a mission to manufacture and deliver to customers the most reliable and robust ASVs available on the market.

Our Power as a Service solutions deliver value to customers by utilizing our managed power platforms, such as the PB3 PowerBuoy® or hybrid PowerBuoy®, and subsea battery for topside and subsea power applications. Our focus for these solutions is on bringing autonomous clean power to our customers wherever it is required. On our project with Eni S.p.A. (“Eni”), we utilized a PB3 PowerBuoy®, which operated in the Adriatic Sea for over 700 days of continuous operation as part of Eni’s resident autonomous underwater vehicle (“AUV”) feasibility studies. During commercial operations, an AUV would remain on site to perform various inspection, maintenance, and repair tasks. As demonstrated during our project with Eni, our solutions generated sufficient power that could, with client assets, extend missions for longer durations.

Our Data as a Service solution, initially based on the work we did for Harbour Energy (formerly known as Premier Oil) in 2019 in the North Sea, has further evolved based on feedback from participants in the government, defense, and security markets. We have been developing a Maritime Domain Awareness solution (“MDA-S” or “MDA”) to introduce edge computing and artificial intelligence modules that can be delivered to customers via cyber secure cloud environments.

Our Strategic Consulting Services, materially strengthened by the acquired 3Dent team, focus on delivering value to our customers in the areas of ocean engineering, structural and dynamic analysis, Front End Engineering and Design (“FEED”) studies, and motion simulation. These services can be delivered as part of our broader Power and/or Data as a Service solution utilizing our solutions or on a standalone basis. In the near term, we will focus on increasing our market share in the offshore wind market and the broader floating foundation design market, as well as our business with offshore oil and gas customers.

Throughout fiscal 2021 we delivered several transactions and projects laying the foundation for our growth in fiscal 2022. We have identified, and are pursuing, several new applications for our PowerBuoys® in the areas of defense, security and maritime domain awareness solutions. In February 2021, the Company acquired all the outstanding equity interest of 3Dent, a company based in Houston, Texas, that offers offshore engineering and design services that are complementary to our technology and products and strengthen our Strategic Consulting Services. During the first quarter of fiscal 2022, we initiated several research and development (“R&D”) and commercial development programs, including commencing our custom software development efforts with Greensea and Fathom5 to further extend our edge computing and cloud hosting capabilities.

In November 2020, the Company entered into an agreement with the Offshore Operators Committee (“OOC”) under which the Company provided engineering and technical services for a new project under the DeepStar Global Technology Consortium Program. This project showcased our Power as a Service offering among well-known operators in the industry. This project completed in July 2021, and we have used the findings of the study to advance marketing activities for our Power as a Service solution.

In October 2020, the Company entered into an agreement with Adams Communication & Engineering Technology, Inc. (“ACET”) to conduct a feasibility study for the evaluation of a PB3 power and 5G communications solution in support of the U.S. Navy’s Naval Postgraduate School’s Sea, Land, Air, Military Research Initiative (“SLAMR”). This forms part of our Data as a Service division. The project sponsor released an update to the market on November 1, 2021, which showcased the concept of operations for the vehicles and buoy system under consideration.

Business Update Regarding COVID-19

The COVID-19 pandemic presented substantial health and economic risks, uncertainties and challenges to our business, the global economy and financial markets. In March 2020, one of the Company’s customers cancelled a portion of their contract due to the outbreak of COVID-19 and instead extended an existing lease. In April 2020, the Company declared force majeure on a contract with a different customer and delayed the deployment of its PB3 PowerBouy® in Chile. For additional information on various uncertainties and risks posed by the COVID-19 pandemic, see Part I, Item 1A “Risk Factors” of our Annual Report on Form 10-K for the year ended April 30, 2021.

On March 27, 2020, the U.S. Government passed into law the Coronavirus Aid, Relief and Economic Security Act, or the (“CARES Act”). On May 3, 2020, the Company signed a Paycheck Protection Program (“PPP”) loan with Santander as the lender for approximately \$891,000 in support through the Small Business Association (“SBA”) under the PPP loan. The PPP loan was unsecured and evidenced by a note in favor of Santander as the lender and governed by a Loan Agreement with Santander. The loan contained an interest rate of 1% and was repayable over two years. The loan contained customary events of defaults relating to, among other things, payment defaults or breaches of the terms of the loan. Upon the occurrence of an event of default, the lender could have required immediate repayment of all outstanding amounts under the loan. Interest and principal payments were deferred for the first 6 months from the date of the loan. Principal and interest were payable monthly commencing 6 months after the disbursement date and were allowed to be repaid by the Company at any time prior to maturity with no prepayment penalties. The Company received the proceeds on May 5, 2020.

The Company filed its loan forgiveness application at the end of February 2021 asking for 100% forgiveness of the loan. In June 2021, the Company was informed that its application was approved, and that the loan is now fully forgiven. The Company recognized a gain on extinguishment of PPP loan of approximately \$891,000 in the Consolidated Statement of Operations for the six months ending October 31, 2021.

Our Solutions and Power Generating Platform Services

PB3 PowerBuoy®

The PB3 generates electricity by harnessing the renewable energy of ocean waves. The PB3 features a unique onboard power take-off (“PTO”) system, which incorporates both energy storage and energy management and control systems. The PB3 generates a nominal name-plated capacity rating of up to 3 kilowatts (“kW”) of peak power during recharging of the onboard batteries. Power generation is deployment-site dependent. Our standard energy storage system (“ESS”) has an energy capacity of up to a nominal 150 kW-hours to meet specific application requirements.

The PB3 is designed to generate power for use independent of the power grid in remote offshore locations. The hull consists of a main spar structure loosely moored to the seabed and surrounded by a floating annular structure that can freely move up and down in response to the passage of the waves. The PTO system includes a mechanical actuating system, an electrical generator, a power electronics system, our control system, and our ESS which is sealed within the hull. As ocean waves pass the PB3, the mechanical stroke action created by the rising and falling of the waves is converted into rotational mechanical energy by the PTO, which in turn, drives the electric generator. The power electronics system then conditions the electrical output which is collected within an ESS. The operation of the PB3 is controlled by our customized, proprietary control system.

The control system uses sensors and an onboard computer to continuously monitor the PB3 subsystems. We believe that this ability to optimize and manage the electric power output of the PB3 is a significant advantage of our technology. In the event of large storm waves, the control system automatically locks the PB3, and electricity generation is suspended. However, the load center (either the on-board payload or one in the vicinity of the PB3) may continue to receive power from the ESS. When wave heights return to normal operating conditions, the control system automatically unlocks the PB3 and electricity generation and ESS replenishment recommences. This safety feature helps to prevent the PB3 from being damaged by storms.

The PB3 can be transported over land to the deployment port using conventional transportation methods. Once at port, the PB3 can be lifted into the water or onboard a vessel using a readily available crane of appropriate capacity. The PB3 may then be towed to a site using a standard vessel (if the location is within an appropriate distance from the port), or the PB3 may be carried aboard a vessel to its offshore location and craned into the water at site. The PB3 is then attached to the mooring system, which is installed during a separate operation, after which a brief commissioning process places the PB3 into operation.

We believe that using wave energy for electricity generation has the following potential benefits, compared to existing incumbent solutions.

