

1 **Ocean Power Technologies Inc. Fiscal Second Quarter 2017**
2 **Call Script**

3
4 **Operator Comments**

5 Good day ladies and gentlemen, and welcome to the second quarter fiscal
6 year 2017 Ocean Power Technologies conference call. My name is LeeAnne
7 and I'll be your operator for today's call. At this time all participants are in a
8 listen only mode. Later we will conduct a question and answer session and
9 instructions will be given at that time. If anyone should require operator
10 assistance please press star then zero key on your touch-tone telephone. As
11 a reminder, this conference call is being recorded.

12
13 I would now like to turn the conference over to Mr. Andrew Barwicki –
14 Investor Relations for Ocean Power Technologies.

15
16 **Barwicki - Introduction**

17 Good morning, and thank you for joining us on Ocean Power Technologies'
18 conference call and webcast to discuss the financial results for the 3-month
19 period ended October 31, 2016.

20
21 On the call with me today are George Kirby, President and CEO; and
22 Matthew Shafer, Chief Financial Officer. George will provide an update on
23 the company's highlights for the quarter, after which Matthew will review
24 the financial results for the second quarter.

25
26 Following our prepared remarks, we will open the call to questions. This call
27 is being webcast on our website, at www.oceanpowertechnologies.com.

28
29 It will also be available for replay later today. The replay will stay on the site
30 for on-demand review.

31
32 Last Friday, December 9th, Ocean Power Technologies issued its earnings
33 press release and filed its quarterly report on Form 10-Q with the Securities
34 and Exchange Commission. All of our public filings can be viewed on the
35 SEC website at SEC.gov or you may go to the OPT website,
36 www.oceanpowertechnologies.com.

37

38 During the course of this conference call management may make
39 projections or other forward-looking statements regarding future events or
40 financial performance of the Company within the meaning of the Safe
41 Harbor provisions of the Private Securities Litigation Reform Act of 1995.
42 These forward-looking statements are subject to numerous assumptions
43 made by management regarding future circumstances over which the
44 Company may have little or no control that involve risk and uncertainties
45 and other factors that may cause actual results to be materially different
46 from any future results expressed or implied by such forward-looking
47 statements.

48

49 We refer you to the Company's Form 10-K and other recent filings with the
50 Securities and Exchange Commission for the description of these and other
51 risk factors.

52

53 And now, I'd like to turn the call over to George to begin the discussion.

54

55 **George H. Kirby – President and Chief Executive Officer**

56 Thank you, Andrew, and good morning everyone.

57

58 Today I'll review our business operations and provide an update on key
59 activities and developments in the quarter. Following this, Matthew will
60 briefly review our financial results, after which Matthew and I will be
61 available to answer any questions.

62

63 First, we're excited that the Company is continuing to make measureable
64 progress on our business plan on a number of fronts. Throughout the
65 second quarter, we had two PowerBuoys operating off the coast of New
66 Jersey. We announced performance validation of our commercial unit
67 number one PB3 PowerBuoy[®], and in December we retrieved this
68 PowerBuoy to prepare it for shipment to Japan in 2017 where it will go on-
69 lease with Mitsui Engineering and Shipbuilding. This first commercial PB3
70 has been ocean tested since July 2016, and has generated over 1.4
71 megawatt-hours of electric power. It achieved a single day peak production
72 of over 30 kilowatt-hours during its deployment, which is an equivalent
73 hourly average of over 1.25 kilowatts for that day.

74

75 In October, we retrieved our pre-commercial PB3 PowerBuoy, which is
76 currently being upgraded to commercial status as our unit number two.
77 This pre-commercial PB3 PowerBuoy was used to complete our scope of
78 work per our agreement with the National Data Buoy Center, or “NDBC”,
79 consisting of integrating and demonstrating a Self-Contained Ocean
80 Observing Payload, also known as a “SCOOP”. The SCOOP was powered by
81 the PB3 and its data was transmitted real-time back to OPT and the NDBC.
82 The demonstration of this combined system met all performance
83 requirements during its deployment, and we are currently discussing next
84 steps with the NDBC.

