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**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, 2019**

**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)*

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   
(Do not check if a smaller reporting  
company)

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 2, 2019, the number of outstanding shares of common stock of the registrant was 7,561,139.

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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 a number of risks and uncertainties that are beyond our control, including:

- our ability to commercialize our PowerBuoys®, and achieve and sustain profitability;
- our continued development of our proprietary technologies, and expected continued use of cash from operating activities unless or until we achieve positive cash flow from the commercialization of our products and services;
- our ability to obtain additional funding, as and if needed which will be subject to a number of factors, including market conditions, and our operating performance;
- our estimates regarding expenses, future revenues and capital requirements;
- the adequacy of our cash balances and our need for additional financings;
- our ability to develop and manufacture a commercially viable PowerBuoy® product;
- our ability to successfully develop and market new products, such as a hybrid PowerBuoy® or subsea battery solutions;
- our ability to identify and penetrate markets for our PowerBuoys® and our wave energy technology;
- the power output, survivability and reliability of our PowerBuoys®;
- 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 Nasdaq Capital Market;
- our ability to raise capital through our current equity facilities;
- 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, 2019, 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, 2019 (Unaudited)	April 30, 2019
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 10,495	\$ 16,660
Restricted cash- short-term	707	344
Accounts receivable	997	63
Contract assets	111	15
Other current assets	904	537
Total current assets	<u>13,214</u>	<u>17,619</u>
Property and equipment, net	559	592
Right-of-use asset, net	1,265	-
Restricted cash- long-term	220	155
Total assets	<u>\$ 15,258</u>	<u>\$ 18,366</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 177	\$ 312
Accrued expenses	1,930	1,938
Contract liabilities	990	188
Warrant liabilities	-	6
Right-of-use liability- current	215	-
Total current liabilities	<u>3,312</u>	<u>2,444</u>
Right-of-use liability	1,198	-
Deferred rent	-	147
Total liabilities	<u>4,510</u>	<u>2,591</u>
Commitments and contingencies		
Ocean Power Technologies, Inc. stockholders' equity:		
Preferred stock, \$0.001 par value; authorized 5,000,000 shares, none issued or outstanding	-	-
Common stock, \$0.001 par value; authorized 100,000,000 shares, issued 6,489,668 and 5,425,517 shares, respectively	7	5
Treasury stock, at cost; 4,251 and 3,770 shares, respectively	(302)	(301)
Additional paid-in capital	227,214	226,026
Accumulated deficit	(215,998)	(209,784)
Accumulated other comprehensive loss	(173)	(171)
Total stockholders' equity	<u>10,748</u>	<u>15,775</u>
Total liabilities and stockholders' equity	<u>\$ 15,258</u>	<u>\$ 18,366</u>

See accompanying notes to unaudited consolidated financial statements.

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

	Three months ended October 31,		Six months ended October 31,	
	2019	2018	2019	2018
Revenues	\$ 204	\$ 141	\$ 406	\$ 172
Cost of revenues	288	637	655	780
Gross loss	(84)	(496)	(249)	(608)
<b>Operating expenses:</b>				
Engineering and product development costs	1,309	1,574	2,507	2,722
Selling, general and administrative costs	1,838	1,849	3,534	3,902
Total operating expenses	3,147	3,423	6,041	6,624
Operating loss	(3,231)	(3,919)	(6,290)	(7,232)
Gain due to the change in fair value of warrant liabilities	-	51	6	136
Interest income, net	32	7	74	21
Foreign exchange gain/(loss)	10	(29)	(4)	(55)
Net loss	\$ (3,189)	\$ (3,890)	\$ (6,214)	\$ (7,130)
Basic and diluted net loss per share	\$ (0.51)	\$ (4.20)	\$ (1.01)	\$ (7.78)
Weighted average shares used to compute basic and diluted net loss per share	6,259,655	926,175	6,150,061	916,934

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

	Three months ended October 31,		Six months ended October 31,	
	2019	2018	2019	2018
Net loss	\$ (3,189)	\$ (3,890)	\$ (6,214)	\$ (7,130)
Foreign currency translation adjustment	(7)	(9)	(2)	(5)
Total comprehensive loss	<u>\$ (3,196)</u>	<u>\$ (3,899)</u>	<u>\$ (6,216)</u>	<u>\$ (7,135)</u>

See accompanying notes to unaudited consolidated financial statements.

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

**Three and Six Months Ended October 31, 2019**

	<u>Common Shares</u>		<u>Treasury Shares</u>		<u>Additional Paid-In Capital</u>	<u>Accumulated Deficit</u>	<u>Accumulated Other Comprehensive Loss</u>	<u>Total Stockholders' Equity</u>
	<u>Shares</u>	<u>Amount</u>	<u>Shares</u>	<u>Amount</u>				
<b>Balances at April 30, 2019</b>	5,425,517	\$ 5	(3,770)	\$ (301)	\$ 226,026	\$ (209,784)	\$ (171)	15,775
Net loss						(3,025)		(3,025)
Stock based compensation					92			92
Issuance/(forfeiture) of restricted stock, net	(132)	-						-
Exercise of pre-funded warrants	350,000	1			(19)			(18)
Acquisition of treasury stock			(481)	(1)				(1)
Other comprehensive loss							5	5
<b>Balances at July 31, 2019</b>	<u>5,775,385</u>	<u>\$ 6</u>	<u>(4,251)</u>	<u>\$ (302)</u>	<u>\$ 226,099</u>	<u>\$ (212,809)</u>	<u>\$ (166)</u>	<u>\$ 12,828</u>
Net loss						(3,189)		(3,189)
Stock based compensation					76			76
Common stock issued for commitment fee	194,805	-			294			294
Issuance of common stock- AGP At The Market offering, net of issuance costs	519,478	1			745			746
Other comprehensive loss							(7)	(7)
<b>Balances at October 31, 2019</b>	<u>6,489,668</u>	<u>\$ 7</u>	<u>(4,251)</u>	<u>\$ (302)</u>	<u>\$ 227,214</u>	<u>\$ (215,998)</u>	<u>\$ (173)</u>	<u>\$ 10,748</u>

**Three and Six Months Ended October 31, 2018**

	<u>Common Shares</u>		<u>Treasury Shares</u>		<u>Additional Paid-In Capital</u>	<u>Accumulated Deficit</u>	<u>Accumulated Other Comprehensive Loss</u>	<u>Total Stockholders' Equity</u>
	<u>Shares</u>	<u>Amount</u>	<u>Shares</u>	<u>Amount</u>				
<b>Balances at April 30, 2018</b>	921,247	\$ 18	(3,701)	\$ (300)	\$ 208,216	\$ (197,538)	\$ (160)	\$ 10,236
Net loss						(3,240)		(3,240)
Stock based compensation					80			80
Issuance/(forfeiture) of restricted stock, net	868	-						-
Other comprehensive loss							4	4
<b>Balances at July 31, 2018</b>	<u>922,115</u>	<u>\$ 18</u>	<u>(3,701)</u>	<u>\$ (300)</u>	<u>\$ 208,296</u>	<u>\$ (200,778)</u>	<u>\$ (156)</u>	<u>\$ 7,080</u>
Net loss						(3,890)		(3,890)
Stock based compensation					54			54
Issuance/(forfeiture) of restricted stock, net	(150)	-			-			-
Common stock issued for commitment fee	21,429	1			295			296
Issuance of common stock- Aspire financing, net of issuance costs	10,000	-			69			69
Acquisition of treasury stock			(89)	(1)				(1)
Other comprehensive loss							(9)	(9)
<b>Balances at October 31, 2018</b>	<u>953,394</u>	<u>\$ 19</u>	<u>(3,790)</u>	<u>\$ (301)</u>	<u>\$ 208,714</u>	<u>\$ (204,668)</u>	<u>\$ (165)</u>	<u>\$ 3,599</u>

See accompanying notes to unaudited consolidated financial statements.

**Ocean Power Technologies, Inc. and Subsidiaries**  
**Unaudited Consolidated Statements of Cash Flows**  
**(in thousands)**  
**(Unaudited)**

	<b>Six months ended October 31,</b>	
	<b>2019</b>	<b>2018</b>
<b>Cash flows from operating activities:</b>		
Net loss	\$ (6,214)	\$ (7,130)
<b>Adjustments to reconcile net loss to net cash used in operating activities:</b>		
Foreign exchange loss	4	55
Depreciation and amortization	173	90
Compensation expense related to stock option grants and restricted stock	168	135
Gain due to the change in fair value of warrant liabilities	(6)	(136)
<b>Changes in operating assets and liabilities:</b>		
Accounts receivable	(934)	(296)
Unbilled receivables	-	71
Contract assets	(96)	(23)
Other assets	(6)	(109)
Accounts payable	(138)	24
Accrued expenses	(75)	(56)
Deferred rent	-	5
Deferred credit payable	-	(600)
Unearned revenue	-	(18)
Change in lease liability	(96)	-
Contract liabilities	802	373
Net cash used in operating activities	<u>(6,418)</u>	<u>(7,615)</u>
<b>Cash flows from investing activities:</b>		
Purchases of marketable securities	-	(25)
Maturities of marketable securities	-	50
Purchase of computers, equipment and furniture	(41)	(52)
Net cash used in investing activities	<u>(41)</u>	<u>(27)</u>
<b>Cash flows from financing activities:</b>		
Proceeds from issuance of common stock, net of issuance costs	-	68
Proceeds from issuance of common stock- AGP At The Market offering, net of issuance costs	746	-
Costs associated with exercise of pre-funded warrants	(18)	-
Payment of capital lease obligations	-	(19)
Acquisition of treasury stock	(1)	(1)
Net cash provided by financing activities	<u>727</u>	<u>48</u>
Effect of exchange rate changes on cash, cash equivalents and restricted cash	<u>(5)</u>	<u>(75)</u>
Net decrease in cash, cash equivalents and restricted cash	<u>(5,737)</u>	<u>(7,669)</u>
Cash, cash equivalents and restricted cash, beginning of period	17,159	12,225
Cash, cash equivalents and restricted cash, end of period	<u>\$ 11,422</u>	<u>\$ 4,556</u>
<b>Supplemental schedule of cash flows information:</b>		
Cash paid for interest	\$ -	\$ 1
<b>Supplemental disclosure of noncash operating activities:</b>		
Prepaid financing costs reported in accrued expenses	\$ 67	\$ -
<b>Supplemental disclosure of noncash investing activities:</b>		
Acquisition of computers, equipment and furniture through accounts payable	\$ 3	\$ 2
<b>Supplemental disclosure of noncash financing activities:</b>		
Common stock issued for payment of commitment fee	\$ 294	\$ 296

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. The Company is developing and commercializing its proprietary systems that generate electricity by harnessing the renewable energy of ocean waves. The Company uses proprietary technologies that convert the mechanical energy created by the heaving motion of ocean waves into electricity. The Company has designed and continues to develop the PowerBuoy® product line which is based on modular, ocean-going buoys, which the Company has been periodically ocean testing since 1997. The Company markets its PowerBuoys® in the United States and internationally. Since fiscal 2002, government agencies have accounted for a significant portion of the Company’s revenues. These revenues were largely for the support of product development efforts relating to our technology. Today our goal is to generate the majority of our revenue from the sale or lease of products, 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 and services.

