

Ocean Power Technologies, Inc.
Form 10-Q
December 12, 2017

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, 2017

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 **22-2535818**
(State or Other Jurisdiction of (I.R.S. Employer
Incorporation or Organization) Identification No.)

1590 REED ROAD, PENNINGTON, NJ 08534

(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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 and post such files). Yes No

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

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

(Do not check if a smaller
reporting company)

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

Emerging growth company

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 8, 2017 the number of outstanding shares of common stock of the registrant was 18,263,878.

OCEAN POWER TECHNOLOGIES, INC.

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PowerBuoy and the Ocean Power Technologies logo are trademarks of Ocean Power Technologies, Inc. All other trademarks appearing in this report are the property of their respective holders.

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;

that we will be successful in our efforts to commercialize our PowerBuoy or the timetable upon which commercialization can be achieved, if at all;

our ability to identify and penetrate markets for our PowerBuoys and our wave energy technology;

our ability to implement our commercialization strategy as planned, or at all;

our ability to maintain the listing of our common stock on the NASDAQ Capital Market;

the reliability of our technology and our PowerBuoys;

our ability to improve the power output, survivability and reliability of our PowerBuoys;

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, 2017, 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, 2017 (Unaudited) | April 30, 2017 |
|---|------------------------------------|-------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 16,318 | \$8,421 |
| Marketable securities | 25 | 25 |
| Restricted cash- short-term | 358 | 334 |
| Accounts receivable | - | 48 |
| Unbilled receivables | 2 | 296 |
| Litigation receivable | 350 | - |
| Other current assets | 723 | 622 |
| Total current assets | 17,776 | 9,746 |
| Property and equipment, net | 177 | 170 |
| Restricted cash- long-term | 154 | 154 |
| Other noncurrent assets | 3 | 3 |
| Total assets | \$ 18,110 | \$ 10,073 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Accounts payable | \$ 324 | \$586 |
| Accrued expenses | 1,540 | 3,059 |
| Litigation payable | 350 | - |
| Warrant liabilities | 255 | 323 |
| Current portion of capital lease obligations | 36 | 35 |
| Deferred credits payable current | 600 | 600 |
| Total current liabilities | 3,105 | 4,603 |
| Long-term portion of capital lease obligations | 5 | 23 |
| Total liabilities | 3,110 | 4,626 |
| Commitments and contingencies | | |
| Ocean Power Technologies, Inc. stockholders' equity: | | |
| Preferred stock, \$0.001 par value; authorized 5,000,000 shares, none issued or outstanding | - | - |
| | 18 | 6 |

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Common stock, \$0.001 par value; authorized 50,000,000 shares, issued 18,335,642 and 6,313,996 shares, respectively

| | | | | |
|---|-----------|---|-----------|---|
| Treasury stock, at cost; 71,764 and 48,065 shares, respectively | (297 |) | (263 |) |
| Additional paid-in capital | 208,053 | | 193,234 | |
| Accumulated deficit | (192,621 |) | (187,370) |) |
| Accumulated other comprehensive loss | (153 |) | (160 |) |
| Total stockholders' equity | 15,000 | | 5,447 | |
| Total liabilities and stockholders' equity | \$ 18,110 | | \$ 10,073 | |

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, | |
|--|--------------------------------|------------|---------------------------------|-------------|
| | 2017 | 2016 | 2017 | 2016 |
| Revenues | \$ 94 | \$ 170 | \$289 | \$372 |
| Cost of revenues | (24 |) 125 | 193 | 252 |
| Gross profit | 118 | 45 | 96 | 120 |
| Operating expenses: | | | | |
| Product development costs | 978 | 1,308 | 2,080 | 2,944 |
| Selling, general and administrative costs | 1,747 | 1,723 | 3,388 | 3,242 |
| Total operating expenses | 2,725 | 3,031 | 5,468 | 6,186 |
| Operating loss | (2,607 |) (2,986 |) (5,372 |) (6,066 |
| Change in fair value of warrant liabilities | 31 | 2,017 | 68 | 1,265 |
| Interest income, net | 6 | 2 | 9 | 2 |
| Foreign exchange gain/(loss) | (7 |) 1 | 55 | 6 |
| Loss before income taxes | (2,577 |) (966 |) (5,240 |) (4,793 |
| Income tax benefit | - | - | - | - |
| Net loss | \$ (2,577 |) \$ (966 |) \$ (5,240 |) \$ (4,793 |
| Basic and diluted net loss per share | \$ (0.20 |) \$ (0.25 |) \$ (0.42 |) \$ (1.51 |
| Weighted average shares used to compute basic and diluted net loss per share | 12,904,973 | 3,891,512 | 12,586,828 | 3,180,501 |

See accompanying notes to unaudited consolidated financial statements.

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, | |
|---|--------------------------------|-----------|---------------------------------|-----------|
| | 2017 | 2016 | 2017 | 2016 |
| Net loss | \$ (2,577 |) \$ (966 |) \$(5,240) | \$(4,793) |
| Foreign currency translation adjustment | (15 |) (10 |) 7 | (41 |
| Total comprehensive loss | \$ (2,592 |) \$ (976 |) \$(5,233) | \$(4,834) |

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)**

| | Common Shares | Amount | Treasury Shares | Amount | Additional Paid-In Capital | Accumulated Deficit | Accumulated Other Comprehensive Loss | Total Stockholders' Equity |
|---|---------------|--------|-----------------|-----------|----------------------------|---------------------|--------------------------------------|----------------------------|
| Balances, April 30, 2017 | 6,313,996 | \$ 6 | (48,065) | \$ (263) | \$ 193,234 | \$ (187,370) | \$ (160) | \$ 5,447 |
| Net loss | | | | | | (5,240) | | (5,240) |
| Stock based compensation | | | | | 173 | | | 173 |
| Issuance of restricted stock, net | 89,459 | - | | | | | | - |
| Sale of stock, net of financing costs | 11,932,187 | 12 | | | 14,635 | | | 14,647 |
| Acquisition of treasury stock | | | (23,699) | (34) | | | | (34) |
| Adoption of accounting standard update related to stock compensation accounting (ASU 2016-09) | | | | | 11 | (11) | | - |
| Other comprehensive loss | | | | | | | 7 | 7 |
| Balances, October 31, 2017 | 18,335,642 | \$ 18 | (71,764) | \$ (297) | \$ 208,053 | \$ (192,621) | \$ (153) | \$ 15,000 |

See accompanying notes to unaudited consolidated financial statements.