- *Scalability within a small site area.* Due to the dense energy in ocean waves, we believe that the electricity may be aggregated to supply larger payloads, as a result, for example, of multiple PB3s which are placed in an array, occupying a relatively small area. We believe the array of a larger number of PB3s could offer end users a variety of advantages in availability, reliability and scalability.

- *Predictability.* The generation of power from wave energy can be forecasted several days in advance. Available wave energy can be calculated with a high degree of accuracy based on satellite images and meteorological data, even when the wave field is hundreds of miles away and days from reaching a PB3. Therefore, we believe end-users relying on PB3 for power may be able to proactively plan their logistics, payload scheduling and other operational activities based on such data.
- *Constant source of energy.* The annual occurrence of waves at specific sites can be relatively persistent and defined with relatively high accuracy. Based on our studies and analyses of various sites of interest, we believe that we will be able to deploy our PB3 in locations where the waves could produce usable electricity for most of the year.

Based on our market research and publicly available data, including but not limited to the U.S. Department of Energy (“DOE”) 2019 Powering the Blue Economy Report, the Westwood Energy World ROV Operations Forecast 2019-2023, and the World Bank Database, we believe that numerous markets may have a direct need for our PB3, including defense and security, offshore oil and gas, science and research, and offshore wind, as well as government applications in fishery protection and marine protected areas. Depending on payload power requirements, sensor types and other considerations, we have found that our PB3 could satisfy several application requirements within these markets. The Company believes that the PB3 can generate sufficient power to meet the requirements of many potential customer applications within our target markets, and that the hybrid could provide ample power in geographies where wave conditions may not be sufficient to allow the PB3 to generate sufficient power.

hybrid PowerBuoy®

The Company has product launched a hybrid PowerBuoy® (“hPB”) that is a solar powered surface buoy, compared to the wave power generating PB3. The hybrid PowerBuoy® is powered primarily through solar panels with an efficient and clean burning external combustion Stirling engine to provide back-up power and is capable of providing reliable power in remote offshore locations, regardless of ocean wave conditions. We believe this product is complementary to the PB3 by providing the Company the opportunity to address a broader spectrum of customer deployment needs, including low-wave environments, with the potential for greater product integration within each customer project. It is intended for agile deployment applications, such as recharging and surface communications hub for electric remotely operated vehicles (“eROV”) and autonomous underwater vehicles (“AUV”) used for underwater inspections and short-term maintenance, subsea equipment monitoring and control, and provides a flexible platform to optimize power storage based on the environment and the application. The hybrid can be quickly deployed and offers customers a cost-effective solution. The design has a high payload capacity for communications and surveillance, with the capability of being tethered to subsea payloads such as batteries, or with a conventional anchor mooring system. The hybrid generates power from both an array of solar panels and an efficient, clean burning 1 kW Stirling engine fueled by liquid propane. This energy is stored in onboard batteries which power subsea and topside payloads. The Company has designed the hybrid with a Stirling engine backup system to outperform traditional diesel buoys, which we believe have more frequent service and refueling intervals and higher carbon intensities. We believe the hybrid will be able to operate over a broad range of temperature and ocean wave conditions.

The towable, boat-shaped hull design of the hybrid is appropriate for deployment throughout the world. Power is generated independent of wave activity, making it a good solution for providing power in relatively calm, low wave environments with high solar intensity and is complimentary to the PB3.

As with the PB3, the control system uses sensors and an onboard computer to continuously monitor the hybrid subsystems. We believe that this ability to optimize and manage the electric power output of the hybrid is a significant advantage of our technology. In the event of extended cloudy periods, the control system automatically switches electricity generation from the solar panels to the backup engine. However, the load center, either the on-board payload or one in the vicinity of the hybrid, may continue to receive power from the on-board ESS. When more suitable solar power generation conditions return, the control system automatically stops the backup up engine and ESS replenishment recommences by way of solar electricity generation.

The hybrid is designed for use with a single point umbilical and mooring but can be adapted for a 3-point mooring installation for use as a temporary replacement for PB3 installations during planned maintenance or repairs.

The hybrid can be transported over land to the deployment port using conventional transportation methods. Once at port, the hybrid can be fitted with additional stabilizing outriggers if required for the specific solution, and then can be lifted into the water or onboard a vessel using a readily available crane of appropriate capacity. The hybrid may then be towed to a site using a standard vessel (if the location is within an appropriate distance from the port), or the hybrid may be carried aboard a vessel to its offshore location and craned into the water at site. The hybrid is then attached to the single point mooring system, which is installed during a separate operation, after which a brief commissioning process places the hybrid into operation.

The hybrid is configured with a nominal 30 kW-hours of battery energy storage and approximately 1 megawatt-hour (“MWh”) of stored energy in the propane system. While the batteries are primarily charged through solar power generation, the propane powered Stirling engine system on the hybrid can be considered reserve energy storage, with propane having a much higher energy storage density than lithium-ion batteries. It can be utilized when needed based on load demand and will provide approximately 1 MWh of stored energy capacity. We believe that this amount of stored energy offers an attractive local, autonomous energy solution for clients in a range of industries, including but not limited to offshore oil and gas and marine observation, particularly for shorter term deployments.

During the first six months of fiscal 2022, we commenced efforts to upgrade the current version of the hPB to host our MDA-S (as defined below) offering by adding further stabilizing features. During the second quarter of fiscal 2022, these efforts were largely completed together with our manufacturing partners.

Subsea Battery

We have product launched a subsea battery that is complementary to both the PB3 and hybrid products and can be deployed together with our PowerBuoys® or on its own. It offers customers the option of placing additional modular and expandable energy storage on the seabed near existing, or to be installed, subsea equipment. Our lithium-ion subsea batteries supply power that can enable subsea equipment, sensors, communications and AUV and eROV recharge. Our PB3 and hybrid are complimentary to the subsea batteries by providing a means for recharging during longer term deployments, or the batteries can be used independently for shorter term deployments.

The subsea battery has been designed to provide continuous and/or short-term power supply from its integrated energy storage system, enabling us to supply into a range of industries and applications, from backup power to critical subsea infrastructure to continuous operation of subsea equipment, such as electric valves. The base design of the subsea battery has a nominal 100 kW-hours of energy storage. The subsea battery can be transported over land to the deployment port using conventional transportation methods. Once at port, the subsea battery can be lifted onboard a vessel using a readily available crane of appropriate capacity. The battery can then be carried aboard a vessel to its offshore location and craned into the water at site. It comes installed on a ready deployable subsea skid suitable for installation on the seabed. The subsea battery can be integrated into other subsea equipment on land prior to deployment. The battery is then connected to the other components on the seabed with the use of an eROV.

Maritime Domain Awareness Solution (“MDA-S”)

The International Maritime Organization defines Maritime Domain Awareness as the effective understanding of any activity that could impact upon the security, safety, economy, or environment. Since 2002 the United States of America, for example, has had an active strategy to secure the Maritime Domain. Furthermore, in 2020 the U.S. Coast Guard elevated Illegal, Unreported and Unregulated (“IUU”) fisheries, one aspect of MDA security, as the leading global maritime threat. It is estimated that tens of billions of Dollars are lost every year to IUU fishing alone.

We intend our MDA-S payload to consist of a high-definition radar, gyro-stabilized high-definition optical and thermal imaging cameras, vessel automatic identification system (“AIS”) detection, and integrated command and control software as customer needs dictate. Capabilities include 24/7 vessel tracking, automatic radar plotting, automated vessel warnings, and high-definition optical and thermal video surveillance capable of providing evidentiary backup of activity to aid in prosecution.

