

**Ocean Power Technologies, Inc.**

**Ticker: NASDAQ – OPTT**

**Fiscal 2014 First Quarter Conference Call**

**Date: September 13, 2013 – 10:00 am Eastern Time**

**Operator:**

Good morning ladies and gentlemen and welcome to the Ocean Power Technologies' Fiscal 2014 First Quarter conference call. At this time, all participants are in a listen-only mode. Following management's prepared remarks we'll hold a Question and Answer session.

To ask a question, please press star followed by 1 on your touch-tone phone. If anyone has difficulty hearing the conference, please press star zero for operator assistance.

As a reminder, this conference is being recorded and webcast. I would now like to turn the conference over to your moderator, Mr. Chris Witty of Darrow Associates, investor relations advisor. Please go ahead sir.

**Chris Witty**

Thank you. Welcome to Ocean Power Technologies' Earnings Conference Call for the first quarter ended July 31, 2013. OPT issued its earnings press release earlier today, and the Company will soon file its Quarterly Report on Form 10-Q with the Securities and Exchange Commission. All public filings can be viewed on the SEC website at [sec.gov](http://sec.gov), or you may go to the OPT website, [oceanpowertechnologies.com](http://oceanpowertechnologies.com).

With me on today's call from the Company is Chuck Dunleavy, OPT's Chief Executive Officer.

**SLIDE #2: FORWARD-LOOKING STATEMENTS**

Please advance to slide 2 of our presentation.

During the course of this conference call, management may make projections or other forward-looking statements regarding future events or financial performance of the Company within the meaning of the Safe Harbor Provision of the Private Securities Litigation Reform Act of 1995. As indicated in the slide, these forward-looking statements are subject to numerous assumptions made by management regarding future circumstances over which the Company may have little or no control and involve risks and uncertainties, and other factors that may cause actual results to be materially different from any future results expressed or implied by such forward-looking statements.

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

Now let me turn the call over to Chuck Dunleavy, OPT's CEO. Chuck?

### **Chuck Dunleavy**

Thanks Chris and good morning everyone. I'll begin by providing an update on key activities, after which I'll briefly go over our financial results for the first quarter. I will then be available to answer any questions.

### **SLIDE #3: RECENT DEVELOPMENTS**

Turning to slide 3, let me first review OPT's recent developments since our last earnings call just two months ago.

In August we launched one of our enhanced Autonomous PowerBuoys off the coast of New Jersey as part of a previously-announced contract with the Department of Homeland Security. We are pleased with the deployment and test results of this buoy, as I'll detail more in a moment.

We were also recently awarded a Phase I Small Business Innovation Research grant of approximately \$150,000 by the U.S. Department of Energy, or DOE. Under this grant, we will be evaluating certain advanced control systems for power take-off mechanisms – essential to increasing the wave energy captured and hence the total system electrical power output. The scope of work also includes assessing various control models by carrying out simulations using OPT's proprietary tools. This analysis will be

corroborated using data collected from previous full-scale PowerBuoy deployments and wave tank testing. The work is aimed at enhancing the ability of OPT's wave energy converters to increase their power output. This is a critical parameter in the reduction of the levelized cost of energy, and in making PowerBuoy systems more commercially competitive with conventional power generation.

When this Phase I is complete, and if invited by the DOE, the Company can apply for Phase II SBIR funding for further analytical work – including wave tank testing. We're very pleased to have been chosen for this grant, particularly given that, in the current budget environment, less than 12% of the DOE's SBIR and related Small Business Technology Transfer funding applications were granted in this funding round.

Separately, we recently won a \$1 million award from the DOE to enhance our PowerBuoy's wave energy systems through mechanical component design changes to maximize power-to-weight output ratios and also reduce overall installed capital costs. We will evaluate alternative designs for the PowerBuoy's float and spar, which account for about half of the system's mass, to optimize their geometry, the materials used, power output, manufacturability, and also durability. Receipt of these funds is subject to negotiation of final contract terms and confirmation of cost sharing sources.

Both grants make a strong statement about the DOE's support for a clean energy economy and also the prospects for wave-generated power, as well as OPT's leadership in that space.

We also continue to have substantive discussions with Mitsui Engineering & Shipbuilding about next steps in Japan, and we are working with our consortium partners on the WavePort initiative in Spain including wave forecasting methods and the assembly and land testing of a PowerBuoy.

I'd now like to go over certain of our projects in more detail.