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

| | Six months ended October 31, | |
|---|---------------------------------|------------|
| | 2017 | 2016 |
| Cash flows from operating activities: | | |
| Net loss | \$(5,240) | \$(4,793) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | |
| Foreign exchange gain | (55) | (6) |
| Depreciation and amortization | 52 | 68 |
| Loss on disposal of property, plant and equipment | 4 | - |
| Compensation expense related to stock option grants and restricted stock | 173 | 628 |
| Change in fair value of warrant liabilities | (68) | (1,265) |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | 48 | - |
| Unbilled receivable | 294 | (65) |
| Other assets | (102) | (305) |
| Accounts payable | (263) | (232) |
| Accrued expenses | (1,523) | (275) |
| Unearned revenues | - | (39) |
| Net cash used in operating activities | (6,680) | (6,284) |
| Cash flows from investing activities: | | |
| Purchases of marketable securities | (25) | - |
| Maturities of marketable securities | 25 | 50 |
| Purchases of equipment | (63) | (12) |
| Net cash (used in) provided by investing activities | (63) | 38 |
| Cash flows from financing activities: | | |
| Proceeds from issuance of common stock and related warrants, net of costs | 14,647 | 12,152 |
| Payment of capital lease obligations | (17) | (63) |
| Acquisition of treasury stock | (34) | (37) |
| Net cash provided by financing activities | 14,596 | 12,052 |
| Effect of exchange rate changes on cash, cash equivalents and restricted cash | 68 | (18) |
| Net increase in cash, cash equivalents and restricted cash | 7,921 | 5,788 |
| Cash, cash equivalents and restricted cash, beginning of period | 8,909 | 7,030 |
| Cash, cash equivalents and restricted cash, end of period | \$16,830 | \$12,818 |
| Supplemental schedule of cash flows information: | | |
| Cash paid for interest | \$2 | \$3 |

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. The Company’s goal is that an increased portion of its revenues be from the sale or lease of products and maintenance services, as compared to revenue to support its product development efforts. As the Company continues to advance its proprietary technologies, it expects to continue to have a net decrease in cash from operating activities unless and until it achieves positive cash flow from the planned 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, 2017 filed with the Securities and Exchange Commission (“SEC”) and elsewhere in this Form 10-Q.

c) Liquidity/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 have contributed to an

accumulated deficit of \$192.6 million as of October 31, 2017. As of October 31, 2017, the Company had approximately \$16.3 million in cash and cash equivalents on hand. The Company generated revenues of \$0.3 million and \$0.4 million during each of the six months ended October 31, 2017 and 2016. Based on the Company's cash, cash equivalents and marketable securities as of October 31, 2017, the Company believes that it will be able to finance its capital requirements and operations into at least the quarter ending April 30, 2019. The Company will require additional equity and/or debt financing to continue its operations. 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, additional funding from current 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 2017 and the six months ended October 31, 2017, 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, 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 closed five equity financing arrangements during the 18-month period ended October 31, 2017. The Company does not currently have any committed sources of debt or equity financing, and 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 June 2, 2016, the Company entered into a securities purchase agreement, which was amended on June 7, 2016 (as amended, the “Purchase Agreement”) with certain institutional purchasers (the “June Purchasers”). Pursuant to the terms of the June Purchase Agreement, the Company sold an aggregate of 417,000 shares of Common Stock together with warrants to purchase up to an aggregate of 145,952 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 \$4.60. The net proceeds to the Company from the offering were approximately \$1.7 million, after deducting placement agent fees and estimated offering expenses payable by the Company, but excluding the proceeds, if any, from the exercise of the warrants issued in the offering. The warrants have an exercise price of \$6.08 per share, became exercisable on December 3, 2016 (“Initial Exercise Date”), and will expire five years following the Initial Exercise Date. The Company paid the placement agents approximately \$0.1 million as placement agent fees in connection with the sale of securities in the offering. The Company also reimbursed the placement agents \$35,000 for their out of pocket and legal expenses in connection with the offering.

On July 22, 2016, the Company entered into the Second Amendment to the Purchase Agreement (the “Second Amended Purchase Agreement”) with certain purchasers (the “July Purchasers”). Pursuant to the terms of the Second Amended Purchase Agreement, the Company sold an aggregate of 595,000 shares of Common Stock together with warrants to purchase up to an aggregate of 178,500 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 \$6.75. The net proceeds to the Company from the offering were approximately \$3.6 million, after deducting placement agent fees and estimated offering expenses payable by the Company, but excluding the proceeds, if any, from the exercise of the warrants issued in the offering. The Warrants were exercisable immediately at an exercise price of \$9.36 per share. The Warrants will expire on the fifth (5th) anniversary of the initial date of issuance.

On October 19, 2016, the Company sold 2,760,000 shares of common stock at a price of \$2.75 per share, which includes the sale of 360,000 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. The net proceeds to the Company from the offering were approximately \$6.9 million, after deducting underwriter fees and offering expenses payable by the Company.

On May 2, 2017, the Company sold 6,192,750 shares of common stock at a price of \$1.30 per share, which includes the sale of 807,750 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. The net proceeds to the Company from the offering were approximately \$7.2 million, after deducting underwriter fees and offering expenses payable by the Company.

On October 23, 2017, the Company sold 5,739,437 shares of common stock at a price of \$1.42 per share in a best efforts public offering. The net proceeds to the Company from the offering were approximately \$7.4 million, after deducting placement 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.

(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 recoverability of the carrying amount of property and equipment; fair value of warrant liabilities, valuation allowances for receivables and deferred income tax assets; estimated costs to complete projects; and percentage of completion of customer contracts for purposes of revenue recognition. Actual results could differ from those estimates. The current economic environment, particularly the macroeconomic pressures in certain European countries, has increased the degree of uncertainty inherent in those estimates and assumptions.

(c) Revenue Recognition

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.

Generally, revenue under fixed price or cost plus contracts is recognized using the cost to cost percentage-of-completion method, measured by the ratio of costs incurred to total estimated costs at completion. In certain circumstances, revenue under contracts that have specified milestones or other performance criteria may be recognized only when the customer acknowledges that such criteria have been satisfied. If an arrangement involves multiple deliverables, the delivered items are considered separate units of accounting if the items have value on a stand-alone basis. Amounts allocated to each element are based on its objectively determined fair value, such as the sales price for the product or service when it is sold separately or competitor prices for similar products or services.

In addition, recognition of revenue (and the related costs) may be deferred for fixed price contracts until contract completion if the Company is unable to reasonably estimate the total costs of the project prior to completion. These

contracts are subject to interpretation and management may make a judgment as to the amount of revenue earned and recorded. Because the Company has a small number of contracts, revisions to the percentage-of-completion determination, management interpretation or delays in meeting performance and contractual criteria or in completing projects may have a significant effect on revenue for the periods involved. Upon anticipating a loss on a contract, the Company recognizes the full amount of the anticipated loss in the current period.

Unbilled receivables represent expenditures on contracts, plus applicable profit margin, not yet billed. Unbilled receivables are normally billed and collected within one year. Billings made on contracts are recorded as a reduction of unbilled receivables, and to the extent that such billings and cash collections exceed costs incurred plus applicable profit margin, they are recorded as unearned revenues.