We intend data from our MDA-S will be processed onboard our buoys using edge computing, developed together with our software partners, transmitted to shore-based command stations via cyber-secure Wi-Fi, cellular, and/or satellite systems, depending upon location, and then further processed in our cloud-based analytics platform. Surveillance data can be integrated with readily available marine monitoring software or with our own MDA software solution developed together with leading partners in the technology industry to provide command and control features of a multi-buoy surveillance network. The data can also be integrated with satellite, weather, bathymetric, and other data feeds to form a detailed surface and subsea picture of a monitored area.

A single MDA-S equipped PB3 PowerBuoy®, can monitor vessel traffic, with or without AIS turned on, across an area approximately 1,300 square nautical miles of ocean territory on a permanent or temporary basis, with the ability to link multiple surveillance assets together over large ocean areas giving end-users visibility into potentially damaging environmental or illegal activities. Customized solutions are also available including the addition of subsea sensors to monitor for acoustic signatures, including tsunamis, and water quality.

The development of our MDA-S is underway, and we launched the first offshore system supporting the demonstration of the newly developed system in October 2021. We also installed the mooring systems to deploy additional demonstration units during the second quarter of fiscal 2022 and intend to demonstrate the MDA-S on additional systems during third and fourth quarter of fiscal 2022.

Strategic Consulting Services

In addition to work being performed by the Company for the DeepStar project, through our technology subsidiary, 3Dent, we also offer a full range of high-level offshore engineering, including providing consulting engineering and design services to offshore wind developers, offshore construction companies, drilling contractors, major oil companies, service companies, shipyards, and engineering firms. 3Dent’s team of dedicated consultants/designers has expertise in structural engineering, hydrodynamics and naval architecture. Among its services is a focus on addressing the issues current or would-be owners of offshore floaters, jackups, and lift boats have with their fleet. 3Dent’s services include simulation engineering, software engineering, concept design and motion analysis. During the second quarter of fiscal 2022, the Company saw an increase in consulting services activity for oil and gas and offshore wind projects.

Commercial Activities

We continue to seek new strategic relationships and further develop our existing partnerships. We collaborate with companies that have developed or are developing in-ocean applications requiring a persistent source of power that is also capable of real time data collection, processing and communication, to address potential customer needs. 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,	
	2021	2020	2021	2020
Eni S.p.A.	6%	61%	3%	34%
Department of Energy	33%	—%	16%	—%
EGP	6%	36%	31%	55%
Clark Hill	12%	—%	7%	—%
Matthews	12%	—%	6%	—%
Valaris	19%	—%	26%	—%
Other (no customer over 10%)	12%	3%	11%	11%
	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>109%</u>

In order to achieve success in commercializing our products, we must expand our customer base and obtain commercial contracts to lease or sell our solutions and services to customers. Our potential customer base for our solutions includes various public and private entities, and agencies that require remote offshore power. To date, substantially all of our revenue producing contracts have been with a small number of customers under contracts to fund a portion of the costs of our operational efforts to develop and improve our technology, validate our product through ocean and laboratory testing, and business development activities with potential commercial customers. Our goal in the future is that an increased portion of our revenues will be from the lease or sale of our products and related maintenance as well as consultative and other services.

Current and Recent Customers

- In June 2021, the Company was notified of a pre-award for a Department of Energy (“DOE”) Small Business Innovation Research program (“SBIR”) to support the development of the next generation of our wave energy conversion systems. In August 2021, we completed all required documentation, signed the DOE contract and initiated the 9-month project which began in the second quarter of fiscal 2022.
- Throughout the first six months of fiscal 2022, our strategic consulting services, continued to generate revenues from prior and new customers of approximately \$342,000. Notably, we advanced several large projects in the pipeline to an advanced stage with larger oil and gas operators and offshore wind developers.
- In November 2020, the Company entered into an agreement with the OOC to provide engineering and technical services for a new project under the DeepStar Global Technology Consortium Program. This project showcased our Power as a Service solution among well-known operators in the industry. This project was completed in July 2021.
- In October 2020, the Company entered into an agreement with ACET to conduct a feasibility study for the evaluation of a PB3 power and 5G communications solution in support of the U.S. Navy Naval Postgraduate School's SLAMR initiative. The study was completed, and the Company is currently in active discussions with the SLAMR Consortium on the project's next steps on providing the data and power solution. The SLAMR initiative is ongoing and October 29, 2021 the SLAMR Consortium released additional information about the project into the market.

- In March 2020, Eni exercised their option from the March 2018 contract to extend their lease of the PB3 for an additional 18 months. The initial provision in March 2018 agreement provided for a minimum 24-month contract that included an 18-month PB3 lease and associated project management. In November 2020, Eni retrieved the PB3 and returned it to shore due to a mooring issue. The PB3 has since been returned to our headquarters in New Jersey and has completed its refurbishment and is being readied to deploy as part of our MDA-S demonstration off the coast of New Jersey.
- In September 2019, we entered into two contracts with subsidiaries of EGP, which included the sale of a PB3 and the development and supply of a turn-key integrated Open Sea Lab (“OSL”) that was expected to be the Company’s first deployment off the coast of Chile. Due to the COVID-19 pandemic, force majeure was declared in April 2020 and delayed the deployment. In March 2021, the Company began the deployment process and placed the PB3 in the water. During the first six months of fiscal 2022, deployment installation activities were performed, and additional activities expected to be performed over the next fiscal quarter.
- In June 2018, we entered into a contract with Harbour Energy for the lease of a PB3 to be deployed in one of Harbour Energy’s offshore fields in the North Sea. During its deployment, the PB3 provided unmanned EZM service. In early March 2020 the Company and Harbour Energy retrieved the PB3. This PB3 has since been returned to our headquarters in New Jersey and is currently being refurbished to be redeployed. During second quarter fiscal 2022 we entered into a contract with Aker Solutions to support a study integrating the PB3 system for the next phase of Harbour Energy’s development plans.

Partnerships

We believe that our solutions are best developed, sold, deployed, and maintained together with subject matter experts in their respective fields. This enables the Company to protect, maintain, and evolve our power platforms and integrate them with surface and subsea payloads. The Company has previously entered into partnerships focused on including, but not limited to, deployment and installations, sourcing of surface payloads, and integration with autonomous vehicles. To further develop the MDA-S, we recently entered into strategic software and robotics partnerships with two software companies, Greensea Systems, Inc. and Fathom5. We believe, the partnerships with Greensea and Fathom5 will further the development of our next-generation MDA-S product for the maritime industrial market and governmental defense and security organizations.

Greensea Systems, Inc. will be contributing to the Company’s MDA-S by providing integration software, control software, autonomy and systems integration for the buoy sensor payload.

Fathom5 will be designing and building a customized industrial analytics platform to support the Company’s MDA-S. The Fathom5 customized platform will integrate sensor technologies, combine data feeds, and provide a flexible plug-in analytic capability to apply artificial intelligence and machine learning to sensor feeds. Fathom5 is also building the user interface that will allow remote operators to control the MDA-S payload and view sensor data in real time.

We also maintain active dialogues with several offshore deployment and marine operations partners in the North Sea and North America to support our projects.