#### **SLIDE #4: APB Update**

First turning to slide 4 for an update on our Autonomous PowerBuoy business. As I mentioned just a moment ago, we're excited to have recently deployed and completed initial testing of an enhanced APB-350 unit 35 miles off the coast of New Jersey, in approximately 140 feet of water. As a reminder, this work is being performed under a

Cooperative Research and Development Agreement with the U.S. Department of Homeland Security's Science & Technology Directorate. Following the launch in August, we tested various aspects of power and energy production performance. In addition, we tested the new on-board acoustic sonar system to further validate our technology's capacity for expanded ocean surveillance by demonstrating the effectiveness of this application for sub-surface vessel detection. We are pleased with the data we have received from our initial round of testing with respect to energy output and response of the new sonar system to detect undersea acoustic profiles. We expect to conduct further tests of the system going forward, building on these initial results and after we implement some planned improvements to the APB-350.

For this mission, OPT has been leveraging the experience gained from its prior LEAP program with the U.S. Navy. Previously the APB-350 featured only HF radar capability for surface vessel detection. The current APB combines the HF radar technology with an acoustic sensor system, allowing the PowerBuoy to collect data for surface as well as sub-surface ocean observation and surveillance. The unit provides power at low, persistent levels which are needed for sophisticated vessel detection and tracking, enabling maritime surveillance in the near-coast, harbors and littoral zones worldwide.

We are excited about the markets that this APB-350 may open up for the Company both in North America and overseas. We expect to work with the Department of Homeland Security to analyze the results further and plan for next steps.

Autonomous PowerBuoys continue to be a major focus for Ocean Power Technologies, and not just in the area of national defense. They also provide persistent, off-grid clean energy in remote ocean locations for applications such as offshore oil & gas operations and fish-farming. We believe these additional market opportunities to be significant. A key differentiator of our product is that the APB-350 is designed to provide consistent power in all wave conditions while maintaining a fixed ocean site position. The Company's proprietary power management technology and on-board energy storage capability are further innovations which enable operation even in extended zero-wave sea conditions.

As an additional note, OPT received a great deal of attention at the recent Offshore Europe Conference in Aberdeen, Scotland. The event was focused on the oil and gas

exploration and production industry's direction toward accelerating the adoption of new technologies. OPT shared a booth with an oil and gas industry consortium, and we presented alongside Premier Oil to Conference attendees. The OPT APB-350 was met with enthusiasm at the conference, and resulted in numerous requests for follow-on meetings.

#### **SLIDE #5: APB-350 Deployment**

On slide 5, you can see some great photos of the recent transportation and deployment of our APB-350 off New Jersey.

#### **SLIDE #6: JAPAN & AUSTRALIA**

Now, turning to slide 6, let me provide an update on our activities in Japan and Australia. Australia continues to be a major opportunity for OPT, where we have been working with Lockheed Martin on plans to develop in three phases a 62 megawatt peak generator rated wave power station off the coast of Victoria. We are also working with the Australian Renewable Energy Agency, or ARENA, on the timing and structure for the A\$66.5 million grant we previously were awarded. In addition, we have already commenced a seabed survey by the Victoria-based company, Professional Diving Services, and are moving to assess the most appropriate place for the power station to be located. The seabed survey is fine-tuning selection of the project site off Portland, taking into account seabed conditions, as well as environmental, recreational and commercial interests. The project recognizes the importance the ocean represents for Australia and the opportunity of providing power to up to 10,000 local residents, as well as the creation or sustaining of at least 300 jobs. Finally, we continue to work with our financial advisor on power purchase agreements and additional required funding for the project.

Turning to Japan, we are working closely with our partner there, Mitsui Engineering & Shipbuilding, on developing the next steps towards commercializing wave power generation. As noted in our last call two months ago, we have completed a contract from Mitsui for the initial analysis and design work on PowerBuoy enhancements for improved power capture in Japanese sea conditions, and we are working with Mitsui on

developing the next steps toward ocean trials of a demonstration PowerBuoy system. These discussions include review of business opportunities that could lead more rapidly to commercialization in Japan. Mitsui and OPT believe there is a significant market opportunity, and one that could certainly benefit from our leading edge PowerBuoy technology.

As an interesting side note, OPT has received trademark protection in Japan for the name “PowerBuoy”, in both English and Katakana.

## **SLIDE #7: OTHER AREAS OF FOCUS**

Moving to slide 7, I’ll give a brief update on some of our other ongoing activities.