(d) 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 an overnight U.S. government securities repurchase bank account and a money market account. In accordance with the terms of the repurchase agreement, the Company does not take possession of the related securities. The agreement contains provisions to ensure that the market value of the underlying assets remain sufficient to protect the Company in the event of default by the bank by requiring that the underlying securities have a total market value of at least 100% of the bank's total obligations under the agreement.

| | October 31, 2017 | April 30, 2017 |
|-------------------------------|------------------------|----------------------|
| | (in thousands) | |
| Checking and savings accounts | \$2,225 | \$4,241 |
| Overnight repurchase account | - | 4,180 |
| Money market account | 14,093 | - |
| | \$16,318 | \$8,421 |

Restricted Cash and Security Agreements

A portion of the Company's cash is restricted under the terms of two 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, 2017, there was €0.3 million (\$0.4 million) in letters of credit outstanding under this agreement.

The second agreement is between the Company and Santander Bank. Under this agreement, the cash is on deposit at Santander Bank and serves as security for letter of credit issued by Santander Bank for the lease of new warehouse/office space in Monroe Township, New Jersey. The agreement cannot be extended beyond January 31, 2025, and is cancelable at the discretion of the bank. Restricted cash includes the following:

| | October 31, 2017 | April 30, 2017 |
|--------------------------|------------------------|----------------------|
| | (in thousands) | |
| Barclay's Bank Agreement | \$358 | \$334 |
| Santander Bank | 154 | 154 |
| | \$512 | \$488 |

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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.

| | October 31, 2017 (in thousands) | April 30, 2017 |
|-----------------------------|--|----------------------|
| Cash and cash equivalents | \$16,318 | \$8,421 |
| Restricted cash- short term | 358 | 334 |
| Restricted cash- long term | 154 | 154 |
| | \$16,830 | \$8,909 |

(e) Marketable Securities

Marketable securities with original maturities longer than three months but that mature in less than one year from the balance sheet date are classified as current assets. Marketable securities that the Company has the intent and ability to hold to maturity are classified as investments held-to-maturity and are reported at amortized cost. The difference between the acquisition cost and face values of held-to-maturity investments is amortized over the remaining term of the investments and added to or subtracted from the acquisition cost and interest income. As of October 31, 2017 and April 30, 2017, all of the Company's investments were classified as held-to-maturity.

(f) Foreign Exchange Gains and Losses

The Company has invested in certain certificates of deposit and has maintained cash accounts that are denominated in British pounds sterling, Euros and Australian dollars. These amounts are included in cash, cash equivalents, restricted cash and marketable securities 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.

(g) 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.

(h) Concentration of Credit Risk

Financial instruments that potentially subject the Company to concentration of credit risk consist principally of cash balances, bank certificates of deposit and trade receivables. The Company invests its excess cash in highly liquid investments (principally, short-term bank deposits, Treasury bills, Treasury notes and money market funds) and does not believe that it is exposed to any significant risks related to its cash accounts, money market funds or certificates of deposit.

The table below shows the percentage of the Company’s revenues derived from customers whose revenues accounted for at least 10% of the Company’s consolidated revenues for at least one of the periods indicated:

| | Three months | Six months ended |
|--|-----------------|---------------------|
|--|-----------------|---------------------|

| | ended | | October 31, | |
|---|-------------|-------|-------------|-------|
| | October 31, | | October 31, | |
| | 2017 | 2016 | 2017 | 2016 |
| Mitsui Engineering & Shipbuilding | 93 % | 95 % | 75 % | 97 % |
| U.S. Department of Defense Office of Naval Research | 7 % | 5 % | 25 % | 3 % |
| | 100% | 100 % | 100% | 100 % |

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.

(i) Warrant Liabilities

The Company’s warrants to purchase shares of its common stock are classified as warrant liabilities and are recorded at fair value. The warrant liabilities are subject to re-measurement at each balance sheet date and the Company recognizes any change in fair value in its consolidated statements of operations within “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.

(j) 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 outstanding during the period. Due to the Company's net losses, potentially dilutive securities, consisting of outstanding stock options and non-vested performance-based shares, were excluded from the diluted loss per share calculation due to their anti-dilutive effect.

In computing diluted net loss per share, options to purchase shares of common stock, warrants on common stock and non-vested restricted stock issued to employees and non-employee directors, totaling 835,886 for the three and six months ended October 31, 2017 and 687,825 for the three and six months ended October 31, 2016, were excluded from each of the computations as the effect would be anti-dilutive due to the Company's losses.

(k) 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, 2017 and 2016:

| | Three months ended October 31, 2017 | | Six months ended October 31, 2016 | |
|--|--|-------|--|-------|
| | 2017 | 2016 | 2017 | 2016 |
| | (in thousands) | | | |
| Product development | \$(8) | \$229 | \$5 | \$282 |
| Selling, general and administrative | 90 | 181 | 168 | 346 |
| Total share-based compensation expense | \$82 | \$410 | \$173 | \$628 |

(l) Recently Issued Accounting Standards

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, "Revenue from Contracts with Customers (Topic 606)." ASU 2014-09 outlines a new, single comprehensive

model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. This new revenue recognition model provides a five-step analysis in determining when and how revenue is recognized. The new model will require revenue recognition to depict the transfer of promised goods or services to customers in an amount that reflects the consideration a company expects to receive in exchange for those goods or services. The FASB subsequently issued additional clarifying standards to address issues arising from implementation of the new revenue standard, including a one-year deferral of the effective date for the new revenue standard. Public companies should now apply the guidance in ASU 2014-09 to annual reporting periods beginning after December 15, 2017 and interim periods within those annual periods. Earlier application is permitted only as of annual reporting periods beginning after December 15, 2016, including interim periods within that annual period. As such, the Company is required to adopt this standard effective in fiscal 2019, which begins May 1, 2018. Companies may use either a full retrospective or a modified retrospective approach to adopt ASU 2014-09. The Company has not yet completed its final review of the impact of this guidance; however, the Company anticipates applying the modified retrospective method upon adoption of ASU 2014-09 on May 1, 2018. The impact to the Company could be affected by the nature and terms of potential future contracts with customers, as those contracts may have terms that differ from the Company's current contracts.

In August 2014, the FASB issued ASU 2014-15, "*Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern*", which describes how an entity should assess its ability to meet obligations and sets rules for how this information should be disclosed in the financial statements. The standard provides accounting guidance that will be used along with existing auditing standards. The new standard applies to all entities for the first annual period ending after December 15, 2016, and interim periods thereafter. Early application is permitted. The Company adopted ASU 2014-15 for the fiscal year 2017. The Company's addition of the standard did not have a material impact on its disclosures. See section (c) "Liquidity/Going Concern" within Note (1) "Background and Liquidity" of the consolidated financial statements included in this Quarterly Report on Form 10-Q for further discussion on the Company's ability to continue as a going concern.