Discussions with autonomous vehicle providers are ongoing to integrate autonomous and roaming capabilities into our Data as a Service offering.

Furthermore, we are in active discussions with larger systems integrators to develop partnerships focused on selling our platforms and solutions as part of larger projects.

Business Strategy

During fiscal 2021 and the first six months of fiscal 2022, we advanced our marketing programs, products, and solutions. We have made progress in transitioning from R&D to commercialization and moving further into the ocean data as a service market. We intend to build on these efforts by implementing processes and solutions that cover the entire life cycle, from demand generation to close of contract, and from channel strategies to customer care.

Most of the Company's opportunities with potential customers have been for projects in Western Europe, including the North Sea, as well as North America and South East Asia. Nearly two-thirds of these opportunities have progressed past initial feasibility and non-disclosure agreement stages to more detailed, confidential discussions around specific customer applications.

Many proposal requests are for projects where one of our PowerBuoy® products, either the PB3, the hybrid, or our subsea battery is part of a larger solution deployment, and typically include the potential lease or sale of one or more of our solutions deployed on our PowerBuoy® platforms, as well as required services and maintenance support. A majority of hybrid inquiries are for shorter term deployments in calmer waters. Historically, demonstration projects have been a necessary step toward broad solution deployment and revenues associated with specific applications. A proposal phase typically lasts from three months to more than one year. During the demonstration project specification, negotiation and evaluation period, we are often subject to the prospective customer's vendor qualification process, which entails substantial due diligence of the Company and capabilities and may include negotiation of standard terms and conditions. Many proposals contain provisions which would mandate the sale or lease of our PowerBuoy® product upon successful conclusion of the demonstration project.

We believe this is an accurate depiction of the overall sales cycle for new technology in each of our target markets, including our products and solutions. Cycle times for each step of the sales' cycle will vary depending on several customer factors, including, but not limited to, technical evaluation, project priorities, project funding approval process, and alignment of new technology integration with the customer's broader operational strategy. We believe that the resulting evidence of potential demand, vis-à-vis specific application proposal requests, is indicative of progress in our commercialization strategy. We believe that we have the potential for growth as a result of our positioning for higher volume production of our PowerBuoy® products and the initial indications of demand for our PowerBuoy® products in multiple customer applications.

The Company is pursuing a long-term growth strategy to expand its market value proposition while building the Company's revenue base. This strategy includes partnerships with leading companies in adjacent and complementary markets. We continue to commercialize our PowerBuoy® products for use in remote offshore power and real-time data communications applications, and in order to achieve this goal, we are pursuing the following business objectives:

- *Integrated turn-key solutions sales or leases incorporating our products and services.* We believe our PB3 hybrid and our subsea battery solutions, as well as our MDA-S, are well suited to enable many uncrewed, autonomous (non-grid connected) offshore solutions, such as topside and subsea surveillance and communications, subsea equipment monitoring, early warning systems platform and subsea power and buffering, and weather and climate data collection. We have investigated and realized market demand for some of these solutions and we intend to sell and lease our products to these markets as part of these broader integrated solutions. Additionally, we intend to provide services associated with our solution offerings such as paid engineering studies, value-added engineering, maintenance, remote monitoring and diagnostic, application engineering, planning, training, project management, and marine and logistics support required for our solution life cycle. We continue to increase our commercial capabilities through new hires in sales and application support, and through engagement of expert market consultants in various geographies. As our MDA-S grows, we expect that this will also include data and cloud services.
- *Expand customer system solution offerings through new complimentary products that enable shorter and more cost-efficient deployments.* The hybrid is highly complementary to the PB3 by providing the Company the opportunity to address a broader spectrum of customer deployment needs, including low-wave environments, with the potential for greater system integration within each customer project. The hybrid is primarily intended for shorter term deployment applications such as eROV and AUV inspections and short-term maintenance, topside surveillance and communications, and subsea equipment and controls. The Company has developed a subsea battery system that is complimentary to the Company's PowerBuoy® products. The subsea battery system offers the possibility of creating a sea floor energy storage solution for remote offshore operations. These subsea battery systems contain lithium-ion batteries, which provide high power density to supply power to subsea equipment, sensors, communications, and the recharging of AUVs and eROVs. Ideal for many remote offshore customer applications, these subsea battery systems are anticipated to be safe, high performance, cost-efficient, and quickly deployable.

- *Focus sales and marketing efforts in global markets.* We are currently focusing our marketing efforts globally. We believe that each of these areas has demand for our solutions, sizable end market opportunities, political and economic stability, and high levels of industrialization and economic development. In fiscal 2021, we opened an office in Houston, Texas to further support our customers and strengthen our dialogue with our solution partners. During the first six months of fiscal 2022, we optimized our European footprint, concentrating on our North Sea resource. We are in active discussions with potential partners in South America and West Africa.
- *Expand our relationships in key market areas through strategic partnerships and collaborations.* We believe that strategic partners are an important part of commercializing new products. Partnerships and collaborations can be used to improve the development of overall integrated solutions, create new market channels, expand commercial know-how and geographic footprint, and bolster our product delivery capabilities. We have formed such a relationship with several well-known groups, and we continue to seek other opportunities to collaborate with application experts from within our selected markets. These partnerships have helped us source services, such as installation expertise, and products, such as MDA enabling equipment, to meet our development and customer obligations. Since our acquisition of 3Dent, we have been actively pursuing additional opportunities to bring in-house skills, capabilities, and solutions that are complementary to our strategy and enable us to scale more quickly.
- *Partnering with fabrication, deployment and service support.* In order to minimize our capital requirements as we scale our business, we intend to optimize and utilize state of the art fabrication, anchoring, mooring, cabling supply, and in some cases, deployment of our products and solutions. Our PTO is a proprietary subsystem that is assembled and tested at our facility. We believe this distributed manufacturing and assembly approach enables us to focus on our core competencies and ensure a cost-effective product by leveraging a larger more established supply base. We continue to seek strategic partnerships regarding servicing of our products and solutions.
- *Cost reduction and PowerBuoy® solution development.* Our engineering efforts are mainly focused on addressing customer solutions; product and solution sales; reducing production, installation, and product life-cycle costs; and improving the energy output, reliability, maintenance interval and expected operating life of our products. We continue to optimize the manufacturing of our designs with a focus on cost competitiveness, and we believe we will be able to address new applications by developing new payloads and solutions that address customer needs.

Through our 3Dent subsidiary, we plan to expand our customer base and increase our revenue base, by providing consulting engineering and design services to offshore wind developers, offshore construction companies, drilling contractors, major oil companies, service companies, and engineering firms.

Liquidity

During the first six months ending October 31, 2021, the Company incurred a net loss of approximately \$8.3 million and used cash in operations of approximately \$10.4 million. 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, performance of its products, its ability to market and commercialize its products and new products that it may develop, technology development, scalability of technology and production, dependence on skills of key personnel, concentration of customers and suppliers, deployment risks and integration of acquisitions, pending or threatened litigation, and the continued impact of COVID-19 and its variants on its business. The Company currently has committed sources of equity financing through its At the Market Offering Agreement with A.G.P./Alliance Global Partners ("AGP") and the Aspire Capital financing, but the Company cannot be sure that additional equity and/or debt financing will be available to the Company as needed on acceptable terms, or at all. Management believes the Company's current cash balance of \$73.0 million is sufficient to fund its planned expenditures through at least December 30, 2022. In addition to the acquisition of 3Dent in the prior year, the Company is looking at further organic and inorganic growth opportunities to advance our data and power services and solutions. Consistent with this strategy, the Company finalized the acquisition of MAR on November 15, 2021, subsequent to the quarter ending on October 31, 2021.