85

86 We also installed a marine mammal detection sensor under the pre-
87 commercial PowerBuoy as part of our agreement with the Wildlife
88 Conservation Society, or the “WCS”. The objective was to determine the
89 feasibility of a combined system which could communicate real-time
90 mammal migration data, by understanding any acoustic interactions
91 between the sensor and the operating PB3. The sensor has been returned
92 to WCS and its data is undergoing analysis.

93

94 We recently achieved a significant milestone of approximately 45 million
95 cumulative strokes over our commercial fleet of five power take offs, or
96 “PTOs”, comprised of both ocean deployments and accelerated life testing.
97 This simulates a PTO fleet cumulative ocean-operation duration of
98 approximately three and one-half years. We continue to life test our PTOs
99 under extreme laboratory conditions in order to validate reliability which is
100 necessary to achieve consistent three year maintenance intervals of the
101 PB3. We believe that our approach continues to demonstrate the reliability
102 of our commercial-ready PTO design and provides significant credibility to
103 the value proposition for our target markets.

104

105 Last week we announced a joint marketing agreement with Sonalysts. We
106 view this partnership as a significant milestone in our commercialization
107 efforts. We believe strategic partnerships are an important part in
108 commercializing a new technology and a new product. These partnerships
109 can be used to improve the development of overall integrated solutions, to
110 create new market channels, to expand commercial know-how and

111 resources, and geographic foot-print, and to bolster product delivery
112 capabilities and improve ramp-up time. Sonalysts maintains core
113 technology and expertise in subsea wireless communications and
114 autonomous undersea systems analysis, which, we believe when combined
115 with the PB3 power and real-time communications platform, can
116 potentially bring value to existing and future autonomous undersea vehicle
117 infrastructure. Sonalysts also brings core competencies as a systems
118 integrator with advanced technologies in human-system interfacing and
119 big-data processing. We believe this, combined with their long standing
120 presence in the defense market brings significant new capabilities that are
121 synergistic with ours and can enable us to aggressively pursue business
122 opportunities in this and other markets such as oil and gas.

123

124 In September, we announced a contract with the U.S. Department of
125 Defense Office of Naval Research to design a specialized mass-spring
126 oscillating PowerBuoy. This PowerBuoy differs from the PB3 in that it
127 would be self-contained and would have no external moving components.
128 The design will be an anchorless, station-keeping, low profile PowerBuoy
129 that would most likely power mission critical surveillance sensors and the
130 buoy's control and propulsion systems.

131

132 Phase one of the contract scope includes the system design and laboratory
133 testing of a proprietary inertia-based, mass-spring PTO, and the selection of
134 an electric propulsion solution to be integrated into the PowerBuoy. The
135 objective of this first phase is to design and optimize the inertia based
136 generation system, evaluate the buoy propulsion system, and carry out
137 performance testing of critical PTO components. We currently have several
138 patented solutions for mass-spring oscillating designs, and we believe we
139 will be able to leverage our intellectual property to address the Office of
140 Naval Research needs.

141

142 The proposed system is scalable and once completed, could expand our
143 entire product portfolio with more product options into the commercial
144 and defense markets. We recently held our first project review with the
145 Office of Naval Research Program Officer who was pleased with our overall
146 status and progress..

147

148 In the second quarter we completed a capital raise that netted the
149 company approximately \$6.9 million. We are using the net proceeds for
150 general corporate purposes, which include expanding our sales and
151 marketing functions, and may include application demonstrations and
152 additional development and testing of PowerBuoy systems in order to
153 progress and accelerate our commercialization efforts.

154

155 In November, we received nearly \$700,000 through New Jersey's
156 Technology Business Tax Certificate Transfer Program. This program
157 enables New Jersey-based companies with fewer than 225 U.S. employees
158 to raise cash to finance their growth and operations by selling net operating
159 losses and R&D tax credits to unaffiliated corporations. The program is
160 administered by the New Jersey Economic Development Authority and
161 the New Jersey Department of the Treasury's Division of Taxation. We are
162 also happy to report that in November the United States District Court
163 issued its final judgment approving the settlement of our shareholder
164 lawsuit.