In January 2016, the FASB issued ASU No. 2016-01, “*Recognition and Measurement of Financial Assets and Financial Liabilities*”, which makes limited amendments to the guidance in U.S. GAAP on the classification and measurement of financial instruments. The update significantly revises an entity’s accounting related to the classification and measurement of investments in equity securities and the presentation of certain fair value changes for financial liabilities measured at fair value. It also amends certain disclosure requirements associated with the fair value of financial instruments. The update will take effect for public companies for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The Company will evaluate the effect of ASU 2016-01 for future periods as applicable.

In February 2016, the FASB issued ASU No. 2016-02, “*Leases (Topic 842)*.” 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 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. ASU 2016-02 is effective for annual periods beginning after December 15, 2018, including interim periods within those annual periods, with early adoption permitted. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. The Company is evaluating the effect ASU 2016-02 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 March 2016, the FASB issued ASU No. 2016-09, “*Compensation - Stock Compensation (Topic 718)*.” The amendments of ASU No. 2016-09 were issued as part of the FASB’s Simplification initiative focused on improving areas of GAAP for which cost and complexity may be reduced while maintaining or improving the usefulness of information disclosed within the financial statements. The amendments focused on simplification specifically with regard to share-based payment transactions, including accounting for forfeitures, income tax consequences, classification of awards as equity or liabilities and classification on the statement of cash flows. The guidance in ASU No. 2016-09 is effective for fiscal years beginning after December 15, 2016, and interim periods within those annual periods. The Company adopted ASU 2016-09 on May 1, 2017. Certain of the amendments are applied using a modified retrospective transition method by means of a cumulative-effect adjustment to equity as of May 1, 2017, while other amendments are applied retrospectively, prospectively or using either a prospective or a retrospective transition method. Upon adoption, the Company is beginning to account for forfeitures as they occur rather than estimate a forfeiture rate and has recorded a cumulative-effect adjustment in equity of approximately \$11,000 on the date of initial adoption. In periods subsequent to adoption, a higher expense will be recognized earlier during the respective vesting periods of stock-based awards that are not forfeited. The Company expects that the income tax amendments within ASU 2016-09 will have no impact on its results of operations or cash flows because it is in a net operating loss position with a full valuation allowance.

In August 2016, the FASB issued ASU 2016-15, “*Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*”, providing additional guidance on eight specific cash flow classification issues. The goal of the ASU is to reduce diversity in practice of classifying certain items. The amendments in the ASU are effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years and early adoption is permitted. The Company has evaluated the effect ASU 2016-13 will have on its consolidated financial statements and

disclosures and has determined the standard will have no impact on its ongoing financial reporting at this time.

In November 2016, the FASB issued ASU 2016-18, "*Statement of Cash Flows (Topic 230): Restricted Cash*", which amends guidance and presentation related to restricted cash in the statement of cash flows, including stating that amounts generally described as restricted cash and restricted cash equivalents should be included within cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown in the statement of cash flows. An entity is required to provide a disclosure indicating the reconciliation of all cash accounts. The amendments in the ASU are effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years and early adoption is permitted. The Company has early adopted ASU 2016-18 effective May 1, 2017. In connection with the adoption of the standard the Company has used a retrospective transition method for each period presented in the statement of cash flows. The Company reclassified \$488,000 and \$300,000 of restricted cash to cash, cash equivalents and restricted cash, beginning of period for the period April 30, 2017 and April 30, 2016 in the statement of cash flows. The Company reclassified \$306,000 of restricted cash to cash, cash equivalents and restricted cash, end of period for the period ended October 31, 2016 in the statement of cash flows.

(3) Marketable Securities

Marketable securities with initial maturities greater than three months but that mature within one year from the balance sheet date are classified as current assets and are summarized as follows:

| | October 31, 2017 | April 30, 2017 |
|------------------------|------------------------|----------------------|
| | (in thousands) | |
| Certificate of Deposit | \$ 25 | \$ 25 |

(4) Accrued Expenses

Accrued expenses consist of the following at October 31, 2017 and April 30, 2017.

| | October 31, 2017 | April 30, 2017 |
|-----------------------------|------------------------|----------------------|
| | (in thousands) | |
| Project costs | \$ 13 | \$ 898 |
| Contract loss reserve | 207 | 238 |
| Employee incentive payments | 296 | 643 |
| Accrued salary and benefits | 354 | 484 |
| Legal and accounting fees | 405 | 478 |
| Accrued taxes payable | 132 | 132 |
| Other | 133 | 186 |
| | \$ 1,540 | \$ 3,059 |

(5) Deferred Credits Payable

During the year ended April 30, 2001, in connection with the sale of common stock to an investor, the Company received \$0.6 million from the investor in exchange for an option to purchase up to 500,000 metric tons of carbon emissions credits generated by the Company during the years 2008 through 2012, at a 30% discount from the then-prevailing market rate. If the Company received emission credits under applicable laws and failed to sell to the investor the credits up to the full amount of emission credits covered by the option, the investor was entitled to liquidated damages equal to 30% of the aggregate market value of the shortfall in emission credits (subject to a limit on the market price of emission credits). Under the terms of the agreement, if the Company did not become entitled under applicable laws to the full amount of emission credits covered by the option by December 31, 2012, the Company was obligated to return the option fee of \$0.6 million, less the aggregate discount on any emission credits sold to the investor prior to such date. In December 2012, the Company and the investor agreed to extend the period for the sale of emission credits until December 31, 2017. As of October 31, 2017, the Company has not generated any emissions credits eligible for purchase under the agreement. As a result, the Company anticipates returning the option fee of \$0.6 million. Therefore, the \$0.6 million is reflected in the consolidated balance sheets within “Deferred credits payable current” as of October 31, 2017 and April 30, 2017, respectively.

(6) 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 417,000 shares of Common Stock together with warrants to purchase up to an aggregate of 145,952 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 \$4.60. The warrants have an exercise price of \$6.08 per share, became exercisable on December 3, 2016 (“Initial Exercise Date”), and will expire five years following the Initial Exercise Date.

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 595,000 shares of Common Stock together with warrants to purchase up to an aggregate of 178,500 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 \$6.75. The Warrants were exercisable immediately at an exercise price of \$9.36 per share. The Warrants will expire on the fifth (5th) anniversary of the initial date of issuance.

Both sets of warrants contain a feature whereby they could require the transfer of assets and therefore are classified as a liability in accordance with ASC 480. As such, the warrants had a value of \$0.3 million and \$0.3 million at October 31, 2017 and April 30, 2017, respectively, as reflected within “Warrant liabilities” in the unaudited consolidated balance sheets.