Capital Raises

At the Market Offering Agreements

On January 7, 2019, the Company entered into an At the Market Offering Agreement (“2019 ATM Facility”) with AGP, under which the Company may issue and sell to or through AGP, acting as agent and/or principal, shares of the Company’s common stock having an aggregate offering price of up to \$25.0 million. From inception of the program through its termination on December 8, 2020, under the 2019 ATM Facility, the Company sold and issued an aggregate of 17,595,472 shares of its common stock with an aggregate market value of \$23.4 million at an average price of \$1.33 per share and paid AGP a sales commission of approximately \$0.8 million related to those shares. The agreement was fully utilized and terminated on December 8, 2020.

On November 20, 2020, the Company entered into an At the Market Offering Agreement with AGP (the “2020 ATM Facility”). On December 4, 2020 the Company filed a prospectus with the Securities and Exchange Commission whereby, the Company could issue and sell to or through AGP, acting as agent and/or principal, shares of the Company’s common stock having an aggregate offering price of up to \$50.0 million. From inception of the 2020 ATM Facility through April 30, 2021, the Company sold and issued an aggregate of 17,179,883 shares of its common stock with an aggregate market value of \$50.0 million at an average price of \$2.91 per share and paid AGP a sales commission of approximately \$1.6 million related to those shares. A prospectus supplement would need to be filed for the Company to sell additional amounts under the 2020 ATM Facility.

Equity Line Common Stock Purchase Agreements

On October 24, 2019, the Company entered into a common stock purchase agreement with Aspire Capital which provided that, subject to certain terms, conditions and limitations, Aspire Capital was committed to purchase up to an aggregate of \$10.0 million shares of the Company’s common stock over a 30-month period. Through September 18, 2020, the Company had sold an aggregate of 6,424,205 shares of common stock with an aggregate market value of \$4.0 million at an average price of \$0.63 per share pursuant to this common stock purchase agreement. The agreement was fully utilized and terminated on September 18, 2020.

On September 18, 2020, the Company entered into a new common stock purchase agreement with Aspire Capital which provided that, subject to certain terms, conditions and limitations, Aspire Capital was committed to purchase up to an aggregate of \$12.5 million shares of the Company’s common stock over a 30-month period subject to a limit of 19.99% of the outstanding common stock on the date of the agreement if the price did not exceed a specified price in the agreement. The number of shares the Company could issue within the 19.99% limit was 3,722,251 shares without shareholder approval. Shareholder approval was received at the Company’s annual meeting of shareholders on December 23, 2020 for the sale of 9,864,706 additional shares of common stock which exceeds the 19.99% limit of outstanding common stock on the date of the agreement. Through October 31, 2021, the Company had sold an aggregate of 3,722,251 shares of common stock with an aggregate market value of \$11.8 million at an average price of \$3.17 per share pursuant to this common stock purchase agreement. The Company is able to purchase an additional \$0.7 million in shares under the agreement with Aspire Capital, which expires in March of 2023.

The sale of additional equity or convertible securities could result in dilution to our shareholders. If additional funds are raised through the issuance of debt securities or preferred stock, these securities could have rights senior to those associated with our common stock and could contain covenants that would restrict our operations. The Company has obtained equity financing through its At the Market Offering Agreement with AGP and the Aspire Capital financing, but the Company cannot be sure that additional equity and/or debt financing will be available to the Company as needed on acceptable terms, or at all. If we are unable to obtain required financing when needed, we may be required to reduce the scope of our operations, including our planned product development and marketing efforts, which could materially and adversely affect our financial condition and operating results. If we are unable to secure additional financing, we may be forced to cease our operations.

Backlog

As of October 31, 2021, the Company's backlog was \$0.3 million. As of April 30, 2021, backlog was \$0.2 million. Our backlog can include unfilled firm orders for our products and services from commercial or governmental customers. If any of our contracts were to be terminated, our backlog would be reduced by the expected value of the remaining terms of such contract.

The amount of contract backlog is not necessarily indicative of future revenue because modifications to or terminations of present contracts and production delays can provide additional revenue or reduce anticipated revenue. A substantial portion of our revenue is recognized using the input method used to measure completion over time of customer contracts, and changes in estimates from time to time may have a significant effect on revenue and backlog. Our backlog is also typically subject to large variations from time to time due to the timing of new awards.

Critical Accounting Policies and Estimates

To understand our financial statements, it is important to understand our critical accounting policies and estimates. We prepare our financial statements in accordance with U.S. Generally Accepted Accounting Principles ("U.S. GAAP"). The preparation of financial statements also requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, costs and expenses and related disclosures. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances. Actual results could differ significantly from the estimates made by our management. To the extent that there are differences between our estimates and actual results, our future financial statement presentation, financial condition, results of operations and cash flows will be affected. We believe that the accounting policies are critical to understanding our historical and future performance, as these policies relate to the more significant areas involving management's judgments and estimates.

For a discussion of our critical accounting estimates, see the section entitled Item 7.- "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our Annual Report on Form 10-K for the year ended April 30, 2021. There were no material changes to our critical accounting estimates or accounting policies during the six months ended October 31, 2021.

Recently Issued Accounting Standards

In June 2016, the Financial Accounting Standards Board ("FASB") issued ASU No. 2016-13, "*Financial Instruments - Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments.*" This amendment replaces the incurred loss impairment methodology in current GAAP with a methodology that reflects expected credit losses on instruments within its scope, including trade receivables. This update is intended to provide financial statement users with more decision-useful information about the expected credit losses. In November 2019, the FASB issued No. 2019-10, "*Financial Instruments—Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842)*", which deferred the effective date of ASU 2016-13 for Smaller Reporting Companies for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years. The Company is currently evaluating the impact the adoption of ASU 2016-13 will have on its consolidated financial statements.

Financial Operations Overview

The following describes certain line items in our statement of operations and some of the factors that affect our operating results.

Revenues

A performance obligation is the unit of account for revenue recognition. The Company assesses the goods or services promised in a contract with a customer and identifies as a performance obligation either: a) a good or service (or a bundle of goods or services) that is distinct; or b) a series of distinct goods or services that are substantially the same and that have the same pattern of transfer to the customer. A contract may contain a single or multiple performance obligations. For contracts with multiple performance obligations, the Company allocates the contracted transaction price to each performance obligation based upon the relative standalone selling price, which represents the price the Company would sell a promised good or service separately to a customer. The Company determines the standalone selling price based upon the facts and circumstances of each obligated good or service. The majority of the Company's contracts have no observable standalone selling price since the associated products and services are customized to customer specifications. As such, the standalone selling price generally reflects the Company's forecast of the total cost to satisfy the performance obligation plus an appropriate profit margin.