***b) Basis of Presentation***

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles (“GAAP”) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation have been included. The interim operating results are not necessarily indicative of the results for a full year or for any other interim period. Further information on potential factors that could affect the Company’s financial results can be found in the Company’s Annual Report on Form 10-K for the year ended April 30, 2019 and its Quarterly Report on Form 10-Q for the quarter ended July 31, 2019, each filed with the Securities and Exchange Commission (“SEC”), and elsewhere in this Form 10-Q.

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

Our consolidated financial statements have been prepared assuming the Company will continue as a going concern. The Company has experienced substantial and recurring losses from operations, which have contributed to an accumulated deficit of \$216.0 million as of October 31, 2019. As of October 31, 2019, the Company had approximately \$11.4 million in cash, cash equivalents, and restricted cash on hand. The Company generated revenues of \$0.4 million and \$0.2 million during each of the six months ended October 31, 2019 and 2018. Based on the Company’s cash, cash equivalents and restricted cash balances as of October 31, 2019, the Company believes that it will be able to finance its capital requirements and operations into the quarter ending July 31, 2020. Among other things, the Company is currently evaluating a variety of different financing alternatives and we expect to continue to fund our business with sales of our securities and through generating revenue with customers. The Company will require additional equity and/or debt financing to continue its operations into Fiscal Year 2021. The Company cannot provide assurances that it will be able to secure additional funding when needed or at all, or, if secured, that such funding would be on favorable terms. These factors raise substantial doubt about the Company’s ability to continue as a going concern.

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

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

In fiscal 2019 and during the six months ended October 31, 2019, the Company has continued to make investments in ongoing product development efforts in anticipation of future growth. The Company's future results of operations involve significant risks and uncertainties. Factors that could affect the Company's future operating results and cause actual results to vary materially from expectations include, but are not limited to, risks from lack of available financing and insufficient capital, performance of PowerBuoys®, its inability to market and commercialize its PowerBuoys® 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 laws, regulations and permitting. In order to continue to implement its business strategy, the Company requires additional equity and/or debt financing. 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 (each discussed further below), but the Company cannot assure that additional equity and/or debt financing will be available to the Company as needed on acceptable terms, or at all. Historically, the Company has raised capital through securities sales in the public capital markets. If sufficient additional financing is not obtained when needed, the Company may be required to further curtail or limit operations, product development costs, and/or selling, general and administrative activities in order to reduce its cash expenditures. This could cause the Company to be unable to execute its business plan, take advantage of future opportunities and may cause it to scale back, delay or eliminate some or all of its product development activities and/or reduce the scope of or cease its operations.

On August 13, 2018, the Company entered into a common stock purchase agreement with Aspire Capital Fund, LLC ("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 of shares of the Company's common stock over a 30-month period that does not exceed 19.99% of the outstanding common stock on the date of the agreement. The number of shares the Company could issue within the 19.99% limit is 183,591 shares. Shareholder approval was not needed since the number of common stock offered for sale in the common stock purchase agreement did not exceed 19.99% of the outstanding common stock on the date of the agreement. In consideration for entering into the agreement, the Company issued to Aspire Capital 21,429 shares of our common stock as a commitment fee. As of October 24, 2019, the Company has sold 162,162 shares of common stock with an aggregate market value of \$949,259 at an average price of \$5.85 per share pursuant to this common stock purchase agreement. The Company has issued all the shares available for sale under the common stock purchase agreement. The agreement was cancelled on October 24, 2019.

On October 24, 2019, the Company entered into a new common stock purchase agreement with Aspire Capital which provides that, subject to certain terms, conditions and limitations, Aspire Capital is committed to purchase up to an aggregate of \$10.0 million of shares of the Company's common stock over a 30-month period that does not exceed 19.99% of the outstanding common stock on the date of the agreement. The number of shares the Company can issue within the 19.99% limit is 1,219,010 shares. Shareholder approval is needed for sale of common stock over the 19.99% limit of the outstanding common stock on the date of the agreement. The Company has included a proposal in its proxy statement asking shareholders at the 2019 annual meeting of stockholders, being held on December 20, 2019, to approve an additional 5,400,000 shares to be added to the common stock purchase agreement. In consideration for entering into the agreement, the Company issued to Aspire Capital 194,805 shares of our common stock as a commitment fee. As of October 31, 2019, the Company has not sold any shares of common stock under the agreement.

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 million. As of October 31, 2019, under the 2019 ATM Facility, the Company issued and sold 671,039 shares of its common stock with an aggregate market value of \$1.8 million at an average price of \$2.69 per share and paid AGP a sales commission of approximately \$59,000 related to those shares.

On April 8, 2019, the Company sold 1,542,000 shares of common stock, which includes the sale of 642,000 shares of the Company's common stock sold by the Company pursuant to the exercise, in full, of the over-allotment option by the underwriters in a public offering. As part of the public offering, the Company also sold prefunded 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. The net proceeds to the Company from the offering were approximately \$15.7 million, after deducting underwriter fees and offering expenses payable by the Company.

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

If our common stock is delisted from Nasdaq, our ability to raise capital through public offerings of our securities and to finance our operations could be adversely affected. See additional risk factors under "Part II, Item 1A – Risk Factors". We also believe that delisting would likely result in decreased liquidity and/or increased volatility in our common stock and could harm our business and future prospects. In addition, we believe that, if our common stock is delisted, our stockholders would likely find it more difficult to obtain accurate quotations as to the price of the common stock and it may be more difficult for stockholders to buy or sell our common stock at competitive market prices, or at all.

#### ***(d) Reverse Stock-Split***

The Company initiated a 1-for-20 reverse stock split effective as of the close of markets on March 11, 2019. The common stock began trading on a reverse stock split-adjusted basis on the Nasdaq on March 12, 2019. All shares and per share data in these consolidated financial statements and notes thereto have been retroactively adjusted to give effect to the reverse stock split.

## (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 and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the period. Significant items subject to such estimates and assumptions include the fair value of warrant liabilities, 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.

	<u>October 31, 2019</u>	<u>April 30, 2019</u>
	(in thousands)	
Checking and savings accounts	\$ 2,393	\$ 860
Money market account	8,102	15,800
	<u>\$ 10,495</u>	<u>\$ 16,660</u>

#### Restricted Cash and Security Agreements

A portion of the Company's cash is restricted under the terms of various security agreements.

One agreement is between the Company and Barclays Bank. Under this agreement, the cash is on deposit at Barclays Bank and serves as security for letters of credit and bank guarantees that are expected to be issued by Barclays Bank on behalf of OPT LTD, one of the Company's subsidiaries, under a credit facility established by Barclays Bank for OPT LTD. The credit facility is approximately €0.3 million (\$0.4 million) and carries a fee of 1% per annum of the amount of any such obligations issued by Barclays Bank. The credit facility does not have an expiration date but is cancelable at the discretion of the bank. As of October 31, 2019, there were no letters of credit outstanding under this agreement.

The other agreements are between the Company and Santander Bank. Cash is on deposit at Santander Bank and serves as security for a letter of credit issued by Santander Bank for the lease of warehouse/office space in Monroe Township, New Jersey. This agreement cannot be extended beyond January 31, 2025 and is cancelable at the discretion of the bank. Santander Bank 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 \$125,690 that expires in October 2020. The second letter of credit was issued in the amount of \$645,467. This second letter of credit will be reduced to \$322,734 in March 2020 and to \$64,547 in May 2020. The remaining amount expires in April 2021. Restricted cash includes the following:

	<u>October 31, 2019</u>	<u>April 30, 2019</u>
	(in thousands)	
Barclay's Bank Agreement	\$ -	\$ 344
Santander Bank	927	155
	<u>\$ 927</u>	<u>\$ 499</u>

The following table provides a reconciliation of cash, cash equivalents and restricted cash reported within the Statement of Financial Position that sum to the total of the same such amounts shown in the Statement of Cash Flows.

	<u>October 31, 2019</u>	<u>April 30, 2019</u>
	(in thousands)	
Cash and cash equivalents	\$ 10,495	\$ 16,660
Restricted cash- short term	707	344
Restricted cash- long term	220	155
	<u>\$ 11,422</u>	<u>\$ 17,159</u>

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

The Company maintains cash accounts that are denominated in British pounds sterling, Euros and Australian dollars. These amounts are included in cash, cash equivalents and restricted cash on the accompanying Consolidated Balance Sheets. Such positions may result in realized and unrealized foreign exchange gains or losses from exchange rate fluctuations, which are included in “Foreign exchange gain/(loss)” in the accompanying Consolidated Statements of Operations.

***(e) Property and Equipment***

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

***(f) Concentration of Credit Risk***

Financial instruments that potentially subject the Company to credit risk consist principally of trade accounts receivable and cash. The Company believes that its credit risk is limited because the Company’s current contracts are with companies with strong financial strength. The Company invests its excess cash in a money market fund and does not believe that it is exposed to any significant risks related to its cash accounts and money market fund. Cash is also maintained at foreign financial institutions. Cash in foreign financial institutions as of October 31, 2019 was \$0.6 million.

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:

Customer	Three months ended October 31,		Six months ended October 31,	
	2019	2018	2019	2018
Eni S.p.A.	23%	84%	19%	72%
Premier Oil UK Limited	13%	0%	30%	15%
EGP	47%	16%	24%	13%
U.S. Navy	10%	0%	17%	0%
Other	7%	0%	10%	0%
	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>

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

**(g) Warrant Accounting**

The Company accounts for warrants issued in connection with its public offerings in accordance with the guidance on "Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity" in Accounting Standards Codification ("ASC") Topic 480 which provides that warrants meeting the classification of a liability award are recorded 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 Company recognizes any change in fair value in its Consolidated Statements of Operations within "Gain due to the change in fair value of warrant liabilities." The Company will continue to adjust the carrying value of the warrants for changes in the estimated fair value until such time as these instruments are exercised or expire. At that time, the liabilities will be reclassified to "Additional paid-in capital", a component of "Stockholders' Equity" on the Consolidated Balance Sheets.

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

Basic and diluted net loss per share for all periods presented is computed by dividing net loss by the weighted average number of shares of common stock and common stock equivalents outstanding during the period. 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 non-vested restricted stock issued to employees and non-employee directors, were excluded from the diluted loss per share calculation due to their anti-dilutive effect.

In computing diluted net loss per share on the Statement of Operations, warrants on common stock, options to purchase shares of common stock and non-vested restricted stock issued to employees and non-employee directors, totaling 5,007,907 and 890,175 for each of the three and six months ended October 31, 2019 and 2018, respectively, were excluded from each of the computations as the effect would be anti-dilutive due to the Company's losses.

**(i) 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, 2019 and 2018:

	Three months ended October 31,		Six months ended October 31,	
	2019	2018	2019	2018
	(in thousands)			
Product development	\$ 20	\$ 10	\$ 40	\$ 21
Selling, general and administrative	56	45	128	114
Total share-based compensation expense	<u>\$ 76</u>	<u>\$ 55</u>	<u>\$ 168</u>	<u>\$ 135</u>

**(j) Deferred Rent**

On March 31, 2017, the Company signed a 7-year lease for approximately 56,000 square feet in Monroe Township, New Jersey that is being used as warehouse/production space, the Company's principal offices and corporate headquarters. The lease was classified as an operating lease. Rent payments relating to the Monroe premises are subject to annual increases. The minimum monthly payments will vary over the 7-year term of the lease. The Landlord has provided the Company a tenant improvement allowance in an amount up to, but not exceeding, \$137,563 to be applied to the cost of tenant improvement work. The Company recorded lease incentive liability to deferred rent. With the Company's adoption of Accounting Standards Update ("ASU") No. 2016-02 on May 1, 2019, the balances in lease incentive liability and deferred rent have been included in the value of the right of use asset.