165

166 At this time last year, we were developing the next generation product,
167 which we expected would feature an enhanced electrical storage system, a
168 higher efficiency power management system, and a user friendly interface
169 providing even more flexibility to end-users. We announced that this next-
170 generation buoy had undergone its critical design review, and we expected
171 that it would achieve a maturity level, through extensive in-ocean and
172 factory accelerated life testing, that would allow us to proceed with a
173 commercial product launch in 2016. In July we accomplished our goal when
174 we deployed our first commercially designed PB3 PowerBuoy off the coast
175 of New Jersey and are now preparing to ship it to Mitsui Engineering and
176 Shipbuilding in Japan for its first customer lease.

177

178 We continue to aggressively target high-value markets, including oil and
179 gas, security and defense, ocean observing, and communications, each of
180 which we believe will derive significant value from our PB3 PowerBuoy
181 power and real-time communications platform.

182

183 I will now turn it over to Matthew, who will review our financial results in
184 the quarter.

185

186 **Matthew Shafer - Chief Financial Officer**

187 Thank you George, and good morning everyone. I will now review results
188 for the second quarter of fiscal 2017.

189

190 For the three months ended October 31, 2016, we reported revenue of
191 **\$0.2 million**, as compared to revenue of **\$0.5 million** for the three months
192 ended October 31, 2015. The decrease in revenue over the prior year was
193 primarily related to lower revenue from MES during the three months
194 ended October 31, 2016 as compared to the three months ended October
195 31, 2015, which included revenue from our WavePort contract and billable
196 work under our prior contracts with the U.S. Department of Energy.

197

198 The net loss for the three months ended October 31, 2016 was **\$1.0 million**
199 as compared to a net loss of **\$3.0 million** for the three months ended
200 October 31, 2015. This decrease is mainly attributable to lower selling,
201 general and administrative costs and the decline in the fair market value of
202 the common stock warrants liability. For the six months ended October 31,
203 2016, we reported revenue of **\$0.4 million**, as compared to revenue of **\$0.6**
204 **million** for the six months ended October 31, 2015. The net loss for the six
205 months ended October 31, 2016 was **\$4.8 million**, as compared to a net
206 loss of **\$7.2 million** for the six months ended October 31, 2015.

207

208 Turning now to the balance sheet, as of October 31, 2016, total cash, cash
209 equivalents, and marketable securities were \$12.5 million, up from \$6.8
210 million on July 31, 2016. As of October 31, 2016 and July 31, 2016,
211 restricted cash was \$0.3 million for each period, respectively. Net cash
212 used in operating activities was \$6.3 million during the six months ended
213 October 31, 2016, which includes \$500,000 of costs related to the litigation

214 settlement and additional legal costs of \$200,000, compared with \$7.0
215 million for the six months ended October 31, 2015.

216

217 As discussed on the prior conference calls, we have taken a number of
218 steps over the last months to reduce our cash burn rate while focusing our
219 technical, operating and business development resources on key initiatives,
220 particularly the PB3. We are encouraged with our recent capital raise in
221 October and continue to remain confident in our cash position. We
222 anticipate having sufficient cash to maintain operations into at least the
223 quarter ended January 30, 2018.

224

225 With that, I'll turn it back to George.

226

227 **George H. Kirby – President and Chief Executive Officer**

228

229 Thank you, Matthew.

230

231 Before we move on to Q&A, I would like to take a moment to discuss our
232 product commercialization and business development efforts. Nearly two
233 years ago, we accelerated our strategic pivot from a project-based company
234 to a product-based company, with a totally new go-to-market strategy.
235 Over the last two years, we have focused on bringing a reliable *product* to
236 market; one which is designed to survive a 100-year storm and to have a
237 maintenance-free interval of three years while operating in very harsh and
238 inhospitable environments. To achieve this, our new management team
239 essentially re-engineered the product development approach, bringing and
240 implementing best industry practice design and validation techniques of

241 new products which accelerated time to market. Likewise we have been
242 pursuing applications in new markets by spending considerable time on
243 educating stakeholders in our technology and the unique value-proposition
244 that it bears. Make no mistake; this is a long-cycle business, because
245 entering a new market with a disruptive product such as the PowerBuoy
246 requires time for end-user evaluation prior to leading to orders.