In Spain, for the WavePort project there under contract from the European Union, OPT and our consortium partners have been working on wave prediction models, and have started final assembly of our enhanced PowerBuoy. We will soon conduct land testing. The buoy includes an advanced, modular power take-off from OPT, and a new wave prediction model formulated in part by one of the consortium partners for the project. The model is designed to assess the characteristics of incoming waves before they reach the PowerBuoy, thereby providing more time for OPT’s proprietary electronic tuning capability to react. This is expected to boost the power output of the PowerBuoy and reduce cost per megawatt hour of energy produced.

We are pleased with the work accomplished to date under this project with many fine European companies and institutions. The members of the consortium team are all working under separate contracts from the European Union, as is OPT. Deployment of the buoy is expected on the north coast of Spain following completion of work by all consortium members, completion of funding arrangements, and under appropriate weather conditions.

In Oregon, as discussed previously, prospective deployment of a non-grid-connected Mark 3 PowerBuoy is subject to a 2013 FERC ruling which effectively increased regulatory requirements, such that for the deployment of just the first buoy OPT now needs to meet all FERC requirements for a full grid-connected application of ten PowerBuoys. This translates to some additional reports, studies, and cost for the first PowerBuoy installation. In addition, we are addressing other requirements of Oregon

state agencies, including the removal of certain equipment from the seabed off the coast of Oregon. As a result, the deployment and commissioning of the Mark 3 PowerBuoy off the coast of Oregon must take into consideration these various regulatory, business and financial factors, including a significant use of funds.

Now let me briefly review our financial results.

#### **SLIDE #8: FINANCIAL SUMMARY – OPERATING RESULTS**

As noted on slide 8, OPT reported revenue of \$0.5 million for the fiscal first quarter as compared to revenue of \$1.0 million for the three months ended July 31, 2012. The decrease primarily relates to lower billable work for the Company's Mark 4 PowerBuoy development project and a decline in revenue tied to OPT's project off Reedsport, Oregon, which has been delayed pending resolution of certain matters, as I just mentioned. The year-over-year comparison also reflects the fact that OPT completed the latest phase of the Company's project with Mitsui Engineering & Shipbuilding in the prior fiscal year.

The net loss for the three months ended July 31, 2013 was \$3.8 million as compared to a net loss of \$4.4 million for the three months ended July 31, 2012. The favorable decrease in the Company's net loss year-over-year primarily reflects lower product development costs, with the decline mainly due to the decreased level of activity for OPT's project in Oregon.

#### **SLIDE #9: FINANCIAL SUMMARY – FINANCIAL CONDITION**

Turning to slide 9.

On July 31, 2013 total cash, cash equivalents, restricted cash and marketable securities were \$18.6 million, as compared to \$21.7 million as of April 30, 2013. Net cash used in operating activities was \$3.1 million and \$3.4 million for the three months ended July 31, 2013 and 2012, respectively. The net decrease in cash and marketable securities was lower in the Fiscal 2014 first quarter relative to Fiscal 2013 primarily due to lower expenses related to the Company's Oregon project.

I'll now make some closing comments before turning the call over for questions.

## **SLIDE #10: OUTLOOK**

Moving to slide 10, I'd like to wrap up by summarizing where we are focused and what we expect going forward. As I mentioned earlier, we are seeing significant interest in our Autonomous PowerBuoy business, particularly driven by opportunities in the oil and gas sector, plus maritime surveillance. We're very proud of the work now being done by our staff to expand the opportunities in this regard and are seeking to reduce the cost of our APB's, while improving overall efficiency.

We also remain excited by our opportunity in Australia for the build-out of a wave power station in the state of Victoria. While the federal government of Australia is now in transition, we are working with the government agency ARENA and other local partners to move forward with this project. Likewise, we view our opportunity in Japan very positively and expect to make progress with our partner, Mitsui.

And lastly, we view the overall interest in alternative energy – including ocean-based power generation for both utility and autonomous applications – as strong and growing. Our business development team is focused on finding and leveraging such opportunities. In the meantime, we continue to carefully manage cash and costs and to improve our capital position – as this remains critical while we work towards commercialization of our buoys across a number of projects.

This concludes our prepared comments. We will now open the call for questions. Please go ahead, operator.

**Operator:**

I will now open the call for questions.

**[Question Period]**

**Operator:**

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



**Chuck Dunleavy**

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

**Operator:**

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