### **(k) 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.

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 period ended October 31, 2019 and 2018 all of the Company's contracts were classified as firm fixed price.

As of October 31, 2019, the Company's total remaining performance obligations, also referred to as backlog, totaled \$2.4 million. The Company expects to recognize approximately 100%, or \$2.4 million, of the remaining performance obligations as revenue over the next twelve months.

#### *PB3 PowerBuoy® Leasing*

The Company enters into lease arrangements with certain customers for their PB3 PowerBuoy® ("PB3"). As of October 31, 2019, the Company has two active lease arrangements ranging in terms from 3 to 18 months. Revenue related to multiple-element arrangements are 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 consolidated statement of operations. The lease income for the three and six months ended October 31, 2019 was immaterial.

### ***(1) Recently Issued Accounting Standards***

In February 2016, the Financial Accounting Standards Board (“FASB”) issued ASU No. 2016-02, “Leases (Topic 842).” which amends the existing guidance on accounting for leases. Topic 842 was further clarified and amended within ASU 2017-13, ASU 2018-01, ASU 2018-10, ASU 2018-11 and ASU 2018-20. The new standard establishes a right-of-use (ROU) model that requires a lessee to record a ROU asset and a lease liability on the balance sheet for all leases with terms longer than twelve months or leases that contain a purchase option that is reasonably certain to be exercised. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. ASU 2016-02 was effective for annual periods beginning after December 15, 2018, including interim periods within those annual periods, with early adoption permitted. The guidance permits the Company to utilize the package of practical expedients that, upon adoption of Topic 842, allows entities to (1) not reassess whether any expired or existing contracts are or contain leases, (2) retain the classification of leases (e.g., operating or finance lease) existing as of the date of adoption and (3) not reassess initial direct costs for any existing leases. Additionally, the Company elected to exclude short-term leases having initial terms of 12 months or less and recognizes rent expense on a straight-line basis over the lease term. The Company adopted Topic 842 on May 1, 2019 using the modified retrospective approach. Under this approach, comparative periods presented in the financial statements in which the new lease standard is adopted will continue to be presented in accordance with prior GAAP. The adoption of this standard had an impact on the Company’s Consolidated Balance Sheets, recognizing a ROU and a lease liability of approximately \$1.4 million and \$1.5 million, respectively, and eliminating deferred rent of \$39,000 and an unamortized lease incentive receivable of \$108,000. Refer to Note 6 to the Consolidated Financial Statements for disclosure requirements related to the adoption of this standard.

In June 2016, the FASB issued ASU No. 2016-13, “Financial Instruments - Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments.” The amendment in this update 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. This ASU is effective for annual periods and interim periods beginning after December 15, 2019. The Company is currently evaluating the impact the adoption of ASU 2016-13 will have on its consolidated financial statements.

In August 2018, the FASB issued ASU No. 2018-13, “Fair Value Measurement (Topic 820).” The ASU modifies, removes, and adds several disclosure requirements on fair value measurements in Topic 820, Fair Value Measurement. ASU 2018-13 is effective for all entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. The amendments on changes in unrealized gains and losses, the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements, and the narrative description of measurement uncertainty should be applied prospectively for only the most recent interim or annual period presented in the initial fiscal year of adoption. All other amendments should be applied retrospectively to all periods presented upon their effective date. Early adoption is permitted upon issuance of ASU 2018-13. An entity is permitted to early adopt any removed or modified disclosures upon issuance of ASU 2018-13 and delay adoption of the additional disclosures until their effective date. The Company is evaluating the effect ASU 2018-13 will have on its consolidated financial statements and disclosures and has not yet determined the effect of the standard on its ongoing financial reporting at this time.

In August 2018, the FASB issued ASU No. 2018-15, “Intangibles — Goodwill and Other — Internal-Use Software (Subtopic 350-40).” The ASU provides for the recognition of an intangible asset for the costs of internal-use software licenses included in a cloud computing arrangement. Costs of arrangements that do not include a software license should be accounted for as a service contract and expensed as incurred. This ASU is effective for fiscal years beginning after December 15, 2019, with early adoption permitted. The ASU permits two methods of adoption: prospectively to all implementation costs incurred after the date of adoption, or retrospectively to each prior reporting period presented. The Company is evaluating the effect ASU 2018-15 will have on its consolidated financial statements and disclosures and has not yet determined the effect of the standard on its ongoing financial reporting at this time.

### **(3) Account Receivable, Contract Assets, and Contract Liabilities**

The following provides further details on the balance sheet accounts of accounts receivable, contract assets, and contract liabilities.

### 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 good has transferred to the customer. Accounts receivable represents an unconditional right to consideration arising from the Company's performance under contracts with customers. The carrying value of such receivables represent their estimated realizable value. Accounts receivable consisted of the following at October 31, 2019 and April 30, 2019.

	<u>October 31, 2019</u>	<u>April 30, 2019</u>
	(in thousands)	
Opening balance	\$ 63	\$ 171
Amount invoiced to customer	1,113	857
Collections	(179)	(965)
Ending balance	<u>\$ 997</u>	<u>\$ 63</u>

### Contract Assets and Contract Liabilities

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. The increase in contract assets is primarily a result of services performed but unbilled during the six months ended October 31, 2019.

Contract liabilities consist of amounts invoiced to customers in excess of revenue recognized. The increase in contract liabilities is primarily a result of an advance payment made by EGP during the six months ended October 31, 2019.

### (4) Other Current Assets

Other current assets consist of the following at October 31, 2019 and April 30, 2019:

	<u>October 31, 2019</u>	<u>April 30, 2019</u>
	(in thousands)	
Deposits	\$ 111	\$ 63
Other receivables	17	44
Prepaid insurance	116	93
Prepaid offering costs	480	144
Prepaid expenses- other	180	193
	<u>\$ 904</u>	<u>\$ 537</u>



## (5) Property and Equipment, net

The components of property and equipment, net as of October 31, 2019 and April 30, 2019 consisted of the following:

	October 31, 2019	April 30, 2019
	(in thousands)	
Equipment	\$ 339	339
Computer equipment & software	702	558
Office furniture & equipment	341	341
Leasehold improvements	474	474
Equipment under capitalized lease	-	103
Construction in process	18	15
	\$ 1,874	\$ 1,830
Less: accumulated depreciation	(1,315)	(1,238)
	\$ 559	\$ 592

Depreciation expense was approximately \$39,000 and \$45,000 for the three-month period ended October 31, 2019 and 2018, and approximately \$77,000 and \$90,000 for the six-month period ended October 31, 2019 and 2018, respectively.

## (6) Leases

### *Lessor Information*

As of October 31, 2019, the Company has two active leases which have been classified as operating leases per accounting guidance contained within ASC Topic 842, "Leases". The Company's remaining operating lease term on these leases is less than a year. The maturities of lease payments remaining on this lease are immaterial. The accounting of the operating lease income according to ASC Topic 842, "Leases" is similar to the accounting in prior years.

### *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 7 years with an option to extend the lease for another 5 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 has elected the package of practical expedients which applies to leases that commenced before the adoption date. By electing the package of practical expedients, the Company did not need to reassess whether any existing contracts are or contain leases, the lease classification for any existing leases and initial direct costs for any existing leases.

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 used 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 straight-line expense in the Consolidated Statement of Operations for the three and six months ended October 31, 2019 was \$79,000 and \$159,000. The operating cash flows from operating leases cash payments for the three and six months ended October 31, 2019 was \$79,000 and \$159,000.

Information related to the Company's right-of use assets and lease liabilities as of October 31, 2019 was as follows:

	<b>October 31, 2019</b>
	(in thousands)
<b>Operating lease:</b>	
Operating right-of-use asset, net	\$ 1,265
Right-of-use liability- current	215
Right-of-use liability- long term	1,198
Total lease liability	<u>\$ 1,413</u>
Weighted average remaining lease term- operating leases	4.99 years
Weighted average discount rate- operating leases	8.5%

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

	<b>October 31, 2019</b>
	(in thousands)
2020 (November- April)	\$ 163
2021	331
2022	341
2023	352
2024	362
Thereafter	184
Total future minimum lease payments	<u>\$ 1,733</u>
Less imputed interest	(320)
Total	<u>\$ 1,413</u>

#### *ASC 840 Disclosure*

The Company elected the modified retrospective transition method and is required to present previously disclosed information under the prior accounting standard for leases.

#### *Lessee Information*

Future minimum lease payments under the Company's operating lease as of April 30, 2019 are as follows:

	<b>April 30, 2019</b>
	(in thousands)
2020	\$ 322
2021	331
2022	341
2023	352
2024	362
Thereafter	184
	<u>\$ 1,892</u>

## (7) Accrued Expenses

Accrued expenses consist of the following at October 31, 2019 and April 30, 2019:

	October 31, 2019	April 30, 2019
	(in thousands)	
Project costs	\$ 47	\$ 9
Contract loss reserve	199	211
Employee incentive payments	453	580
Accrued salary and benefits	483	500
Legal and accounting fees	284	273
Accrued taxes payable	177	177
Other	287	188
	<u>\$ 1,930</u>	<u>\$ 1,938</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 five years following the Initial Exercise Date. As of October 31, 2019, none of the warrants have 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 date of issuance. As of October 31, 2019, none of the warrants have 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, 2019, 2,982,120 of the pre-funded warrants have 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, 2019, none of the common stock warrants have been exercised.

The Company accounts for warrants issued in connection with its June 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 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. As such, the warrants have a value of zero at October 31, 2019 and \$6,000 at April 30, 2019 and are reflected within “Warrant liabilities” in the Consolidated Balance Sheets. 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 stockholders’ equity in the Consolidated Balance Sheets.

An unrealized gain of approximately zero and \$51,000 for the three months ended October 31, 2019 and 2018, respectively, and \$6,000 and \$136,000 for the six months ended October 31, 2019 and 2018, respectively, were included within "Gain 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 option pricing model with the following assumptions:

	<u>October 31, 2019</u>	<u>October 31, 2018</u>
Dividend rate	0.0%	0.0%
Risk-free rate	1.5%	2.9%
Expected life (years)	1.7 - 2.1	2.7 - 3.1
Expected volatility	105.9%	142.9%

#### **(9) 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, 2019, and 2018, no shares of preferred stock had been issued.

#### **(10) Common Stock**

The Company has 100,000,000 shares authorized with a par value of \$0.001 per share. As of October 31, 2019, there were 6,489,668 shares issued.