247

248 Let me spend a few minutes to describe what it takes to ultimately
249 generate revenues under the strategic shift initiated two years ago. Both
250 the defense and the oil and gas industries evaluate new technologies
251 against a scale called “technology readiness level”, or “TRL”, which
252 describes the maturity level of new technology. These qualifications
253 include, among others, a multitude of design specifications and criteria,
254 design and manufacturing procedures, vendor qualification, and technical
255 risk management.

256

257 In the case of the oil and gas industry, one example of the TRL is based on
258 the American Petroleum Institute’s recommended practices, which
259 generally ranks technology on a scale from zero, which is an unproven
260 concept, to seven which is a field-proven final solution. Based on the
261 published criteria for TRL, we believe that the PB3 has met the criteria to
262 achieve a TRL-6, which is an installed and fully tested production unit.
263 Prior to securing commercial orders of any significance, oil and gas end-
264 users require that a new system operate in the intended application for a
265 set duration in order to prove out the application. It is these specific
266 demonstrations which we’re working toward, and which highlights the
267 need for strategic partnerships around the highest potential applications to
268 achieve sustainable revenues.

269

270 Since 2015, we have engaged with nearly 200 stakeholders within all of our
271 target markets, both domestically and internationally. Each engagement is
272 a unique company, firm, research or academic institution, or government
273 or regulatory entity, and in many cases we have met with parties on several
274 occasions as we advance discussions of our products and applications. 77%
275 of total engagements are in the United States, and three quarters of these
276 U.S. engagements are in the oil and gas market. In the U.S. market alone,
277 15% of our oil and gas engagements have been with owner and/or
278 operators; but most (55% to be exact) have been equipment and service
279 providers to the oil and gas industry.

280

281 Most applications, around 82%, are focused on subsea operations such as
282 chemical injection and power distribution systems, or services related to
283 extending the life of production fields such as inspection services and
284 surveys, all of which benefit from monitoring, power augmentation, or
285 power redundancy. Also, most applications require or benefit from real-
286 time data communications. A smaller percentage of applications are
287 focused on information collection for front-end engineering and
288 development (or “FEED”), although we believe that once market adoption
289 is achieved in the other application areas, FEED could be an area of growth.

290

291 Most of our discussions occur with the evaluators, implementers, and final
292 decision-makers for our solutions. 42% of all discussions with owners,
293 operators, and equipment and service providers are at the executive level,
294 and over a third have advanced through technology discussions and
295 application exploration. One such relationship, Sonalysts, has resulted in a
296 joint marketing agreement, and we believe that more could result in the
297 coming months. Our international business development activities have
298 resulted in similar results, as we continue to find ways to expand our
299 geographic footprint across our target markets.

300

301 In conclusion, we have come a long way in developing a new product which
302 is proving to be valued by our target markets. We have made significant
303 headway in driving our product into markets with the end-goal of achieving
304 sustainable revenues, and we are finding ways to accelerate this process.
305 We are focused on improving our products and removing cost, as well as
306 strategically developing next generation products driven by the voice of the
307 customer. And we continue to focus on achieving operating efficiencies in
308 order to maximize our financial runway, while finding the right talent to
309 help move us toward our business objectives.

310

311 As always, thank you for your support and time today. Operator, we're now
312 ready to take questions.

313

314 **Question-and-Answer Session**

315

316 ***Operator:***

317 There are no further questions in the queue. I'll now turn the call back over
318 to Mr. Kirby for any closing remarks.

319 ***George H. Kirby***

320 Thank you all once again for attending today's call. If you have any further
321 questions, please do not hesitate to contact us. Otherwise, we look forward
322 to speaking with you again next quarter.

323 ***Operator:***

324 Thank you everyone. That concludes our call. You may now disconnect.

325