The nature of the Company's contracts may give rise to several types of variable considerations, including unpriced change orders and liquidated damages and penalties. Variable consideration can also arise from modifications to the scope of services. Variable consideration is included in the transaction price to the extent it is probable that a significant reversal of cumulative revenue recognized will not occur once the uncertainty associated with the variable consideration is resolved. Our estimates of variable consideration and determination of whether to include such amounts in the transaction price are based largely on our assessment of legal enforceability, performance and any other information (historical, current, and forecasted) that is reasonably available to us. There was no variable consideration as of October 31, 2021 and 2020.

The Company recognizes revenue when or as it satisfies a performance obligation by transferring a good or service to a customer, either (1) at a point in time or (2) over time. A good or service is transferred when or as the customer obtains control of it. The evaluation of whether control of each performance obligation is transferred at a point in time or over time is made at contract inception. Input measures such as costs incurred or time elapsed are utilized to assess progress against specific contractual performance obligations for the Company's services. The selection of the method to measure progress towards completion requires judgment and is based on the nature of the services to be provided. For the Company, the input method using costs incurred or time elapsed best represents the measure of progress against the performance obligations incorporated within the contractual agreements. When the Company's estimate of total costs to be incurred to satisfy the performance obligations exceed revenue, the Company recognizes the loss immediately.

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. Under cost plus contracts, a profit or loss on a project is recognized depending on whether actual costs are more or less than the agreed upon amount.

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, a profit or loss is recognized depending on whether actual costs are more or less than the agreed upon amount. 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. 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. The Company reports its disaggregation of revenue by contract type since this method best represents the Company's business. For the six-month periods ended October 31, 2021 and 2020, all of the Company's contracts were classified as firm fixed price.

As of October 31, 2021, the Company's total remaining performance obligations, also referred to as backlog, totaled \$0.3 million. The Company expects to recognize approximately 100%, or \$0.3 million, of the remaining performance obligations as revenue over the next twelve months.

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The Company also enters into lease arrangements for its PB3 with certain customers. Revenue related to multiple-element arrangements is allocated to lease and non-lease elements based on their relative standalone selling prices or expected cost plus a margin approach. Lease elements generally include a PB3 and components, while non-lease elements generally include engineering, monitoring and support services. In the lease arrangement, the customer is provided an option to extend the lease term or purchase the leased PB3 at some point during and/or at the end of the lease term.

The Company classifies leases as either operating or financing in accordance with the authoritative accounting guidance contained within ASC Topic 842, “Leases”. At inception of the contract, the Company evaluates the lease against the lease classification criteria within ASC Topic 842. If the direct financing or sales-type classification criteria are met, then the lease is accounted for as a finance lease. All others are treated as an operating lease.

The Company recognizes revenue from operating lease arrangements generally on a straight-line basis over the lease term and is presented in Revenues in the Consolidated Statement of Operations. The lease income for the six months ended October 31, 2021 and 2020 was immaterial.

The following table provides information regarding the breakdown of our revenues by customer for the three and six months ended October 31, 2021 and 2020.

	Three months ended October 31,		Six months ended October 31,	
	2021	2020	2021	2020
	(in thousands)		(in thousands)	
Eni S.p.A.	\$ 14	\$ 72	\$ 14	\$ 99
Department of Energy	81	—	81	—
EGP	14	42	163	157
Clark Hill	30	—	37	—
Matthews	30	—	30	—
Valaris	47	—	135	—
Other (no customer over 10%)	31	4	59	31
	<u>247</u>	<u>118</u>	<u>519</u>	<u>287</u>

We currently focus our sales and marketing efforts globally. The following table shows the percentage of our revenues by geographical location of our customers for the six months ended October 31, 2021 and 2020.

Customer Location	Six months ended October 31,	
	2021	2020
Europe	3%	44%
South America	31%	55%
North America	66%	1%
	<u>100%</u>	<u>100%</u>

Cost of revenues

Our cost of revenues consists primarily of subcontracts, incurred material, labor and manufacturing overhead expenses, such as engineering expense, equipment depreciation and maintenance and facility related expenses, and includes the cost of equipment to customize the PowerBuoy® supplied by third-party suppliers. Cost of revenues also includes PowerBuoy® system delivery and deployment expenses and may include anticipated losses at completion on certain contracts.

Engineering and product development costs

Our engineering and product development costs consist of salaries and other personnel-related costs and the costs of products, materials and outside services used in our product development and unfunded research activities. Our product development costs relate primarily to our efforts to increase the power output and reliability of our PowerBuoy® system, to enhance and optimize data monitoring and controls systems, and to the development of new products, product applications and complementary technologies. We expense all of our engineering and product development costs as incurred.

Selling, general and administrative costs

Our selling, general and administrative costs consist primarily of professional fees, salaries and other personnel-related costs for employees and consultants engaged in sales and marketing and support of our products and costs for executive, accounting and administrative personnel, professional fees and other general corporate expenses.

Interest income, net

Interest income, net consists of interest received on cash, cash equivalents and money market fund and interest paid on certain obligations to third parties.

Foreign exchange gain (loss)

We transact business in various countries and have exposure to fluctuations in foreign currency exchange rates. Foreign exchange gains and losses arise in the translation of foreign-denominated assets and liabilities, which may result in realized and unrealized gains or losses from exchange rate fluctuations. Since we conduct our business in U.S. dollars and our functional currency is the U.S. dollar, our main foreign exchange exposure, if any, results from changes in the exchange rate between the U.S. dollar and the British pound sterling, the Euro and the Australian dollar.

We maintain cash accounts that are denominated in British pounds sterling, Euros and Australian dollars. These foreign-denominated accounts had a balance of \$32,000 as of October 31, 2021 and October 31, 2020, compared to our total cash, cash equivalents and restricted cash balances of \$73.2 million as of October 31, 2021 and \$15.9 million as of October 31, 2020. These foreign currency balances are translated each month into our functional currency, and any resulting gain or loss is recognized in our results of operations.

In addition, a portion of our operations is conducted through our subsidiaries in countries other than the United States, specifically Ocean Power Technologies Ltd. in the United Kingdom, the functional currency of which is the British pound sterling, and Ocean Power Technologies (Australasia) Pty Ltd. in Australia, the functional currency of which is the Australian dollar. Both of these subsidiaries have foreign exchange exposure that results from changes in the exchange rate between their functional currency and other foreign currencies in which they conduct business.

We currently do not hedge our exchange rate exposure. However, we assess the anticipated foreign currency working capital requirements and capital asset acquisitions of our foreign operations and attempt to maintain a portion of our cash and cash equivalents denominated in foreign currencies sufficient to satisfy these anticipated requirements. We also assess the need and cost to utilize financial instruments to hedge currency exposures on an ongoing basis and may hedge against exchange rate exposure in the future.

Results of Operations

This section should be read in conjunction with the discussion below under “Liquidity and Capital Resources.”

Three months ended October 31, 2021 compared to the three months ended October 31, 2020

The following table contains selected statement of operations information, which serves as the basis of the discussion of our results of operations for the three months ended October 31, 2021 and 2020.

	Three months ended October 31,	
	2021	2020
Revenues	\$ 247	\$ 118
Cost of revenues	300	216
Gross profit/(loss)	(53)	(98)
Operating expenses:		
Engineering and product development costs	3,082	1,063
Selling, general and administrative costs	2,050	1,841
Total operating expenses	5,132	2,904
Operating loss	(5,185)	(3,002)
Interest income, net	19	8
Other expense, net	—	(33)
Foreign exchange gain/(loss)	(5)	3
Loss before income taxes	(5,171)	(3,024)
Income tax benefit	—	—
Net loss	(5,171)	(3,024)

Revenues

Revenues for the three months ended October 31, 2021 and 2020 were \$0.2 million and \$0.1 million, respectively. The year-over-year increase was primarily due to higher levels of revenue derived from our EGP contract and new consulting services work from 3Dent projects as compared to the same period in the prior year.