On August 13, 2018, 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 of shares of the Company's common stock over a 30-month period that does not exceed 19.99% of the outstanding common stock on the date of the agreement. The number of shares the Company could issue within the 19.99% is 183,591 shares. Shareholder approval was not needed since the number of common stock offered for sale in the common stock purchase agreement did not exceed 19.99% of the outstanding common stock on the date of the agreement. In consideration for entering into the agreement, the Company issued to Aspire Capital 21,429 shares of common stock as a commitment fee. As of October 31, 2019, the Company has sold 162,162 shares of common stock with an aggregate market value of \$949,259 at an average price of \$5.85 per share pursuant to this common stock purchase agreement. The Company has issued all the shares available for sale under the common stock purchase agreement. The agreement was cancelled on October 24, 2019.

On October 24, 2019, the Company entered into a new common stock purchase agreement with Aspire Capital which provides that, subject to certain terms, conditions and limitations, Aspire Capital is committed to purchase up to an aggregate of \$10.0 million of shares of the Company's common stock over a 30-month period that does not exceed 19.99% of the outstanding common stock on the date of the agreement. The number of shares the Company can issue within the 19.99% limit is 1,219,010 shares. Shareholder approval is needed for sale of common stock over the 19.99% limit of the outstanding common stock on the date of the agreement. The Company has included a proposal in its proxy statement asking shareholders at the 2019 annual meeting of stockholders, being held on December 20, 2019, to approve an additional 5,400,000 shares to be added to the common stock purchase agreement. In consideration for entering into the agreement, the Company issued to Aspire Capital 194,805 shares of common stock as a commitment fee. As of October 31, 2019, the Company has not sold any shares of common stock under the agreement.

On January 7, 2019, the Company entered into the 2019 ATM Facility with AGP, under which the Company may issue and sell to or through A.G.P./Alliance Global Partners, acting as agent and/or principal, shares of the Company's common stock having an aggregate offering price of up to \$25 million. As of October 31, 2019, under the 2019 ATM Facility the Company had issued and sold 671,039 shares of its common stock with an aggregate market value of \$1.8 million at an average price of \$2.69 per share and paid AGP a sales commission of approximately \$59,000 related to those shares.

On April 8, 2019, the Company sold 1,542,000 shares of common stock, which includes the sale of 642,000 shares of the Company's common stock sold by the Company pursuant to the exercise, in full, of the over-allotment option by the underwriters in a public offering, prefunded warrants to purchase up to 3,385,680 shares of common stock and common warrants to purchase up to 4,927,680 shares of common stock in an underwritten public offering. The net proceeds to the Company from the offering were approximately \$15.7 million, after deducting underwriter's fees and offering expenses payable by the Company.

#### **(11) Treasury Shares**

During the six months ended October 31, 2019 and 2018, 481 and 89 shares of common stock, respectively, were purchased by the Company from employees to pay taxes related to the vesting of restricted stock and are reflected in Treasury Stock as of October 31, 2019.

## (12) Stock-Based Compensation

In 2015, upon approval by the Company's stockholders, the Company's 2015 Omnibus Incentive Plan (the "2015 Plan") became effective. A total of 12,036 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. On October 21, 2016 upon approval by the Company's stockholders the Company increased the number of shares authorized for issuance to 32,036. On December 7, 2018, upon approval by the Company's stockholders, the Company increased the number of shares authorized for issuance to 132,036. 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, 2019, the Company has 60,279 shares available for future issuance under the 2015 Plan.

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 5635(c)(4) and Rule 5635(c)(3) of the Nasdaq Listing Rules, 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, 2019, there were 25,000 shares available for grant under the 2018 Inducement Plan.

### Stock Options

The Company estimates the fair value of each stock option granted, for both service-based and performance-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 was estimated using the "simplified" method as permitted by the SEC's Staff Accounting Bulletin No. 110, *Share-Based Payment*. Expected volatility was based on the Company's historical volatility over the expected life of the stock option granted. There were no shares granted in the three and six months ended October 31, 2019 and 2018.

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, 2019	65,572	\$ 21.08	8.9
Granted	-	\$ -	
Exercised	-	\$ -	
Cancelled/forfeited	(1,568)	\$ 62.77	
Outstanding as of October 31, 2019	64,004	\$ 20.21	8.4
Exercisable as of October 31, 2019	17,754	\$ 51.51	6.6

As of October 31, 2019, the total intrinsic value of both outstanding and exercisable options was zero. As of October 31, 2019, approximately 46,250 additional options were unvested, which had no intrinsic value and a weighted average remaining contractual term of 9.1 years. There was approximately \$163,000 and \$78,000 of total recognized compensation cost related to stock options during each of the six months ended October 31, 2019 and 2018, respectively. As of October 31, 2019, there was approximately \$32,000 of total unrecognized compensation cost related to non-vested stock options granted under the plans. This cost is expected to be recognized over a weighted-average period of 0.10 years. The Company typically issues newly authorized but unissued shares to satisfy option exercises under these plans.

### 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, 2019, the Company did not grant shares subject to service-based vesting requirements.

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

	<b>Number of Shares</b>	<b>Weighted Average Price per Share</b>
Issued and unvested at April 30, 2019	4,506	\$ 30.08
Granted	-	\$ -
Vested	(4,380)	\$ 30.14
Cancelled/forfeited	(126)	\$ 28.00
Issued and unvested at October 31, 2019	<u>-</u>	<u>\$ -</u>

There was approximately \$5,000 and \$57,000 of total recognized compensation cost related to restricted stock for the six months ended October 31, 2019 and 2018, respectively. As of October 31, 2019, there is not unrecognized compensation cost remaining related to unvested restricted stock granted under our plans.

### (13) Fair Value Measurements

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

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

Transfers into or out of any hierarchy level are recognized at the end of the reporting period in which the transfers occurred. There were no transfers between any levels during each of the six months ended October 31, 2019 and 2018.

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

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

#### Warrant Liabilities

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

The following table presents financial assets and liabilities measured at fair value on a recurring basis as of October 31, 2019.

	<b>Total Carrying Value in Consolidated Balance Sheet</b>	<b>Quoted prices in active markets for identical assets or liabilities (Level 1)</b>	<b>Significant other observable inputs (Level 2)</b>	<b>Significant unobservable inputs (Level 3)</b>
	(in thousands)			
Warrant liabilities	\$ -	\$ -	\$ -	\$ -

The following table presents financial assets and liabilities measured at fair value on a recurring basis as of April 30, 2019.

	<b>Total Carrying Value in Consolidated Balance Sheet</b>	<b>Quoted prices in active markets for identical assets or liabilities (Level 1)</b>	<b>Significant other observable inputs (Level 2)</b>	<b>Significant unobservable inputs (Level 3)</b>
	(in thousands)			
Warrant liabilities	\$ 6	\$ -	\$ -	\$ 6

The following table provides a summary of changes in fair value of the Company's warrant liabilities held at October 31, 2019.

Fair Value Measurement Using Significant Unobservable Inputs (Level 3)	
	Total Warrant Liability (in thousands)
Fair value – April 30, 2018	\$ 201
Change in fair value	(195)
Fair value – April 30, 2019	6
Change in fair value	(6)
Fair value – October 31, 2019	\$ -

There were no other re-measured assets or liabilities at fair value on a non-recurring basis during the six months ended October 31, 2019 and 2018.

## (14) Commitments and Contingencies

### *Employment Litigation*

On June 10, 2014, the Company announced that it had terminated Charles Dunleavy as its Chief Executive Officer and as an employee of the Company for cause, effective June 9, 2014, and that Mr. Dunleavy had also been removed from his position as Chairman of the Board of Directors. On June 17, 2014, Mr. Dunleavy wrote to the Company stating that he had retained counsel to represent him in connection with an alleged wrongful termination of his employment. On July 28, 2014, Mr. Dunleavy resigned from the Board and the boards of directors of the Company's subsidiaries. In 2014, the Company and Mr. Dunleavy entered into a tolling agreement with respect to his alleged employment claims pending resolution of a securities class action and shareholder derivative litigation. The securities class action was resolved in November 2017 and the derivatives litigation was resolved in June 2018.

On August 28, 2018, counsel for Mr. Dunleavy 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 names Ocean Power Technologies, Inc. as the respondent and alleges various claims and seeks declaratory relief and permanent injunction. The demand seeks damages in the amount of \$5 million for compensatory and punitive damages, plus interest and attorneys' fees as well as certain equitable relief. On November 8, 2018, the Company through counsel responded to the demand for arbitration, denied all allegations, and asserted various affirmative defenses. On April 5, 2019, a three-person arbitration panel scheduled the discovery process to run from April 12, 2019 until November 9, 2019, set a pre-hearing case management conference for October 14, 2019, and set the hearing for December 9-13, 2019 in Princeton, New Jersey. On September 30, 2019, the parties completed the factual discovery process and the Company identified its expert witnesses. On October 14, 2019, the parties participated in a pre-hearing case management conference with arbitration panel and altered slightly the dates for the hearing. The hearing now will be conducted in Princeton, New Jersey between December 9-11, 2019, and if needed continued between December 16-18, 2019. As of October 31, 2019, the Company has not accrued any provision related to this matter since it is not probable and cannot reasonably estimate the loss contingency.

### *Nasdaq Compliance*

On August 9, 2018, the Company received written notification from Nasdaq indicating that the closing bid price of the Company's common stock had been below \$1.00 per share for a period of 30 consecutive trading days, and as a result, the Company was not in compliance with the minimum bid price requirement for continued listing. Under the Nasdaq Listing Rules, the Company was provided with a grace period of 180 calendar days, or until February 5, 2019, in which to regain compliance with the minimum bid price rule. To regain compliance, the closing bid price of the Company's common stock must meet or exceed \$1.00 per share for a minimum of ten consecutive business days during the grace period. If the Company did not regain compliance before February 5, 2019, Nasdaq stated that it would provide the Company with written notice that its securities are subject to delisting. At that time, the Company could appeal Nasdaq's determination to a Nasdaq Listing Qualifications Panel, which would stay any further delisting action by Nasdaq pending a final decision by the panel. Alternatively, the Company could have been eligible for an additional 180 calendar day grace period if it met the continued listing standards, with the exception of bid price, for the Nasdaq Capital Market, and if the Company stated its intent to affect a reverse split, if necessary, to cure such deficiency.

On February 11, 2019, the Company received another written notification from Nasdaq indicating that the Company had not regained compliance with the minimum bid price requirement and that the Company's stockholders' equity, as reported in the Company's Quarterly Report on Form 10-Q for the quarter ended October 31, 2018, did not qualify the Company for an additional 180 calendar day extension period for compliance. On February 19, 2019, the Company appealed Nasdaq's determination to a Hearings Panel (the "Panel"), pursuant to the procedures set forth in the Nasdaq Listing Rule 5800 Series. The appeal stayed the suspension of the Company's securities pending the Panel's decision, during which time the Company's common stock continued to be listed on Nasdaq, and the Company's common stock continued to trade under the symbol "OPTT".

On March 14, 2019, the Company received another written notification from Nasdaq indicating that the Company did not comply with the minimum stockholders' equity requirement for continued listing. The earlier-filed appeal of the minimum bid price requirement was sufficient to encompass the minimum stockholder's equity requirement, and the stay of suspension continued pending the Panel hearing and decision.

