

**Ocean Power Technologies, Inc.**

**Ticker: NASDAQ – OPTT**

**Fiscal 2014 Third Quarter Conference Call**

**Date: March 14, 2014 – 10:00 am Eastern Time**

**Operator:**

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

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

As a reminder, this conference is being recorded and webcast. I would now like to turn the conference over to Mark Featherstone, OPT's Chief Financial Officer. Please go ahead sir.

**Mark Featherstone**

Thank you. Welcome to Ocean Power Technologies' Earnings Conference Call for the fiscal third quarter ended January 31, 2014. OPT issued its earnings press release earlier today, and the Company will soon file its Quarterly Report on Form 10-Q with the Securities and Exchange Commission. All public filings can be viewed on the SEC website at [sec.gov](http://sec.gov), or you may go to OPT's website, [oceanpowertechnologies.com](http://oceanpowertechnologies.com).

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

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

Please turn to Page 2 of our Slide Presentation where you see a notice regarding the use of projections or other forward-looking statements during this call as well as regarding future events or financial performance of the Company within the meaning of the Safe Harbor Provision of the Private Securities Litigation Reform Act of 1995.

I will now turn the call over to Chuck Dunleavy.

## **Chuck Dunleavy**

Thanks Mark, and good morning everyone. I would like to start by welcoming Mark to our senior executive team. Mark joined OPT this past December to serve as our Chief Financial Officer. His successful career to date has spanned 30 years working with capital markets, regulatory and accounting matters, strategic alliances and treasury management. This has included work at Quaker Chemical Corporation, Coty and Kimberly-Clark.

I'll now begin by providing an update on key activities, after which Mark will briefly go over our financial results for the third quarter. Mark and I will then be available to answer questions.

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

Turning to slide 3, let me first summarize OPT's recent activity since our last earnings call a few months ago. It has been a busy period, with notable news in the Pacific Rim regarding the planned wave power station off the coast of Australia and the start of work under the recently signed contract with Mitsui Engineering and Shipbuilding. In addition, we continue to make progress in the development of Autonomous PowerBuoy opportunities. We have strengthened our management team and also improved our cash position.

I will now discuss some of these recent activities in greater detail:

#### **Slide #4 - Australia.**

Please go to slide 4. In January, Victorian Wave Partners Ltd., or VWP, signed an amended grant agreement with the Australian Renewable Energy Agency or ARENA through which a 66.5 million Australian dollar grant was previously awarded toward the cost of building and deploying a wave power station off the coast of Australia. VWP is 100% owned by OPT Australasia, which in turn is 88% owned by Ocean Power Technologies, Inc. The new agreement is a Deed of Variation, which accelerates the reimbursement of eligible expenses for stages one and two of the planned, three-stage project, and increases the number of project milestones. Both of these changes serve to better support project cash flow requirements. The funding deed for the project sets out the terms of the grant including the requirement to obtain significant additional

funding, as well as completion of specific project milestones. VWP is currently conducting seabed surveys toward meeting the requirements for licenses and approvals. The Company is also assessing power purchase agreement opportunities and is working with financial advisors in connection with efforts to raise the required additional project funding. As previously announced, Lockheed Martin will provide overall project management and will assist with the design for manufacturing of the PowerBuoy technology, lead the production of selected PowerBuoy components and perform system integration of the wave energy converters. Once completed, the project would be the largest of its kind in the world.

#### **SLIDE #5: JAPAN ACTIVITY**

Please turn to slide 5 for an update on our activities in Japan. We began work under the \$2.6 million contract received from our partner in Japan, Mitsui Engineering & Shipbuilding, for the design and delivery of key components of a PowerBuoy for deployment off the coast of Japan. As discussed last quarter, we also signed a wide-ranging license for Mitsui to sell our PowerBuoys – for both grid-connected, utility installations and for autonomous applications. The territory covered by the agreement is Japan, the Philippines, Malaysia, Vietnam, Mozambique, South Africa and Namibia. Those 7 countries in the Pacific Rim and Africa have extensive coastline and conditions well-suited for harnessing the energy of waves for different applications. For the PowerBuoys sold in those countries, OPT will make and sell to Mitsui the Power Take-Off portions of the systems, while the rest of the PowerBuoy will be manufactured and sold by Mitsui to customers in its licensed territory. OPT also will receive royalty payments from Mitsui on these sales.

#### **Slide #6 - Autonomous Power Buoy Developments**

Turning to slide 6.....We have continued to work on the development of Autonomous Power Buoy market opportunities. In January, we announced the hiring of David R. Heinz as Vice President, Autonomous Power. Prior to joining OPT, at iRobot Corp. David held the position of Vice President and General Manager of the Maritime Systems division which made underwater autonomous vehicles. Previously, he served as a Major General in the U.S. Marine Corps, where he ran large acquisition programs and performed oversight of worldwide military operations. David has had business

development experience in both the oil and gas and defense industries, which are key markets for our autonomous PowerBuoys.

In December, the Autonomous Power group completed ocean testing of a novel generation system for low power requirements in connection with a Small Business Innovation Research (or SBIR) contract from the U.S. Department of Defense. Work also was conducted on the development of advanced energy conversion control algorithms as part of a U.S. Department of Energy SBIR contract. Achievements under this advanced control work will also benefit our Utility PowerBuoys.