Cost of revenues

Cost of revenues for the three months ended October 31, 2021 and 2020 were \$0.3 million and \$0.2 million, respectively. The increase over 2020 was mostly due to higher deployment and material costs incurred on the EGP contract for the three months ended October 31, 2021 as compared to the three months ended October 31, 2020.

Engineering and product development costs

Engineering and product development costs for the three months ended October 31, 2021 and 2020 were \$3.1 million and \$1.1 million, respectively. The year over year increase is the result of higher spending on new product development related to increases in materials, labor, overhead and costs associated with subcontractors Greensea and Fathom5.

Selling, general and administrative costs

Selling, general and administrative costs for the three months ended October 31, 2021 and 2020 were \$2.1 million and \$1.8 million, respectively. The increase of \$0.2 million for the three months ended October 31, 2021 was primarily due to higher professional fees of \$0.3 million, investor relations expenses of \$0.1 million and software licenses and maintenance of \$0.1 million. This was offset partially by a decrease in employee relations costs of \$0.3 million.

Six months ended October 31, 2021 compared to the six months ended October 31, 2020

The following table contains selected statement of operations information, which serves as the basis of the discussion of our results of operations for the six months ended October 31, 2021 and 2020.

	Six months ended October 31,	
	2021	2020
Revenues	\$ 519	\$ 287
Cost of revenues	723	550
Gross profit/(loss)	(204)	(263)
Operating expenses:		
Engineering and product development costs	5,053	2,315
Selling, general and administrative costs	4,958	3,828
Total operating expenses	10,011	6,143
Operating loss	(10,215)	(6,406)
Interest income, net	38	20
Other expense, net	—	(33)
Gain on extinguishment of PPP loan	891	—
Foreign exchange gain/(loss)	(5)	10
Loss before income taxes	(9,291)	(6,409)
Income tax benefit	1,041	—
Net loss	(8,250)	(6,409)

Revenues

Revenues for the six months ended October 31, 2021 and 2020 were \$0.5 million and \$0.3 million, respectively. The year-over-year increase was primarily due to higher levels of revenue derived from our EGP contract and new work with 3Dent consulting services projects as compared to the same period in the prior year.

Cost of revenues

Cost of revenues for the six months ended October 31, 2021 and 2020 were \$0.7 million and \$0.6 million, respectively. The increase over 2020 was mostly due to higher deployment and material costs incurred on the EGP contract for the six months ended October 31, 2021 as compared to the six months ended October 31, 2020.

Engineering and product development costs

Engineering and product development costs for the six months ended October 31, 2021 and 2020 were \$5.1 million and \$2.3 million, respectively. The increase of approximately \$2.7 million is the result of higher spending on new product development costs related to increases in materials, labor, overhead and costs associated with subcontractors Greensea and Fathom5.

Selling, general and administrative costs

Selling, general and administrative costs for the six months ended October 31, 2021 and 2020 were \$5.0 million and \$3.8 million, respectively. The increase of \$1.1 million for the three months ended October 31, 2021 was primarily due to higher professional fees related to consultants, contractors, legal and accounting of \$0.7 million and employee related costs of \$0.3 million.

Extinguishment of Debt

The Company filed its loan forgiveness application at the end of February 2021 asking for 100% forgiveness of the loan. In June 2021, the Company was informed that its application was approved, the loan is now fully forgiven, and the Company recognized a gain on extinguishment of PPP loan of \$0.9 million.

Liquidity and Capital Resources

Our cash requirements relate primarily to working capital needed to operate and grow our business including funding operating expenses. We have experienced and continue to experience negative cash flows from operations and net losses. The Company incurred net losses of \$8.3 million and \$6.4 million for the six months ended October 31, 2021 and 2020, respectively. Refer to “Liquidity Outlook” below for additional information.

Net cash used in operating activities

During the six months ended October 31, 2021, net cash flows used in operating activities was \$10.4 million, an increase of \$4.7 million compared to net cash used in operating activities during the six months ended October 31, 2020. This increase is primarily due to higher project and employee related costs and the payment on the settlement of litigation, discussed in Note 15 to the Consolidated Financial Statements under Part I, Item 1 of this report, of approximately \$1.2 million.

Net cash used in investing activities

Net cash used in investing activities during the six months ended October 31, 2021 was \$24,000, compared to zero cash used for investing activities during the six months ended October 31, 2020. The net cash used in investing activities was due to spending on the purchase of property, plant and equipment.

Net cash provided by financing activities

Net cash provided by financing activities during the six months ended October 31, 2021 was \$21,000 compared to net cash provided by financing activities during the six months ended October 31, 2020 of \$10.6 million. The decrease in net cash provided by financing activities reflects the combination of no capital raises during the first half of fiscal 2022 in addition to proceeds related to the PPP loan and capital raises related to Aspire and AGP in the prior year.

Effect of exchange rates on cash and cash equivalents

The effect of exchange rates on cash and cash equivalents was a decrease of approximately \$20,000 during the six months ended October 31, 2021. The effect of exchange rates on cash and cash equivalents results primarily from gains or losses on consolidation of foreign subsidiaries and foreign denominated cash and cash equivalents.

Liquidity Outlook

Since our inception, the cash flows from customer revenues have not been sufficient to fund our operations and provide the capital resources for our business. For the two years ended April 30, 2021 and 2020, our aggregate revenues were \$2.9 million, our aggregate net losses were \$25.1 million and our aggregate net cash used in operating activities was \$22.3 million.

Our business is capital intensive, and up through October 31, 2021, we have been funding our business principally through sales of our securities. As of October 31, 2021, cash and cash equivalents was \$73.0 million and we expect to fund our business with this amount and, to a limited extent, with our revenues until, we generate sufficient cash flow to internally fund our business. Management believes the Company’s current cash and cash equivalents is sufficient to fund its planned expenditures through at least December, 2022. In addition to the acquisition of 3Dent in the prior year, the Company is looking at further organic and inorganic growth opportunities to advance our data and power services and solutions. This includes the acquisition of MAR on November 15, 2021 for \$11.0 million, consisting of \$4.0 million in cash and \$7.0 million in common stock (3,330,162 shares).

We expect to devote substantial resources to continue our development efforts for our products and to expand our sales, marketing and manufacturing programs associated with the continued commercialization of our products. Our future capital requirements will depend on a number of factors, including but not limited to:

- our ability to commercialize our products, 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;
- the impact of COVID-19 pandemic and variants on our business, operations, customers, suppliers and manufacturers, and personnel;
- future acquisitions, which may use significant resources, may be unsuccessful or may expose us to unforeseen liabilities, as well as our ability to integrate such acquisitions into our operations;
- 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 commercially viable products;
- our ability to successfully develop and market new products;
- that we will be successful in our efforts to commercialize our products or the timetable upon which commercialization can be achieved, if at all;
- our ability to identify and penetrate markets for our products and our wave energy technology;
- our ability to implement our commercialization strategy as planned, or at all;
- our relationships with our strategic partners may not be successful and we may not be successful in establishing additional relationships;
- our ability to maintain the listing of our common stock on the NYSE American;
- the reliability of our technology and our products;
- our ability to improve the power output, survivability and reliability of our products;
- 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.