The Panel held its hearing on March 28, 2019. On April 4, 2019, the Panel issued the following two decisions: (i) the Panel concluded that the Company was in compliance with the minimum bid price rule; and (ii) the Panel granted the Company's request to cure its stockholder equity deficiency by conducting a public offering that was estimated to raise \$10 million by no later than April 30, 2019. On April 24, 2019, the Company provided the Panel with an update following a public offering that raised approximately \$15.7 million (after deducting underwriter fees, commissions and other offering expenses) and closed on April 8, 2019. The update included revised projections of stockholder equity based upon the actual amount of proceeds raised during the public offering, which in the Company's opinion was sufficient to cure the stockholder equity deficiency.

On May 20, 2019 the Company received a letter from Nasdaq confirming that the Company has regained compliance with the minimum shareholders' equity rule, as required by the Panel's decision dated April 4, 2019, and is in compliance with other applicable requirements as set forth in the decision and required for listing on Nasdaq. Accordingly, the Panel determined to continue the listing of the Company's securities on Nasdaq and closed the matter.



On April 4, 2019, FINRA notified the Company that it was conducting a routine review of the Company's stock associated with two public announcements and asked several questions regarding: (i) an April 3, 2019 announcement that the Company had won a contract with a leading oil and gas operator; and (ii) an April 4, 2019 announcement of the pricing of an underwritten public offering. The Company provided its response to the FINRA questions on April 9, 2019. As of December 9, 2019, FINRA has not provided any follow-up.

*Spain Income Tax Audit*

The Company is currently undergoing an income tax audit in Spain for the period from 2008 to 2014, when our Spanish branch was closed. The branch reported net operating losses for each of the years reported that the Spanish tax inspector claims should have been capitalized on the balance sheet instead of charged as an expense in the Statement of Operations. As of April 30, 2017, the Company had recorded a penalty of \$132,000 to Selling, general and administrative costs in the Statement of Operations. The Spanish tax inspector has recently closed its discussion relating to the capitalization of expenses and as of April 30, 2018 the Company reversed the penalty. However, the Spanish tax inspector has now raised questions with respect to the Company's recognition of funds received in 2011 to 2014 from a governmental grant from the European Commission in connection with the Waveport project. It is anticipated that the Company will be assessed a penalty relating to these tax years. The Company has estimated this penalty to be \$177,000 and as of October 31, 2019 and April 30, 2019 has recorded the penalty in Accrued expenses in the Consolidated Balance Sheets.

**(15) 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. The Company is currently undergoing an income tax audit in Spain for the period from 2008 to 2014, when our Spanish branch was closed (see Note 14 to the Consolidated Financial Statements). At October 31, 2019 the Company had no other 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.

**(16) Operating Segments and Geographic Information**

The Company's business consists of one segment as this represents management's view of the Company's operations. The Company operates on a worldwide basis with one operating company in the US and subsidiaries in the UK and in Australia. Revenues and expenses are generally attributed to the operating unit that bills the customers. During the three and six months ended October 31, 2019 and 2018, the Company's primary business operations were in North America.

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

The following discussion and analysis should be read in conjunction with the accompanying unaudited consolidated financial statements and related notes included in this Quarterly Report on Form 10-Q. Some of the information contained in this management's discussion and analysis or set forth elsewhere in this Form 10-Q, including information with respect to our plans and strategy for our business, pending and threatened litigation and our liquidity includes forward-looking statements that involve risks and uncertainties. You should review the "Risk Factors" section of our Annual Report on Form 10-K for the year ended April 30, 2019 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 2019 refers to the year ended April 30, 2019).

### Overview

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

Founded in 1984 and headquartered in Monroe Township, New Jersey, we believe we are the leader in ocean wave power conversion technology. Our PB3 is our first fully commercial product which generates electricity by harnessing the renewable energy of ocean waves. In addition to our PB3, we continue to develop our PowerBuoy® product line based on modular, ocean-going buoys, which we have been periodically ocean testing since 1997. In November 2018, the Company announced additional complementary products, the hybrid PowerBuoy® and subsea battery solutions which leverage our existing expertise in offshore power systems while expanding our product line beyond our flagship PB3 offering.

The PB3 generates power for use in remote offshore locations, independent of a conventional power grid. It 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 whereby average power generated can increase substantially at very active sites. Our standard energy storage system ("ESS") has an energy capacity of up to a nominal 150 kilowatt-hours ("kWh") to meet specific application requirements. We believe there is a substantial addressable market for the current capabilities of our PB3, which we believe could be utilized in a variety of applications.

In addition to leveraging earlier design aspects of our autonomous PowerBuoy®, the PB3 has undergone extensive factory and in-ocean design validation testing. Currently, our engineering efforts are continuing to expand the PowerBuoy® capability with simplified deployment and mooring options and working together with our customer base to ensure flexible systems integration and to optimize energy output. Our marketing efforts are focused on applications in remote offshore locations that require reliable and persistent power and communications, either by supplying electric power to payloads that are integrated directly in or on our PowerBuoy® or located in its vicinity, such as on the seabed and in the water column.

Based on our market research and publicly available data, we believe that numerous markets have a direct need for our PowerBuoys® including oil and gas, defense and security, science and research, and communications. Depending on payload power requirements, sensor types and other considerations, we have found that our PowerBuoy® could satisfy several application requirements within these markets. We believe that the PB3 persistently generates sufficient power to meet the requirements of many potential customer applications within our target markets.

Since fiscal 2002, government agencies have accounted for a significant portion of our revenues. These revenues were largely for the support of our development efforts relating to our technology. Today our goal is to generate the majority of our revenue from the sale or lease of our products, and sales of services to support our business operations. As we continue to develop and commercialize our products, we expect to have a net loss of cash from operating activities unless and until we achieve positive cash flow from the commercialization of our products and services. During fiscal 2019 and the first six months of fiscal year 2020, we continued work on projects with the Premier Oil ("PMO"), Eni S.p.A. ("Eni"), the U.S. Navy Small Business Innovation Research ("U.S. SBIR") program, and a leading oil & gas operator. In fiscal year 2020, the Company's sold its first PowerBuoy® to EGP.

## Product Development

The development of our technology has been funded by capital we raised, by development engineering contracts we received starting in fiscal 1995 with agencies like the Department of Energy (“DOE”), the U.S. Navy, the Department of Homeland Security, and revenue generating projects with MES, Eni and Premier Oil. Through these projects, we also continued development of our PowerBuoy® technologies. We are continuing to focus on marketing and developing our PowerBuoy® products and services for use in unmanned autonomous power applications and communications solutions.

In addition to the PB3 commercial activities, a concerted effort has been underway which is focused on proactively implementing additional features driven by extensive and direct discussions with potential users, customers, marketing partners, and end users in our target markets. Such features include:

- Enhancement and cost-out of our current PB3 PowerBuoy® product and supporting systems through customary product life cycle management.
- The design and development of a single point mooring umbilical solution that not only allows for quick deployment of the PowerBuoy® but also enables delivery of power and communication capabilities to customer payloads which are external to the PowerBuoy®, and which may reside in the water column, on the seabed, or both.
- The design, development and implementation of an advanced buoy controller that reduces controller power consumption and cost by 90% each, improves buoy reliability, and supports high computational speeds needed for the PowerBuoy® monitoring and control.

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

As previously stated, the PB3 has achieved commercial status through a series of design iterations which focused on improving its reliability and survivability in the ocean environment. Though the PB3 will continue to undergo further enhancements through customary product life cycle management, we believe the PB3 has achieved a maturity level for immediate commercial use. We believe that the PB3 will generate and store sufficient power to address various application requirements in our target markets. Our product development and engineering efforts are focused, in part, on increasing the energy output and efficiency of our PowerBuoy®. If we are able to do so, we believe the PowerBuoy® would be useful as part of broader solutions where cost savings and additional power are required by our potential customers, and would also offer enabling capabilities which may not have been previously available to customers. We continue to explore opportunities in these target markets. We believe that by demonstrating the capability of our PowerBuoy® in oil & gas and telecommunications applications, we can advance our product and services and gain further adoption from our target markets. We continue to improve design and manufacturing to enhance our ability to reduce solution costs, improve customer value, displace incumbent solutions, and become the preferred power source for new and existing applications in our target markets.

We are utilizing our experience with multiple commercial PowerBuoy® deployments globally to continually improve our solutions so that we have higher energy efficiency, additional mooring capability, platform flexibility and high reliability. For example, the redesigned PB3 leverages our knowledge base from past designs to incorporate new design features which we believe will improve its reliability and efficiency.

In November 2018, the Company announced several new product offerings including hybrid PowerBuoy®, subsea battery systems and support services.

- *Hybrid PowerBuoy®* - The Company is in the process of creating a hybrid PowerBuoy® that will be a smaller liquid-fueled surface buoy, compared to the wave power generating PB3 PowerBuoy®, capable of providing reliable power in remote offshore locations. This product is to be highly complementary to the PB3 PowerBuoy® by providing the Company the opportunity to address a broader spectrum of customer deployment needs, including low-wave environments, with the potential for greater Company integration within each customer project. It is primarily intended for shorter term deployment applications such as electric remotely operated vehicles (“eROV’s”) and autonomous underwater vehicles (“AUV’s”) inspections and short-term maintenance, topside surveillance and communications, and subsea equipment and controls. The hybrid PowerBuoy® is anticipated to be a lightweight, quickly deployable and cost-effective solution. The design is also anticipated to have a high payload capacity for communications and surveillance, with the capability of being tethered to subsea payloads and battery packs, or with a conventional anchor mooring system. The Company is designing the hybrid PowerBuoy® with a Stirling engine to outperform traditional diesel buoys, which we believe have more frequent service and refueling intervals. We believe the hybrid PowerBuoy® will be able to operate in an environmentally safer manner using more robust fuels, while operating over a wider temperature range and more broad ocean wave conditions than existing diesel buoys.

- *Subsea battery systems* – The Company is in the process of creating a sea floor energy storage solution for remote offshore operations. These subsea battery systems will contain lithium ion batteries, which provide high power density, to supply power that can enable subsea equipment, sensors, communications, AUV’s and eROV’s recharge. The Company’s PB3 PowerBuoy® is complimentary to subsea battery systems by providing a means for recharging during longer term deployments, or the subsea battery systems can be used independently for shorter term deployments. Ideal for many remote offshore customer applications, these subsea battery systems are anticipated to be high performance, cost-efficient, and quickly deployable. Given the Company’s expertise in offshore energy storage systems from existing PB3 PowerBuoy® technology, the subsea battery solutions will provide an opportunity for the Company to differentiate through technical, cost and delivery leadership.
- *Support services* – The Company offers customers a comprehensive range of support services that meet their specific needs. These support services include innovation services, remote monitoring, extended service agreements, customization and pre-packaged payload options, engineering-design-testing services, mooring design, and marine services. These same support services will be extended to the new subsea battery solution and hybrid PowerBuoy® products.

### Commercial Activities

We continue to seek new strategic relationships, and further develop our existing partnerships, with other 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:

	<b>Three months ended October 31,</b>		<b>Six months ended October 31,</b>	
	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>
Eni S.p.A.	23%	84%	19%	72%
Premier Oil UK Limited	13%	0%	30%	15%
EGP	47%	16%	24%	13%
U.S. Navy	10%	0%	17%	0%
Other	7%	0%	10%	0%
	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</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 PowerBuoy® and related services to customers. Our potential customer base for our PowerBuoys® 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 and other services.