As our engagement with prospective customers in the APB markets continues to evolve, we are increasingly recognizing the market's interest in a broader range of power in our Autonomous PowerBuoys. Accordingly, in addition to the lower-power levels of our autonomous products, we are actively examining the use of our Mark 3 PowerBuoys for autonomous power, as well as grid-connected applications. This may expand the available market for our core PowerBuoy technology within oil and gas as well as maritime surveillance segments. In fact, recent meetings internationally with companies involved with the oil and gas sector have shown keen interest in this important opportunity.

#### **SLIDE #7: OREGON AND SPAIN**

Moving to slide 7. Our activity in Oregon involving a single, non-grid-connected PowerBuoy remains on hold as we address regulatory requirements and the need to obtain additional funding specific to that project. In late February we declined to renew a preliminary permit received several years ago from the Federal Energy Regulatory Commission, in connection with a potential future phase of that project. This reflects our focus on determining the prospects to obtain added funding directly related to the current, single buoy phase. We plan to make that determination over the near-term, and we remain in communication with project stakeholders as this unfolds.

In Spain, we continue work under our contract from the European Commission. Under this project, OPT and our consortium partners have been working on new wave prediction models, and the completion of a PowerBuoy which incorporates an advanced, modular power take-off system. The enhanced wave prediction models are designed to improve energy conversion efficiencies of the PowerBuoy. Deployment of

the PowerBuoy is expected on the north coast of Spain following completion of work by all consortium members, who are separately funded directly by the EC, completion of funding arrangements, and under appropriate weather conditions.

**I will now turn the call over to Mark Featherstone, who will briefly review our financial results.**

**Mark Featherstone**

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

Thanks, Chuck.

As noted on slide 8, OPT reported revenue of \$0.2 million for the most recent quarter as compared to revenue of \$0.9 million for the three months ended January 31, 2013. This decrease related primarily to a lower level of external funding for the Company's PowerBuoy development projects and a decline in revenue tied to OPT's Reedsport, Oregon project, which has been suspended pending resolution of regulatory, financial and other matters, and a decline in revenue for OPT's project off the coast of Spain. These decreases are partially offset by an increase in revenue related to OPT's new contract with Mitsui which we signed in October 2013.

The net loss for the three months ended January 31, 2014 was \$0.8 million as compared to a net loss of \$1.5 million for the three months ended January 31, 2013. The favorable decrease in the Company's net loss year-over-year reflects lower selling, general and administrative costs, including a decrease in employee related costs. In addition, the Company reported a higher income tax benefit in 2014 due to the \$1.75 million sale of New Jersey net operating tax losses and research and development tax credits.

For the nine months ended January 31, 2014, OPT reported revenues of \$1.1 million as compared to revenues of \$3.2 million for the prior year's comparable period. This again primarily reflects a decline in revenue related to the suspension of the Company's project off the coast of Oregon, decreased billable work for OPT's PowerBuoy development projects, the completion of a previous contract with Mitsui in the prior fiscal year and a decrease in revenue related to the Company's project off the coast of Spain. The net loss was \$7.9 million for the nine months ended January 31, 2014 compared to

\$10.6 million for the same period in the prior year. This favorable decrease in net loss was primarily due to a decline in product development costs associated with OPT's project in Oregon, a decrease in selling, general and administrative costs related to lower employee related costs and a higher income tax benefit due to the sale of New Jersey net operating tax losses and research and development tax credits noted above.

Importantly, our backlog remained stable at \$5.6 million at January 31, 2014 compared with \$5.8 million at October 31, 2013.

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

Turning to slide 9.

As of January 31, 2014, total cash, cash equivalents, restricted cash and marketable securities were \$19.6 million, as compared to \$18.7 million as of October 31, 2013. Net cash used in operating activities was \$8.1 million and \$8.2 million for the nine months ended January 31, 2014 and 2013, respectively. Net cash used was slightly lower in the current nine month period relative to the corresponding prior year period due to a lower net loss. In addition, the Company raised \$2.5 million for general corporate purposes during the Fiscal 2014 third quarter through the sale of stock under its At-the-Market, or ATM facility with Ascendant Capital Markets. An additional \$ 3.8 million was raised under the ATM just after the close of the January 31, 2014 quarter.

Now I'll turn it back over to Chuck to make some closing comments before opening the call for questions.

**Chuck Dunleavy**

#### **SLIDE #10: SUMMARY**

Moving to slide 10. Much has been accomplished in the past few months to strengthen the Company's growth prospects. Our work in Japan and Australia is expected to position us for commercialization and market adoption of our leading-edge wave-energy applications, and we are partnered with strong participants in the industry – including Lockheed Martin, as well as Mitsui Engineering & Shipbuilding. In addition, the recently signed Deed of Variation with ARENA in connection with our activity in Australia marks a significant achievement as our development efforts for that project move forward.

Important aspects of our business strategy are geared to positioning the technology, as well as our strategic relationships, to enhance the prospects for PowerBuoy sales. We continue to invest in our core technology – with funded third party contracts as well as our own capital. Our senior management team has increased breadth, and our balance sheet remains strong. The world continues to seek clean, reliable and consistent means of power generation, and our oceans are clearly huge, untapped resources which can fulfill this vision. We at OPT are dedicated to remaining a leader in this field.

With that, I'll now open the call for questions. Please go ahead, operator...

**Operator:**

I will now open the call for questions.

**[Question Period]**

**Operator:**

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

**Chuck Dunleavy**

Thank you all once again for attending today's call. If you have any further questions, please do not hesitate to contact us (by email or telephone). Otherwise, we look forward to speaking with you next quarter.

**Operator:**

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