Off-Balance Sheet Arrangements

Since inception, we have not engaged in any off-balance sheet financing activities.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not applicable.

Item 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Management, under the supervision and with the participation of our Chief Executive Officer and our Chief Financial Officer, evaluated the effectiveness of the design and operation of our disclosure controls and procedures as of October 31, 2021 pursuant to Rules 13a-15(b) or 15d-15(b) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). Disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) are controls and other procedures that are designed to ensure that information required to be disclosed by us in the reports we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission’s (“SEC”) rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in the reports that we file under the Exchange Act is accumulated and communicated to our management, as appropriate, to allow timely decisions regarding required disclosure. Based on such evaluation, management concluded that our disclosure controls and procedures were effective as of October 31, 2021 to ensure that non-financial statement and related disclosure information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms.

Changes in Internal Control over Financial Reporting

No change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) occurred during the fiscal quarter ended October 31, 2021 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II — OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

As part of our normal business activities, we are party to a number of legal proceedings and other matters in various stages of development. Management periodically assesses our liabilities and contingencies in connection with these matters based upon the latest information available. We disclose material pending legal proceedings pursuant to SEC rules and other pending matters as we may determine to be appropriate.

For information on matters in dispute, see Note 16 to the Consolidated Financial Statements in our Annual Report on Form 10-K for the year ended April 30, 2021, and Note 15 to the Consolidated Financial Statements under Part I, Item 1 of this report.

Item 1A. RISK FACTORS

The discussion of our business and operations should be read together with the risk factors contained in Item 1A of our Annual Report on Form 10-K for the year ended April 30, 2021 and set forth below in this Quarterly Report on Form 10-Q. These risk factors describe various risks and uncertainties to which we are or may become subject. These risks and uncertainties have the potential to affect our business, financial condition, results of operations, cash flows, strategies or prospects in a material and adverse manner. There have been no material changes in our risk factors from those disclosed in our Annual Report on Form 10-K filed with the SEC on July 19, 2021.

We have a history of operating losses and may not achieve or maintain profitability and positive cash flow.

We have incurred net losses since we began operations in 1994, including net losses of \$8.3 million during the first six months of fiscal year 2022 and \$14.8 million in fiscal year 2021. As of October 31, 2021, we had an accumulated deficit of \$243.2 million. To date, our activities have consisted primarily of activities related to the development and testing of our technologies and our PowerBuoy®. Thus, our losses to date have resulted primarily from costs incurred in our research and development programs and from our selling, general and administrative costs. As we continue to develop our proprietary technologies, we expect to continue to have a net use of cash from operating activities unless or until we achieve positive cash flow from the commercialization of our products and services.

We do not know whether we will be able to successfully commercialize our products and solutions, or whether we can achieve profitability. There is significant uncertainty about our ability to successfully commercialize our products and solutions in our targeted markets. Even if we do achieve commercialization of our products and solutions and become profitable, we may not be able to achieve or, if achieved, sustain profitability on a quarterly or annual basis.

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

The Company repurchased no shares during the quarter.

Item 3. DEFAULTS UPON SENIOR SECURITIES

None.

Item 4. MINE SAFETY DISCLOSURES

Not applicable.

Item 5. OTHER INFORMATION

None.

Item 6. EXHIBIT INDEX

- 10.1 [Employment Agreement between the Company and Philipp Stratmann dated effective June 18, 2021 \(incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on June 21, 2021\).](#)
- 10.2 [Letter Agreement between the Company and George H. Kirby III dated effective July 16, 2021\(incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on July 16, 2021\).](#)
- 31.1 [Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002](#)
- 31.2 [Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002](#)
- 32.1 [Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002](#)
- 32.2 [Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002](#)
- 101 The following financial information from Ocean Power Technologies, Inc.'s Quarterly Report on Form 10-Q for the quarter ended October 31, 2021, formatted in eXtensible Business Reporting Language (XBRL): (i) Consolidated Balance Sheets – October 31, 2021 (unaudited) and April 30, 2021, (ii) Consolidated Statements of Operations (unaudited) – three and six months ended October 31, 2021 and 2020, (iii) Consolidated Statements of Comprehensive Loss (unaudited) – three and six months ended October 31, 2021 and 2020, (iv) Consolidated Statement of Shareholders' Equity (unaudited) – three and six months ended October 31, 2021 and 2020 (v) Consolidated Statements of Cash Flows (unaudited) –six months ended October 31, 2021 and 2020, (vi) Notes to Consolidated Financial Statements.**
- 101.INS Inline XBRL Instance Document
- 101.SCH Inline XBRL Taxonomy Extension Schema Document
- 101.CAL Inline XBRL Taxonomy Extension Calculation Linkbase Document
- 101.DEF Inline XBRL Taxonomy Extension Definition Linkbase Document
- 101.LAB Inline XBRL Taxonomy Extension Label Linkbase Document
- 101.PRE Inline XBRL Taxonomy Extension Presentation Linkbase Document
- 104 Cover Page Interactive Data File (embedded within the Inline XBRL document)
- * As provided in Item 601(b)(32)(ii) of Regulation S-K, this exhibit shall not be deemed to be "filed" or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, and shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934 or otherwise subject to the liability under those sections.
- ** As provided in Rule 406T of Regulation S-T, this exhibit shall not be deemed "filed" or a part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, and shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934 or otherwise subject to the liability under those sections.

SIGNATURES

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

Ocean Power Technologies, Inc.
(Registrant)

Date: December 14, 2021

/s/ Philipp Stratmann
By: Philipp Stratmann
President and Chief Executive Officer

Date: December 14, 2021

/s/ Robert P. Powers
By: Robert P. Powers
Senior Vice President and Chief Financial Officer

CERTIFICATION PURSUANT TO SECTION 302 OF SARBANES-OXLEY ACT

I, Philipp Stratmann, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Ocean Power Technologies, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or other persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: December 14, 2021

/s/ Philipp Stratmann

Philipp Stratmann

President and Chief Executive Officer

CERTIFICATION PURSUANT TO SECTION 302 OF SARBANES-OXLEY ACT

I, Robert P. Powers, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Ocean Power Technologies, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or other persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: December 14, 2021

/s/ Robert P. Powers

Robert P. Powers

Senior Vice President and Chief Financial Officer

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report on Form 10-Q of Ocean Power Technologies, Inc. (the "Company") for the period ended October 31, 2021, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, Philipp Stratmann, President and Chief Executive Officer of the Company, hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge:

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

Date: December 14, 2021

/s/ Philipp Stratmann

Philipp Stratmann

President and Chief Executive Officer

A signed original of this written statement required by Section 906 of the Sarbanes-Oxley Act of 2002 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report on Form 10-Q of Ocean Power Technologies, Inc. (the "Company") for the period ended October 31, 2021, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, Robert P. Powers, Senior Vice President and Chief Financial Officer of the Company, hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge:

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

Date: December 14, 2021

/s/ Robert P. Powers

Robert P. Powers

Senior Vice President and Chief Financial Officer

A signed original of this written statement required by Section 906 of the Sarbanes-Oxley Act of 2002 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.