An unrealized gain of approximately \$31,000 and \$2,017,000 for the three months ended October 31, 2017 and 2016, and \$68,000 and \$1,265,000 for the six months ended October 31, 2017 and 2016, respectively, were included within “Change in fair value of warrant liability” in the consolidated statements of operations. The Company determined the fair value using the Black-Scholes option pricing model with the following assumptions:

| | October 31, 2017 | | October 31, 2016 | |
|-----------------------|---------------------|---|---------------------|---|
| Dividend rate | 0.0 | % | 0.0 | % |
| Risk-free rate | 1.8% - 1.9 | % | 1.3 | % |
| Expected life (years) | 3.8 - 4.1 | | 4.7 - 5.1 | |
| Expected volatility | 138.1 | % | 126.7 | % |

(7) Stock-Based Compensation

(a) 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. The following assumptions were used for three and six months ended October 31, 2017 and 2016.

| | Three months ended October 31, | | | | Six months ended October 31, | | | |
|--------------------------|---|--------|--------|--------|---|--------|--------|--------|
| | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 |
| Risk-free interest rate | 2.1 | % 1.3 | % 2.1 | % 1.3 | % 2.1 | % 1.3 | % 2.1 | % 1.3 |
| Expected dividend yield | 0.0 | % 0.0 | % 0.0 | % 0.0 | % 0.0 | % 0.0 | % 0.0 | % 0.0 |
| Expected life (in years) | 5.5 | 5.5 | 5.5 | 5.5 | 5.5 | 5.5 | 5.5 | 5.5 |
| Expected volatility | 128.2% | 104.0% | 128.2% | 104.0% | 128.2% | 104.0% | 128.2% | 104.0% |

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, 2017 | 237,214 | \$ 14.64 | 7.6 |
| Granted | 170,664 | \$ 1.34 | |
| Exercised | - | \$ - | |
| Cancelled/forfeited | (10,211) | \$ 117.12 | |
| Outstanding as of October 31, 2017 | 397,667 | \$ 6.30 | 8.4 |
| Exercisable as of October 31, 2017 | 226,293 | \$ 10.00 | 7.2 |

As of October 31, 2017, the total intrinsic value of outstanding and exercisable options was approximately \$2,000 and \$2,000, respectively. As of October 31, 2017, approximately 171,232 additional options were unvested, which had no intrinsic value and a weighted average remaining contractual term of 10 years. There was approximately \$125,000 and \$142,000 of total recognized compensation cost related to stock options during each of the six months ended October 31, 2017 and 2016, respectively. As of October 31, 2017, there was approximately \$0.2 million of total unrecognized compensation cost related to non-vested stock options granted under the plans. This cost is expected to be recognized over a weighted-average period of 1.0 years. The Company typically issues newly authorized but unissued shares to satisfy option exercises under these plans.

(b) 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, 2017, the Company granted 114,584 shares subject to service-based vesting requirements and no shares subject to performance-based vesting requirements. The achievement or vesting requirement of the performance-based grants is tied to the Company's total shareholder return ("TSR") relative to the total shareholder return of three alternative energy Exchange Traded Funds as measured over a specific performance period. No vesting of the relevant shares will occur in instances where the Company's TSR for the relevant period is below 80% of the peer group. However, additional opportunities to vest some or all of a portion of the shares in a subsequent period may occur. Compensation expense for these awards with market-based vesting is calculated based on the estimated fair value as of the grant date utilizing a Monte Carlo simulation model and is recognized over the service period on a straight-line basis.

Restricted stock issued and unvested as of October 31, 2017 included 12,000 shares of unvested restricted stock subjected to performance-based vesting requirements.

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

| | Number of Shares | Weighted Average Price per Share |
|---|------------------------|---|
| Issued and unvested at April 30, 2017 | 103,412 | \$ 3.99 |
| Granted | 114,584 | \$ 1.40 |
| Vested | (79,104) | \$ 4.70 |
| Cancelled/forfeited | (25,125) | \$ 1.40 |
| Issued and unvested at October 31, 2017 | 113,767 | \$ 1.90 |

There was approximately \$48,000 and \$486,000 of total recognized compensation cost related to restricted stock for the six months ended October 31, 2017 and 2016, respectively. As of October 31, 2017, there was approximately \$0.2 million of total unrecognized compensation cost related to unvested restricted stock granted under our plans. This cost is expected to be recognized over a weighted average period of 1.3 years.

(c) Treasury Stock

During the six months ended October 31, 2017 and 2016, 23,699 and 6,360 shares, respectively, of common stock were purchased by the Company from employees to pay taxes related to the vesting of restricted stock.

(8) 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 the three and six months ended October 31, 2017 and 2016.

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 6) 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, 2017.

| | Quoted prices in active markets for identical assets or liabilities (Level 1) | Significant other observable inputs (Level 2) | Significant unobservable inputs (Level 3) |
|--|---|---|--|
| Total Carrying Value in Consolidated Balance Sheet (in thousands) | | | |
| Warrant liabilities | \$255 | \$ - | \$ 255 |

The following table presents financial assets and liabilities measured at fair value on a recurring basis as of April 30, 2017.

| | Quoted prices in active markets for identical assets or liabilities (Level 1) | Significant other observable inputs (Level 2) | Significant unobservable inputs (Level 3) |
|--|---|---|--|
| Total Carrying Value in Consolidated Balance Sheet (in thousands) | | | |
| Warrant liabilities | \$323 | \$ - | \$ 323 |

The following table provides a summary of changes in fair value of the Company's warrant liabilities held at October 31, 2017.

Fair Value Measurement Using Significant
Unobservable Inputs (Level 3)

Total
Warrant
Liability

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| | (in thousands) |
|-------------------------------|-------------------|
| Fair value – April 30, 2016 | \$ - |
| Issuance | 1,814 |
| Transfers | - |
| Change in fair value | (1,491) |
| Fair value – April 30, 2017 | \$ 323 |
| Change in fair value | (68) |
| Fair value – October 31, 2017 | \$ 255 |

There were no re-measured assets or liabilities at fair value on a non-recurring basis during the six months ended October 31, 2017 and 2016, respectively.

(9) Commitments and Contingencies

(a) Litigation

Shareholder Litigation and Demands

The Company and certain of its current and former directors and officers are defendants in a derivative lawsuit filed on March 18, 2015 in the United States District Court for the District of New Jersey captioned *Labare v. Dunleavy, et al.*, Case No. 3:15-cv-01980-FLW-LHG. The derivative complaint alleges claims for breach of fiduciary duty, abuse of control, gross mismanagement and unjust enrichment relating to the now terminated agreement between Victorian Wave Partners Pty. Ltd. (VWP) and the Australian Renewable Energy Agency (ARENA) for the development of a wave power station. The derivative complaint seeks unspecified monetary damages and other relief.