## Customers

- In September 2019, we entered into two contracts with subsidiaries of EGP which include the sale of a PB3 PowerBuoy® and the development and supply of a turn-key integrated Open Sea Lab (“OSL”) that will be the Company’s first deployment off the coast of Chile. The contract is a result of a detailed feasibility study of the PowerBuoy® as an offshore autonomous platform hosting oceanographic sensor systems conducted in September 2018.
- In April 2019, we entered into an agreement with a leading oil and gas operator to conduct a detailed feasibility study of using the Company’s technology to monitor subsea wells.
- In February 2019, we entered into a contract with the U.S. Navy to carry out the first phase of a project to design and develop a buoy mooring system which incorporates fiber optics for the transmission of subsea sensor data to airplanes, ships, and satellites.
- In August 2018, we entered into an agreement with EGP to evaluate a PB3 deployment along the coast of Chile through a detailed feasibility study of the PowerBuoy® as an offshore autonomous platform hosting oceanographic sensor systems.
- In June 2018, we entered into a contract with PMO for the lease (for at least three months and a maximum of twelve months) of a PB3 to be deployed in one of PMO’s offshore fields in the North Sea.
- In March 2018, we entered into an agreement with Eni that provides for a minimum 24-month contract that includes an 18-month PB3 lease and associated project management.
- In September 2016, we entered into a contract with U.S. Department of Defense Office of Naval Research (“ONR”) totaling approximately \$0.2 million to carry out the first phase of a project which focuses on the initial concept design and development of a mass-on-spring PTO-based PowerBuoy® leveraging a number of OPT patents covering such a technology. If successful, this device is expected to be able to respond to the unique set of requirements expected in various military marine applications. We completed the Phase 2 BASE Effort work under the contract which focused on the initial concept design and development of a mass-on-spring PTO-based PowerBuoy®.
- We have worked with MES (from 2010 to current) to develop several PowerBuoy® projects in Japan. Historically, our agreements with MES have provided for MES to reimburse us for specific costs associated with research, development and deployment of our PowerBuoy® product. In March 2016, we entered into a letter of intent with MES to conduct funded pre-work tasks and to negotiate a definitive agreement that would allow for the lease of the PB3 for a project off the coast of Kozushima Island, Japan following a planned stage gate review. Stage-gate reviews are used in product development to gather key information needed to advance the project to the next gate or decision point. This process is a generally accepted industry practice and has been utilized by other customers such as the DOE. A final contract totaling nearly \$1.0 million was negotiated and finalized with MES in May 2016 that included engineering and logistics support, and the lease of our PB3 for a 7-month period, its ocean deployment, associated data collection and monitoring of its performance. Upon the completion of the engineering pre-work and a successful stage gate review, the PB3 was shipped to Japan and was deployed off Kozushima Island from April to September 2017. The MES lease concluded in September 2017 and the PB3 was shipped back to New Jersey.

## Partnerships

- In May 2019, we signed a memorandum of understanding with Modus Seabed Intervention Ltd. (“Modus”) for the purpose of developing and delivering commercial market solutions that offer a step-change in innovation and market value against conventional methodologies, specifically through development and marketing of a combined Hybrid Autonomous Underwater Vehicle (HAUV) charging station which will be able to utilize the PowerBuoy® system for topside charging and communications.
- In April 2019, we signed a memorandum of understanding with Acteon Field Life Service Ltd. (“Acteon”) to develop, explore and exploit mutual opportunities in the global oil and gas and renewable markets.
- In January 2019, we entered into a Joint System Solution Development and Marketing Agreement with Saab Seaeeye Ltd. (“Saab”). The agreement anticipates a preliminary focus on AUV and eROV charging and communications systems.
- In December 2018, we signed a letter of intent to enter into a non-exclusive long-term supply agreement with NEC Energy Solutions (“NEC ES”), a pioneer and global leader in utility scale energy storage. Under the terms of the supply agreement, NEC ES will be a supplier of lithium ion batteries for our subsea battery systems.
- In May 2016, we entered into a Memorandum of Agreement (“MOA”) with Wildlife Conservation Society (“WCS”) to explore the use of our PowerBuoys® in conjunction with ocean life monitoring sensors to collect ocean mammal migration data. The MOA includes the exploration and assessment of the use of the PB3 as an integration platform to provide power and communications to sensors that monitor marine life migrations. An initial effort consisting of a battery powered sensor mounted to the PB3-A1 was deployed off of the coast of New Jersey which sought to establish a baseline acoustic survey. The deployment proceeded for approximately three months and met all project objectives.
- In 2016, we entered into a cooperative research and development agreement (“CRADA”) with the National Data Buoy Center (“NDBC”) to conduct ocean demonstrations of its innovative Self-Contained Ocean Observing Payload (“SCOOP”) monitoring system integrated into our PB3-A1 PowerBuoy®. NDBC operates a large network of buoys and stations which provide critical meteorological and oceanic observations that are utilized by government, industry, and academia throughout the world. Under the CRADA, an initial ocean demonstration was to be conducted off the coast of New Jersey. We integrated the SCOOP onto our PB3 PowerBuoy® and in June 2016 we deployed the system off the coast of New Jersey. Site-specific measurements of meteorological and ocean conditions, as well as system performance and maintenance data collection, were carried out. The SCOOP was powered by the PB3 and provided metocean data to OPT and to NDBC. The deployment proceeded for approximately three months and met all project objectives.

## Business Strategy

We continue to commercialize our PB3 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:

- *Sell and/or lease PB3 PowerBuoy® as part of solution offerings.* We believe our PB3 PowerBuoys® are well suited to enable many unmanned, 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 leveraging both PowerBuoy® sales and leases within our selected markets, and we intend to continue to sell and lease PowerBuoys® to these markets as part of these broader solutions. Additionally, we intend to provide services associated with our solution offerings such as paid engineering studies, value-added engineering, maintenance, remote monitoring and diagnostics, application engineering, planning, training, project management, and marine and logistics support required for our solution life-cycles. 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.
- *Expand product offering by adding new complimentary products that are cost efficient and designed for shorter and faster deployments, which will create a system solutions approach for our customers.* We are currently developing two new complementary products to our PB3, the hybrid PowerBuoy® and subsea battery solutions. These products build on our existing expertise in offshore power systems and are targeted for a near term deployment. The hybrid PowerBuoy® is to be 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 Company integration within each customer project. The hybrid PowerBuoy® 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 subsea battery solutions are expected to offer the possibility of creating a sea floor energy storage solution for remote offshore operations. These subsea battery systems will contain lithium ion batteries, which provide high power density to supply power that can enable subsea equipment, sensors, communications, AUVs and eROV recharge. Ideal for many remote offshore customer applications, these subsea battery systems are anticipated to be high performance, cost-efficient, and quickly deployable.
- *Concentrate sales and marketing efforts in specific geographic markets.* We are currently focusing our marketing efforts on parts of North and South America, Europe and Asia. We believe that each of these areas has sizable end market opportunities, political and economic stability, and high levels of industrialization and economic development.
- *Expand our relationships in key market areas through strategic partnerships and collaborations.* We believe that strategic partners are an important part of commercializing a new product. 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 believe that offering a turn-key solution, and not just power, is key to securing long term success.
- *Commercial collaborations.* We believe that an important element of our business strategy is to collaborate with other organizations to leverage our combined expertise, market presence and access, and core competences across key markets. We have formed such a relationship with several well-known groups, including Modus, Saab, NEC ES, Acteon, MES, PMO and Eni. We continue to seek other opportunities to collaborate with application experts from within our selected markets.
- *Outsourcing of fabrication, deployment and service support.* We outsource all fabrication, anchoring, mooring, cabling supply, and in most cases deployment of our PowerBuoy® in order to minimize our capital requirements as we scale our business. Our PTO is a proprietary subsystem and is assembled and tested at our facility. We believe this distributed manufacturing and assembly approach enables us to focus on our core competencies to ensure a cost-effective product by leveraging a larger more established supply base. We also continue to seek strategic partnerships with regard to servicing of our PB3.

- *PB3 cost reduction and PowerBuoy® product development.* Our engineering efforts are focused on customer application development for PB3 sales, cost reduction of our PB3 and improving the energy output, reliability, maintenance interval and expected operating life of our PowerBuoys®. We continue to optimize manufacturability of our designs with a focus on cost competitiveness, and we believe we will be able to address new and different applications by developing new products that increase energy output.

## Capital Raises

On August 13, 2018, the Company entered into a common stock purchase agreement with Aspire Capital Fund, LLC (“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 of shares of the Company’s common stock over a 30-month period that does not exceed 19.99% of the outstanding common stock on the date of the agreement. The number of shares the Company could issue within the 19.99% limit is 183,591 shares. Shareholder approval was not needed since the number of common stock offered for sale in the common stock purchase agreement did not exceed 19.99% of the outstanding common stock on the date of the agreement. In consideration for entering into the agreement, the Company issued to Aspire Capital 21,429 shares of our common stock as a commitment fee. As of October 31, 2019, the Company has sold 162,162 shares of common stock with an aggregate market value of \$949,259 at an average price of \$5.85 per share pursuant to this common stock purchase agreement. The Company has issued all the shares available for sale under the common stock purchase agreement. The agreement was cancelled on October 24, 2019.

On October 24, 2019, the Company entered into a new common stock purchase agreement with Aspire Capital which provides that, subject to certain terms, conditions and limitations, Aspire Capital is committed to purchase up to an aggregate of \$10.0 million of shares of the Company’s common stock over a 30-month period that does not exceed 19.99% of the outstanding common stock on the date of the agreement. The number of shares the Company can issue within the 19.99% limit is 1,219,010 shares. Shareholder approval is needed for sale of common stock over the 19.99% limit of the outstanding common stock on the date of the agreement. The Company has included a proposal in its proxy statement asking shareholders at the 2019 annual meeting of stockholders, being held on December 20, 2019, to approve an additional 5,400,000 shares to be added to the common stock purchase agreement. In consideration for entering into the agreement, the Company issued to Aspire Capital 194,805 shares of our common stock as a commitment fee. As of October 31, 2019, the Company has not sold any shares of common stock under the agreement.

On January 7, 2019, the Company entered into the 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 million. As of October 31, 2019, under the 2019 ATM Facility, the Company issued and sold 671,039 shares of its common stock with an aggregate market value of \$1.8 million at an average price of \$2.69 per share and paid AGP a sales commission of approximately \$59,000 related to those shares.

On April 8, 2019, the Company sold 1,542,000 shares of common stock, which includes the sale of 642,000 shares of the Company’s common stock sold by the Company pursuant to the exercise, in full, of the over-allotment option by the underwriters in a public offering. As part of the public offering, the Company also sold prefunded 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. The net proceeds to the Company from the offering were approximately \$15.7 million, after deducting underwriter fees and offering expenses payable by the Company.

The sale of additional equity or convertible securities could result in dilution to our stockholders. 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. We do not have any committed sources of debt or equity financing and we cannot assure you that financing will be available in amounts or on terms acceptable to us when needed, 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, 2019, the Company’s backlog was \$2.4 million. As of April 30, 2019, backlog was \$0.9 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 has been for the support of our product development efforts. These revenues are recognized using the percentage-of-completion method, 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.

## Going Concern

The consolidated financial statements have been prepared assuming the Company will continue as a going concern. The Company has experienced substantial and recurring losses from operations, which losses have caused an accumulated deficit of \$216.0 million at October 31, 2019. Based on the Company's cash, cash equivalents and restricted cash balances as of October 31, 2019, the Company believes that it will be able to finance its capital requirements and operations into the quarter ending July 31, 2020. Among other things, the Company is currently evaluating a variety of different financing alternatives and we expect to continue to fund our business with sales of our securities and through generating revenue with customers.

The report of our independent registered public accounting firm on our consolidated financial statements filed with our Annual Report on Form 10-K for the year ended April 30, 2019, contains an explanatory paragraph regarding our ability to continue as a going concern, based on, among other factors, that our ability to continue as a going concern is dependent upon our ability to raise additional external capital and increase revenues. These factors, among others, raise substantial doubt about our ability to continue as a going concern. Our consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty. We cannot assure you that we will be successful in our efforts to generate revenues, become profitable, raise additional outside capital or to continue as a going concern. If we are not successful in our efforts to raise additional capital sufficient to support our operations, we would be forced to cease operations, in which event investors would lose their entire investment in our company.

## 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 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, 2019. There were no material changes in our critical accounting estimates or accounting policies during the six months ended October 31, 2019.

## Recently Issued Accounting Standards

See Note 2 of the Notes to 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 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.



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 each of the six-month periods ended October 31, 2019 and 2018, all of the Company's contracts were classified as firm fixed price.

The following table provides information regarding the breakdown of our revenues by customer for the three and six months ended October 31, 2019 and 2018.

	<b>Three months ended October 31,</b>		<b>Six months ended October 31,</b>	
	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>
	(in thousands)			
Eni S.p.A.	\$ 47	\$ 118	\$ 76	\$ 123
Premier Oil UK Limited	26	-	121	26
EGP	96	23	96	23
U.S. Navy	20	-	72	-
Other	15	-	41	-
	<u>\$ 204</u>	<u>\$ 141</u>	<u>\$ 406</u>	<u>\$ 172</u>

We currently focus our sales and marketing efforts on parts of North America, Europe, South America and Asia. The following table shows the percentage of our revenues by geographical location of our customers for the six months ended October 31, 2019 and 2018.

<b>Customer Location</b>	<b>Six months ended October 31,</b>	
	<b>2019</b>	<b>2018</b>
Europe	59%	100%
South America	24%	0%
United States	17%	0%
	<u>100%</u>	<u>100%</u>

### *Cost of revenues*

Our cost of revenues consists primarily of incurred material, labor and manufacturing overhead expenses, such as engineering expense, equipment depreciation and maintenance and facility related expenses, and includes the cost of PowerBuoy® parts and services 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.

Our ability to generate a gross profit will depend on the nature of future contracts, our success at generating revenues through sales or leases of our PowerBuoy® systems, the nature of our contracts generating revenues to fund our product development efforts, and our ability to manage costs incurred on fixed price commercial 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, 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 PowerBuoy® systems and costs for executive, accounting and administrative personnel, professional fees and other general corporate expenses.

### *Fair Value of Financial Instruments*

The fair value of our financial instruments reflects the amounts that would be paid to transfer a liability in an orderly transaction between market participants at the measurement date (exit price). The fair value of our warrant liabilities is subject to remeasurement each financial statement reporting period, as such, changes in this fair value are reflected in the statement of operations.

Our financial instruments not required to be adjusted to fair value on a recurring basis consist principally of cash, cash equivalents, and restricted cash, accounts receivable, accounts payable, and accrued expenses. We believe the carrying amount of cash and cash equivalents, accounts receivable, accounts payable and accrued expenses approximate fair value due to their relatively short maturities.

### *Interest income, net*

Interest income, net consists of interest received on cash, cash equivalents and money market fund and interest expense 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 US dollars and our functional currency is the US dollar, our main foreign exchange exposure, if any, results from changes in the exchange rate between the US 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 \$0.6 million as of October 31, 2019 and \$0.9 million as of October 31, 2018, compared to our total cash, cash equivalents and restricted cash balances of \$11.4 million as of October 31, 2019 and \$4.6 million as of October 31, 2018. These foreign currency balances are translated each month and to our functional currency, the US dollar, 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, 2019 compared to the three months ended October 31, 2018

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, 2019 and 2018.

	Three months ended October 31,		% change 2019 period to 2018 period
	2019	2018	
	(in thousands)		
Revenues	\$ 204	\$ 141	45%
Cost of revenues	288	637	-55%
Gross loss	(84)	(496)	
Operating expenses:			
Engineering and product development costs	1,309	1,574	-17%
Selling, general and administrative costs	1,838	1,849	-1%
Total operating expenses	3,147	3,423	
Operating loss	(3,231)	(3,919)	
Gain due to the change in fair value of warrant liabilities	-	51	-100%
Interest income, net	32	7	357%
Foreign exchange gain/(loss)	10	(29)	-134%
Net loss	\$ (3,189)	\$ (3,890)	-18%

#### Revenues

Revenues were \$0.2 million in the three months ended October 31, 2019, an increase of \$0.1 million as compared to the three months ended October 31, 2018. The increase in revenue was the result of the new contracts with EGP, PMO and U.S. Navy.

#### Cost of revenues

Cost of revenues were \$0.3 million in the three months ended October 31, 2019, a decrease of \$0.3 million compared to the three months ended October 31, 2018. Cost of revenues for the three months ended October 31, 2018 included higher spending on our Eni project and a reserve for loss on contracts of \$0.2 million.

#### Engineering and product development costs

Engineering and product development costs for the three months ended October 31, 2019 and 2018 were \$1.3 million and \$1.6 million, respectively. The decrease is the result of lower spending on buoy builds of \$0.7 million mostly offset by higher spending on new product development in the current year period as compared to the same period in fiscal 2018.

#### Selling, general and administrative costs

Selling, general and administrative costs for the three months ended October 31, 2019 and 2018 were \$1.8 million and \$1.8 million, respectively. Increased personnel costs of \$0.1 million were offset by lower spending on investor relations and professional fees of \$0.1 million, keeping spending relatively flat as compared to the same period in fiscal 2018.

### *Gain due to the change in fair value of warrant liabilities*

The change in fair value of warrant liabilities during the three months ended October 31, 2019 was an unrealized gain of zero versus an unrealized gain of \$51,000 for the three months ended October 31, 2018. The change between periods is due primarily to a lower stock price during the three months ended October 31, 2019.

### *Interest income, net*

Interest income, net during the three months ended October 31, 2019 was \$32,000, compared to \$7,000 during the three months ended October 31, 2018. The increase of \$25,000 is due to higher cash balances in the three months ended October 31, 2019 as compared to the three months ended October 31, 2018.

### *Foreign exchange gain/(loss)*

Foreign exchange gain during the three months ended October 31, 2019 was \$10,000 compared to a loss of \$29,000 during the three months ended October 31, 2018. The difference was attributable primarily to the relative change in value of the British pound sterling, Euro and Australian dollar compared to the US dollar during the two periods.

### ***Six months ended October 31, 2019 compared to the six months ended October 31, 2018***

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, 2019 and 2018.

	<b>Six months ended October 31,</b>		<b>% change</b>
	<b>2019</b>	<b>2018</b>	<b>2019 period to</b>
	<b>(in thousands)</b>		<b>2018 period</b>
Revenues	\$ 406	\$ 172	136%
Cost of revenues	655	780	-16%
Gross loss	<u>(249)</u>	<u>(608)</u>	
Operating expenses:			
Engineering and product development costs	2,507	2,722	-8%
Selling, general and administrative costs	3,534	3,902	-9%
Total operating expenses	<u>6,041</u>	<u>6,624</u>	
Operating loss	(6,290)	(7,232)	
Gain due to the change in fair value of warrant liabilities	6	136	-96%
Interest income, net	74	21	252%
Foreign exchange loss	(4)	(55)	-93%
Net loss	<u>\$ (6,214)</u>	<u>\$ (7,130)</u>	-13%

### *Revenues*

Revenues were \$0.4 million in the six months ended October 31, 2019, an increase of \$0.2 million as compared to the six months ended October 31, 2018. The increase in revenue was the result of the contracts with EGP, PMO, and U.S. Navy.

### *Cost of revenues*

Cost of revenues were \$0.7 million in the six months ended October 31, 2019, a decrease of \$0.1 million compared to the six months ended October 31, 2018. This is a result of decreased costs associated with lower spending on our EGP and PMO projects offset by spending on new projects as compared to the same period in fiscal 2018.

### *Engineering and product development costs*

Engineering and product development costs for the six months ended October 31, 2019 and 2018 were \$2.5 million and \$2.7 million, respectively. The decrease is a result of lower spending on buoy builds of \$0.5 million mostly offset by higher spending on new product development in the current year period as compared to the same period in fiscal 2018.

### *Selling, general and administrative costs*

Selling, general and administrative costs for the six months ended October 31, 2019 and 2018 were \$3.5 million and \$3.9 million, respectively. The decrease of \$0.4 million was mostly due to lower spending on professional fees of \$0.3 million and lower personnel costs of \$0.1 million as compared to the same period in fiscal 2018.

### *Gain due to the change in fair value of warrant liabilities*

The change in fair value of warrant liabilities during the six months ended October 31, 2019 was an unrealized gain of \$6,000 versus an unrealized gain of \$136,000 for the six months ended October 31, 2018. The change between periods is due primarily to a lower stock price during the six months ended October 31, 2019.

### *Interest income, net*

Interest income, net during the six months ended October 31, 2019 was \$74,000 as compared to \$21,000 during the six months ended October 31, 2018. The increase of \$53,000 is due to higher cash balances in the six months ended October 31, 2019 as compared to the six months ended October 31, 2018.

### *Foreign exchange gain/(loss)*

Foreign exchange loss during the six months ended October 31, 2019 was \$4,000 compared to a loss of \$55,000 during the six months ended October 31, 2018. The difference was attributable primarily to the relative change in value of the British pound sterling, Euro and Australian dollar compared to the US dollar during the two periods.

## **Liquidity and Capital Resources**

Since our inception, the cash flows from customer revenues have not been sufficient to fund our operations and provide the capital resources for the planned growth of our business. For the two years ended April 30, 2019, our aggregate revenues were \$1.1 million, our aggregate net losses were \$22.4 million and our aggregate net cash used in operating activities was \$22.8 million. Refer to “Liquidity Outlook” below for additional information.

### **Net cash used in operating activities**

Net cash flows used in operating activities during the six months ended October 31, 2019 were \$6.4 million, a decrease of \$1.2 million compared to \$7.6 million during the six months ended October 31, 2018. The decrease was primarily due to lower net loss of \$0.9 million and the six months ended October 31, 2018 included a deferred credit payment of \$0.6 million.

### **Net cash used in investing activities**

Net cash used in investing activities during the six months ended October 31, 2019 was \$41,000, an increase of \$14,000 compared to net cash used by investing activities during the six months ended October 31, 2018. The increase in net cash used in investing activities was due to the net change in market securities and lower spending on the purchase of computers, equipment and furniture.