On July 10, 2015, a second derivative lawsuit, captioned *Rywolt v. Dunleavy, et al.*, Case No. 3:15-cv-05469, was filed by another shareholder against the same defendants in the United States District Court for the District of New Jersey alleging similar claims for breach of fiduciary duty, gross mismanagement, abuse of control, and unjust enrichment relating to the now terminated agreement between VWP and ARENA. The *Rywolt* complaint also seeks unspecified monetary damages and other relief. On February 8, 2016, the Court issued an order consolidating the *Labare* and *Rywolt* actions, appointing co-lead plaintiffs and lead counsel, and ordering a consolidated amended complaint to be filed within 30 days of the order. On March 9, 2016, the co-lead plaintiffs filed an amended complaint consolidating their claims and seeking unspecified monetary damages and other relief.

On April 21, 2016, a third derivative lawsuit, captioned *LaCalamito v. Dunleavy, et al.*, Case No. 3:16-cv-02249, was filed by another shareholder against certain current and former directors and officers of the Company in the United States District Court for the District of New Jersey alleging similar claims for breach of fiduciary duty relating to the now terminated agreement between VWP and ARENA. The *LaCalamito* complaint seeks unspecified monetary damages and other relief. The Company has not been formally served and has not yet responded to the complaint.

On June 9, 2016, a fourth derivative lawsuit, captioned *Pucillo v. Dunleavy, et al.*, was filed by another shareholder against certain current and former directors and officers of the Company in the United States District Court for the District of New Jersey alleging similar claims for breach of fiduciary duty, unjust enrichment, and abuse of control relating to the now terminated agreement between VWP and ARENA. The *Pucillo* complaint seeks unspecified monetary damages and other relief. On August 2, 2016, the parties in the *Pucillo* lawsuit filed a Stipulation and Proposed Order pursuant to which: (i) the defendants agreed to accept service of the *Pucillo* complaint; (ii) the parties agreed to stay the *Pucillo* action pending the filing and resolution of a motion to consolidate the *Pucillo* action with the *Labare* and *Rywolt* actions; and (iii) the parties agreed that the defendants shall not be required to respond to the

Pucillo complaint during the pendency of the stay. The Court approved the Stipulation on August 3, 2016.

On October 25, 2016, the Court approved and entered a Stipulation and Order that, among other things, (i) consolidated the four derivative actions; (ii) identified plaintiff *Pucillo* as the lead plaintiff in the consolidated actions; and (iii) stayed the consolidated actions pending the settlement hearing scheduled for November 14, 2016 in the securities class action and further order of the Court. During the month of August 2017, the Company tentatively reached a settlement with the plaintiff subject to final documentation. The settlement, once finalized and if approved by the court, provides, among other things, for a settlement payment by or on behalf of the Company of \$350,000, of which the Company's insurer would pay the complete amount of \$350,000. As a result, the Company has accrued \$350,000 related to this matter as a probable and reasonably estimable loss contingency during the six months ended October 31, 2017. The Company also recorded a receivable of \$350,000 from its insurance carrier with the offset to the statement of operations.

On May 26, 2017, an attorney claiming to represent two stockholders sent the Company's Board of Directors a Stockholder Litigation Demand letter ("Stockholder Demand"). The Stockholder Demand alleges that the voting of shares for the 1-for-10 reverse stock split at the 2015 annual meeting of stockholders held on October 22, 2015 was not properly counted, and further alleges that, although the Company reported the reverse stock split as having been passed, if the vote was properly counted the reverse stock split would not have been approved. The Stockholder Demand requests the Board of Directors either to deem the reverse stock split as ineffective and disclose the same or to seek a proper and effective stockholder ratification of the reverse stock split. In addition, the Stockholder Demand requests the Board of Directors to adopt and implement adequate internal controls and systems to prevent the alleged improper voting from recurring. On June 23, 2017, the Company responded to the Stockholder Demand, explained the procedures that were followed for the 2015 annual meeting of stockholders and provided the Oath of the Inspector of Elections and the Certificate of the Inspector of Elections that certified as accurate the results of the voting at the meeting including voting on the reverse stock split proposal. On June 26, 2017, the attorney representing the alleged stockholders replied to the Company's response, further alleged that the proxy statement underlying the 2015 annual meeting provided voting instructions that misled the stockholders regarding whether their brokers could vote on the reverse stock split proposal, and renewed their requests of the Board. On July 24, 2017, the Company provided an additional response to the Stockholders Demand, denied the allegations, and declined to take any of the actions requested.

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. The Company and Mr. Dunleavy have agreed to suspend his alleged employment claims pending resolution of the shareholder litigation, and have since agreed to continue to the suspension pending resolution of the derivatives litigation.

Except for the pending settlement noted previously, we have not established any provision for losses relating to these claims and pending litigation. Due to the stages of these proceedings, and considering the inherent uncertainty of these claims and litigation, at this time we are not able to predict or reasonably estimate whether we have any possible loss exposure or the ultimate outcome of these claims.

(b) Regulatory Matters

SEC Investigation

On February 4, 2015, the Company received a subpoena from the SEC requesting information related to the VWP Project. The Company has provided information to the SEC in response to that subpoena. As part of the same investigation, on July 12, 2016, the SEC issued second subpoena requesting information related to the Company's April 4, 2014 public offering. The Company has provided information to the SEC in response to that subpoena. The SEC investigation is ongoing and the Company continues to cooperate with the SEC in its investigation. We are unable to predict what action, if any, might be taken by the SEC or its staff as a result of this investigation or what impact, if any, the cost of responding to the SEC's investigation or its ultimate outcome might have on our financial position, results of operations or liquidity. We have not established any provision for losses relating to this matter.

Spain IVA (sales tax)

In June 2012, the Company received notice that the Spanish tax authorities are inquiring into its 2010 IVA (value-added tax) filing for which the Company benefitted from the offset of approximately \$0.3 million of input tax. The Company believes that the inquiry will find that the tax credit was properly claimed and, therefore, no liability

has been recorded. The Company issued two letters of credit totaling €0.3 million (\$0.3 million) at the request of the Spanish tax authorities. On January 31, 2017 the Company has received \$0.2 million from the Spanish tax authorities as a result of the conclusion of the inquiry. In addition, during February 2017, the Spanish tax authorities approved of the release of the two outstanding letters of credit.

Spain Income Tax Audit

The Company is currently undergoing an income tax audit in Spain for the period from 2008 to 2014, when its Spanish branch was closed. The branch reported net operating losses for each of the years reported. It is anticipated that the Company will be assessed a penalty relating to these tax years for these losses. The Company has estimated this penalty to be \$132,000, and as such, for the period ended April 30, 2017 and October 31, 2017, the Company has recorded \$132,000 for this penalty to Accrued expenses in its balance sheet.

(10) Income Taxes

The Company did not recognize any consolidated income tax benefit (expense) during the six month periods ended October 31, 2017 and 2016. The Company has recorded a valuation allowance to reduce its net deferred tax asset to an amount that is more likely than not to be realized in future years. Accordingly, the benefit of the net operating loss that would have been recognized was offset by changes in the valuation allowance.