### **Net cash provided by financing activities**

Net cash provided by financing activities during the six months ended October 31, 2019 was \$0.7 million compared to net cash provided by financing activities during the six months ended October 31, 2018 of \$0.1 million. Increase in net cash provided by financing activities during the six months ended October 31, 2019 includes more proceeds from capital raises of \$0.7 million.

### **Effect of exchange rates on cash and cash equivalents**

The effect of exchange rates on cash and cash equivalents was a decrease of \$5,000 in the six months ended October 31, 2019 and a decrease of \$75,000 in the six months ended for October 31, 2018. 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

Our financial statements have been prepared assuming we will continue as a going concern. We have experienced substantial and recurring losses from operations, which have contributed to an accumulated deficit of \$216.0 million at October 31, 2019. As of October 31, 2019, we had approximately \$11.4 million in cash, cash equivalents and restricted cash on hand. The Company generated revenues of \$0.4 million and \$0.2 during the six months ended October 31, 2019 and 2018, respectively. Based on the Company's cash, cash equivalents and restricted cash balances as of October 31, 2019, the Company believes that it will be able to finance its capital requirements and operations into the quarter ended July 31, 2020. Among other things, the Company is currently evaluating a variety of different financing alternatives and we expect to continue to fund our business with sales of our securities and through generating revenue with customers. These conditions raise substantial doubt about our ability to continue as a going concern.

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

- our ability to commercialize our PowerBuoys®, and achieve and sustain profitability;
- our continued development of our proprietary technologies, and expected continued use of cash from operating activities unless or until we achieve positive cash flow from the commercialization of our products and services;
- our ability to obtain additional funding, as and if needed which will be subject to a number of factors, including market conditions, and our operating performance;
- our estimates regarding expenses, future revenues and capital requirements;
- the adequacy of our cash balances and our need for additional financings;
- our ability to develop and manufacture a commercially viable PowerBuoy® product;
- our ability to successfully develop and market and develop new products, such as a hybrid PowerBuoy® or subsea battery solutions;
- our ability to identify and penetrate markets for our PowerBuoys® and our wave energy technology;
- the power output, survivability and reliability of our PowerBuoys®;
- 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 Nasdaq Capital Market;
- our ability to raise capital through our current equity facilities;
- 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.

Our business is capital intensive and to date, we have been funding our business principally through sales of our securities, and we expect to continue to fund our business with sales of our securities and, to a limited extent, with our revenues until, if ever, we generate sufficient cash flow to internally fund our business. This is largely a result of the high product development costs associated with our product development. We anticipate that our operating expenses will be approximately \$14.4 million in fiscal 2020 including engineering and product development spending of more than \$7.4 million. We may choose to reduce our operating expenses through personnel reductions, and reductions in our research and development and other operating costs during the remainder of fiscal year 2020, if we are not successful in our efforts to raise additional capital. We cannot assure you that we will be able to increase our revenues and cash flow to a level which would support our operations and provide sufficient funds to pay our obligations for the foreseeable future. Further, we cannot assure you that we will be able to secure additional financing or raise additional capital or, if we are successful in our efforts to raise additional capital, of the terms and conditions upon which any such financing would be extended. If we are unable to raise additional capital when needed or generate positive cash flow, it is unlikely that we will be able to continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

If our common stock is delisted from Nasdaq, our ability to raise capital through public offerings of our securities and to finance our operations could be adversely affected. See additional risk factors under “Part II, Item 1A – Risk Factors”. We also believe that delisting would likely result in decreased liquidity and/or increased volatility in our common stock and could harm our business and future prospects. In addition, we believe that, if our common stock is delisted, our stockholders would likely find it more difficult to obtain accurate quotations as to the price of the common stock and it may be more difficult for stockholders to buy or sell our common stock at competitive market prices, or at all.

#### **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 Chief Financial Officer, evaluated the effectiveness of the design and operation of our disclosure controls and procedures as of October 31, 2019 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, 2019 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, 2019 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 14 to the Consolidated Financial Statements in our Annual Report on Form 10-K for the year ended April 30, 2019, and Note 14 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, 2019 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 22, 2019.

#### ***Our auditors have raised substantial doubts as to our ability to continue as a going concern.***

Our financial statements have been prepared assuming we will continue as a going concern. Due to the significant product development costs associated with our business and operations, we have experienced substantial and recurring losses from operations, which have contributed to an accumulated deficit of \$216.0 million as of October 31, 2019. As of October 31, 2019, the Company had approximately \$11.4 million in cash, cash equivalents and restricted cash on hand. The Company generated revenues of \$0.4 million and \$0.2 million during the six months ended October 31, 2019 and 2018, respectively. Based on the Company's cash, cash equivalents and restricted cash balances as of October 31, 2019, the Company believes that it will be able to finance its capital requirements and operations into the quarter ending July 31, 2020.

We continue to experience operating losses and currently have only three revenue producing contracts, one with EGP for the sale of a PB3 and supply of a turn-key integrated OSL. The other contract is with Premier Oil for the lease of a PB3 PowerBuoy® in one of PMO's offshore fields in the North Sea. The last contract with Eni that provides for a minimum 24-month contract that includes an 18-month PB3 PowerBuoy® lease and associated project management. During fiscal 2019, our net burn rate (cash used in operations less cash generated by operations) including engineering and product development spending was approximately \$1.0 million per month.

We have been funding our business principally through sales of our securities, and we expect to continue to fund our business with sales of our securities and, to a limited extent, with our revenues until, if ever, we generate sufficient cash flow to internally fund our business. These factors, among others, raise substantial doubt about our ability to continue as a going concern. Our consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty. We anticipate that our operating expenses will be approximately \$14.4 million in fiscal 2020 including engineering and product development spending of more than \$7.4 million. However, we may choose to reduce our operating expenses through personnel reductions, and reductions in our research and development and other operating costs during fiscal year 2020, if we are not successful in our efforts to raise additional capital. We cannot assure you that we will be able to increase our revenues and cash flow to a level which would support our operations and provide sufficient funds to pay our obligations for the foreseeable future. Further, we cannot assure you that we will be able to secure additional financing or raise additional capital or, if we are successful in our efforts to raise additional capital, of the terms and conditions upon which any such financing would be extended. If we are unable to meet our obligations, we would be forced to cease operations, in which event investors would lose their entire investment in our company.

#### ***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 \$6.2 million during the six months ended October 31, 2019 and \$12.2 million in fiscal 2019. As of October 31, 2019, we had an accumulated deficit of \$216.0 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 PowerBuoys®, or whether we can achieve profitability. There is significant uncertainty about our ability to successfully commercialize our PowerBuoys® in our targeted markets. Even if we do achieve commercialization of our PowerBuoy® and become profitable, we may not be able to achieve or, if achieved, sustain profitability on a quarterly or annual basis.

***We must continually improve existing products, design and sell new products and invest in research and development in order to compete effectively.***

The markets for our products are characterized by rapid technological change, evolving industry standards and continuous improvements in products. Due to constant changes in our markets, future success depends on our ability to develop new technologies, products, processes and product applications. Examples of this include our subsea battery solution and our hybrid PowerBuoy®. New product development and commercialization efforts, including efforts to enter markets or product categories in which we have limited or no prior experience, have inherent risks. These risks include the costs involved, such as development and commercialization, product development or launch delays, and the failure of new products and line extensions to achieve anticipated levels of market acceptance or growth in sales or operating income. We also face the risk that our competitors will introduce innovative new products that compete with our products. If new product development and commercialization efforts are not successful, our financial results could be adversely affected.

Product and technological developments are accomplished primarily through internally-funded R&D projects. Because it is not generally possible to predict the amount of time required and costs involved in achieving certain R&D objectives, actual development costs may exceed budgeted amounts and estimated product development schedules may be extended. Our financial condition and results of operations may be materially and adversely affected if:

- Product improvements are not completed on a timely basis;
- New products are not introduced on a timely basis or do not achieve sufficient market penetration;
- There are budget overruns or delays in R&D efforts; or
- New products experience reliability or quality problems, or otherwise do not meet customer preferences or requirements.

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

The following table details the Company's share repurchases during the quarter:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plan
August 1 - August 31	-	\$ -	-	-
September 1 - September 30	-	\$ -	-	-
October 1 - October 31	-	\$ -	-	-

**Item 3. DEFAULTS UPON SENIOR SECURITIES**

None.

**Item 4. MINE SAFETY DISCLOSURES**

Not applicable.

**Item 5. OTHER INFORMATION**

None.

**Item 6.**     ***EXHIBIT INDEX***

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- 10.1     [Supply and Service Contract by and between Ocean Power Technologies, Inc. and Empresa Electrica Panguipulli dated September 19, 2019 \(incorporated by reference from Exhibit 10.1 to Current Report on Form 8-K filed on September 23, 2019\).](#)
- 10.2     [Supply and Service Contract by and between Ocean Power Technologies, Inc. and Enel Green Power Chile LTDA dated September 19, 2019 \(incorporated by reference from Exhibit 10.2 to Current Report on Form 8-K filed on September 23, 2019\).](#)
- 10.3     [Common Stock Purchase Agreement with Aspire Capital Fund, LLC \(incorporated by reference to Exhibit 10.1 to Form 8-K filed with the SEC on October 24, 2019\).](#)
- 10.4     [Registration Rights Agreement with Aspire Capital Fund, LLC \(incorporated by reference to Exhibit 4.1 to Form 8-K filed with the SEC on October 24, 2019\).](#)
- 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, 2019, formatted in eXtensible Business Reporting Language (XBRL): (i) Consolidated Balance Sheets – October 31, 2019 (unaudited) and April 30, 2019, (ii) Consolidated Statements of Operations (unaudited) – three and six months ended October 31, 2019 and 2018, (iii) Consolidated Statements of Comprehensive Loss (unaudited) – three and six months ended October 31, 2019 and 2018, (iv) Consolidated Statement of Stockholders' Equity (unaudited) – three and six months ended October 31, 2019 (v) Consolidated Statements of Cash Flows (unaudited) – six months ended October 31, 2019 and 2018, (vi) Notes to Consolidated Financial Statements.\*\*

\* 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 9, 2019

*/s/ George H. Kirby III*  
\_\_\_\_\_  
By: George H. Kirby III  
*President and Chief Executive Officer*

Date: December 9, 2019

*/s/ Matthew T. Shafer*  
\_\_\_\_\_  
By: Matthew T. Shafer  
*Chief Financial Officer*



## CERTIFICATION PURSUANT TO SECTION 302 OF SARBANES-OXLEY ACT

I, George H. Kirby III, 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 9, 2019

*/s/ George H. Kirby III*

George H. Kirby III

*President and Chief Executive Officer*

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## CERTIFICATION PURSUANT TO SECTION 302 OF SARBANES-OXLEY ACT

I, Matthew T. Shafer, 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 9, 2019

*/s/ Matthew T. Shafer*

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Matthew T. Shafer  
*Chief Financial Officer*

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**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, 2019, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, George H. Kirby III, 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 9, 2019

*/s/ George H. Kirby III*

\_\_\_\_\_  
George H. Kirby III

*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.

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**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, 2019, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, Matthew T. Shafer, 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 9, 2019

*/s/ Matthew T. Shafer*

\_\_\_\_\_  
Matthew T. Shafer  
*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.

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