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. We are 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. It is anticipated that we will be assessed a penalty relating to these tax years for these losses. We have estimated this penalty to be \$132,000, and as such, for the period ended April 30, 2017 and October 31, 2017, we have recorded \$132,000 for this penalty to Accrued expenses in the Balance Sheet. At October 31, 2017 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.

(11) 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 operating subsidiaries in the

UK and in Australia. Revenues and expenses are generally attributed to the operating unit that bills the customers. During the six months ended October 31, 2017 and 2016, 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, 2017 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 2017 refers to the year ended April 30, 2017).

Overview

Nearly 70% of the earth's surface is covered by water, with over 40% of the world's population living 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 and to support exploration 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. Just as importantly, increases in available power may allow for better sensors, faster data sampling and higher frequency communication intervals up to real-time which could as a result improve scientific and economic returns.

Founded in 1984 and headquartered in Pennington, New Jersey, we believe we are the leader in ocean wave power conversion technology. Our PB3 PowerBuoy is our first fully commercial product which generates electricity by harnessing the renewable energy of ocean waves. In addition to our PB3 PowerBuoy, we continue to develop our PowerBuoy product line based on modular, ocean-going buoys, which we have been periodically ocean testing since 1997.

The PB3 PowerBuoy generates power for use in remote offshore locations, independent of a conventional power grid, and it incorporates a unique onboard power take-off ("PTO") system, which incorporates both energy storage and energy management and control systems. The PB3 generates 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 continue to develop and test our

new PowerBuoys, with the objective to incrementally scale up power production. 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 focused primarily on cost reductions and life extensions of the PB3, while also scaling our technologies to increase the 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 multiple markets have a direct need for our PowerBuoys including oil and gas, ocean observing, defense and security, 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 2017 and the first half of fiscal year 2018, we continued work on projects with the U.S. Department of Defense (“DOD”) and Mitsui Engineering and Shipbuilding Co., Ltd. (“MES”), while we continued to validate the reliability and power output of our PB3 PowerBuoy.

Product Development

The development of our technology has been funded by revenue generating projects, capital we raised, and by development engineering contracts we received starting in fiscal 1995, including projects with the DOE, the U.S. Navy, the Department of Homeland Security and MES.

Through these historic 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 autonomous power applications.

During fiscal 2017, we continued to focus on the commercialization of our PowerBuoy technology and our PB3 product in autonomous application markets. We completed our work under our DOE contract that focused on further optimization of our modular PTO technology and delivered the project final report to the DOE in the prior year. In the prior year, we successfully completed the final stage and associated review with the DOE of the contract deliverables during which the DOE reviewed advancements related to PTO design aspects such as reliability, cost take out, manufacturability and scalability. As we continued to focus on the development and validation of our PB3 PowerBuoy commercial product, our activities concentrated mainly on implementing all of our lessons learned during our efforts in the prior fiscal year from our ocean deployments and accelerated life testing (“ALT”). The resulting improved PB3 PowerBuoy was deployed off the coast of New Jersey in July of 2016 and was retrieved early December 2016 upon completing all intended testing and validation. Inspection and refurbishment of the PB3 PowerBuoy were completed and this PB3 was shipped for delivery to MES in Japan to fulfill the requirements of our lease with MES, including a deployment off of Kozushima Island in the Pacific Ocean. ALT of the PB3 commercial PTO is ongoing with no failures to date. In addition to the deployment of the PB3 PowerBuoy, the prior generation pre-commercial PB3 (“PB3-A1”), was fitted with a sensor that collects tagged marine mammal migration information as well as with a Self-Contained Ocean Observing Payload (“SCOOP”). The marine mammal migration detection sensor was attached to the PB3-A1 PowerBuoy as part of an agreed scope of work with the Wildlife Conservation Society (“WCS”) through a memorandum of agreement between WCS and OPT. The SCOOP payload was integrated into PB3-A1 to complete the Phase 1 work scope of a Cooperative Research and Development Agreement (“CRADA”) between the National Data Buoy Center (“NDBC”) and OPT. The PB3-A1, deployed off the coast of New Jersey in May 2016, was retrieved in October 2016. From July 2016 through October 2016, both PB3-A1 and PB3 were concurrently deployed generating valuable performance validation data. Both the NDBC SCOOP as well as the WCS tagged mammal migration detection sensor met all of their performance requirements. This pre-commercial PowerBuoy, referred to as “PB3-A1” has now undergone a full upgrade and has achieved full commercial status by retrofitting it with the final commercial PTO including our modular energy storage system, and to make it available to support our on-going commercialization efforts. In addition to the PB3 commercial product validation activities, a concerted effort has been underway which focuses on proactively implementing additional features driven by extensive and direct discussions with potential users and customers in our target markets. Such features include:

The design, development and implementation of a versatile mooring interface that allows the PB3 to accommodate various types of mooring configurations depending on the specifics and the needs of the customer, eliminating the need for a redesign to the device.

The design, development and implementation of a flexible power transmission system intended to support delivery of power and communication capabilities to customer payloads which are external to the PowerBuoy, and which may reside in the water column or on the seabed.

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

Further, we are continuing the development of our PB15, the next scale-up of our autonomous PowerBuoy, which will provide higher peak power than our PB3. We completed the preliminary design of our PB15 in fiscal 2017. We are continuing to obtain market feedback on the value proposition of this design while at the same time advancing the commercialization of our PB3. While this scale-up leverages every aspect of the product development and validation of the PB3, it may also strategically position the product to allow OPT to respond to higher power needs as expressed by potential end-users and customers in our target markets.

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 PowerBuoys and, if we are able to do so, we believe the PowerBuoy would be useful for additional applications where cost savings and additional power are required by our potential customers. We continue to explore opportunities in these target markets, and we have not yet finalized any product offerings in these potential markets. We believe that by increasing the energy output of our PowerBuoys we may be able to address larger segments of our target markets. By improving our design and manufacturing, we also seek to reduce the cost of our PowerBuoys through further design iterations and manufacturing ramp-up. In so doing, we seek to improve customer value, displace additional incumbent solutions, and become a viable power source for new applications in our target markets.

We also are continuing to work to develop solutions seeking to improve our products' durability and reliability and to reduce their cost. 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, including a redesigned PTO and a higher efficiency and higher voltage ESS. In July 2016, we deployed our first commercial PB3 PowerBuoy, off of the coast of New Jersey. This deployment was the final validation of the PB3 prior to the March 2017 six-month lease of the PB3 PowerBuoy under a previously announced customer agreement. In March 2017, our commercial PB3 was deployed off the coast of Kozushima Island in Japan as part of this lease and operated meeting all project requirements. The MES leased concluded in September 2017 and the PB3 is being shipped back to New Jersey.

Commercial Activities

We are seeking to build strategic relationships 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.

In 2016, we entered into a cooperative research and development agreement ("CRADA") with the 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 of 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. We are continuing discussions with the NDBC around next steps.

In May 2016, we entered into a Memorandum of Agreement ("MOA") with 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. We are continuing discussions with WCS around next steps.

In May 2016 we entered into a contract with MES totaling nearly \$1.0 million, a portion of which was performed in fiscal 2016 as agreed under a letter of intent signed in March 2016. The contract with MES includes certain engineering and other services, and a six-month lease of our PB3 PowerBuoy off the coast of Japan, which commenced in March 2017. This six-month lease was extended an additional month to September 2017, and the PB3 PowerBuoy was retrieved and is being shipped back to New Jersey.

In September 2016, we entered into a contract with the 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. Overall, progress was made on the project whereby design and analysis tasks as well as a portion of the test were completed and documented. The Company requested three no-cost extensions from ONR in order to address testing efforts associated with implementing improved sealing elements and improving test fixture alignment.

In December 2016, we entered into a Joint Marketing Agreement with Sonalysts, Inc. to explore and pursue mutual opportunities in defense and oil and gas applications. The agreement includes the exploration and assessment of the use of the PB3 as a platform to provide power and communications for these markets. Founded in 1973, Sonalysts is a multi-disciplinary engineering and technical services firm with tremendous competency and expertise as systems integrator developing and supporting mission critical systems for the U.S. Navy Submarine Force. Such applications include real-world mission and tactical analyses and electronic warfare, imaging and combat control systems. Sonalysts' core strengths also include developing and delivering interactive, computer-based training solutions, operations analysis, human systems integration solutions, and weather and aviation information processing and streaming systems. Additionally, Sonalysts maintains core technology and expertise in undersea wireless communications and in autonomous undersea systems analysis which are available to a variety of defense and commercial customers. We believe that bringing the unique capabilities and expertise of our two companies together will enable the autonomous undersea vehicle infrastructure in these two critically important business sectors.

In February 2017, we entered into a Joint Application Development and Marketing Agreement with HAI Technologies to pursue mutual opportunities. The initial focus of the agreement is on offshore oil and gas subsea chemical injection systems where persistent power and real-time data communications are critical. HAI has experience in a variety of technologies and applications in the offshore oil and gas industry including subsea chemical systems. Chemical injection techniques are used to mitigate the diminishing effects of buildup in piping and pumping systems used in subsea oil production operations. HAI has developed an innovative, compact and modular concept which moves the chemical injection system closer to the production field. We believe HAI Technologies' advanced chemical injection solutions, combined with OPT's PB3 PowerBuoy, creates a unique opportunity to pair two distinctive offshore technologies creating new methods to deal with long distance and remote offshore field developments.

Capital Raises

On June 2, 2016, we entered into a securities purchase agreement, which was amended on June 7, 2016 (as amended, the "Purchase Agreement") with certain institutional purchasers (the "June Purchasers"). Pursuant to the terms of the Purchase Agreement, we sold an aggregate of 417,000 shares of common stock together with warrants to purchase up to an aggregate of 145,952 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 \$4.60. The net proceeds from the offering to us were approximately \$1.7 million, after deducting placement agent fees and estimated offering expenses payable by us, but excluding the proceeds, if any, from the exercise of the warrants issued in the offering. The warrants have an exercise price of \$6.08 per share, will be exercisable on December 3, 2016, and will expire five years following the date of issuance.

On July 22, 2016, the Company entered into the Second Amendment to the Purchase Agreement (the "Second Amended Purchase Agreement") with certain purchasers (the "July Purchasers"). Pursuant to the terms of the Second Amended Purchase Agreement, the Company sold an aggregate of 595,000 shares of Common Stock together with warrants to purchase up to an aggregate of 178,500 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 \$6.75. The net proceeds to the Company from the offering were approximately \$3.6 million, after deducting placement agent fees and estimated offering expenses payable by the Company, but excluding the proceeds, if any, from the exercise of the warrants issued in the offering. The Warrants were exercisable immediately at an exercise price of \$9.36 per share. The Warrants will expire on the fifth (5th) anniversary of the initial date of issuance.

On October 19, 2016, the Company sold 2,760,000 shares of common stock at a price of \$2.75 per share, which includes the sale of 360,000 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. The net proceeds to the Company from the offering were approximately \$6.9 million, after deducting underwriter fees and offering expenses payable by the Company.

On May 2, 2017, the Company sold 6,192,750 shares of common stock at a price of \$1.30 per share, which includes the sale of 807,750 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. The net proceeds to the Company from the offering were approximately \$7.2 million, after deducting underwriter fees and offering expenses payable by the Company.

On October 23, 2017, the Company sold 5,739,437 shares of common stock at a price of \$1.42 per share in a best efforts public offering. The net proceeds to the Company from the offering were approximately \$7.4 million, after deducting placement 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, 2017, the Company did not have any negotiated backlog. As of April 30, 2017, negotiated backlog was \$0.3 million. Our backlog can include both funded amounts, which are unfilled firm orders for our products and services for which funding has been both authorized and appropriated by the customer (U.S. Congress, in the case of U.S. Government agencies), and unfunded amounts, which are unfilled firm orders for which funding has not been appropriated. 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.

Business Strategy

We continue to commercialize our PB3 PowerBuoy 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 PowerBuoys. We believe our PB3 PowerBuoy is well suited for many remote offshore applications. We have observed potential market demand for both PowerBuoy sales and leases within our selected markets, and we intend to sell and lease PB3 PowerBuoys to these markets. Additionally, we intend to provide services associated with product sales and leases such as maintenance, remote monitoring and diagnostic, application engineering, planning, training, and logistics support required for the PB3 PowerBuoy life-cycle. We continue to increase our commercial capabilities through new hires in marketing, sales, and application support, and through engagement of expert market consultants in various geographies.

Concentrate sales and marketing efforts in specific geographic markets. We are currently focusing our marketing efforts in North America, Europe, Australia, and parts of Asia, including Japan. 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, to create new market channels, to expand commercial know-how and geographic footprint, and to bolster our product delivery capabilities.

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 MES in Japan, the National Data Buoy Center (“NDBC”), the Wildlife Conservation Society (“WCS”), Gardline Environmental (an international and multi-disciplinary marine service company), Sonalysts (with expertise in subsea and surface communications, systems integration, and big-data management), and HAI Technologies (an innovative company focusing on bringing new capabilities to the oil and gas industry). 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 ensure a cost-effective product by leveraging a larger more established supply base. We also continue to seek strategic partnerships with regards to servicing of our PB3 PowerBuoy.

PB3 cost reduction and PowerBuoy product development. Our engineering efforts are focused on customer application development for PB3 sales, cost reduction of our PB3 PowerBuoy 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 that we will be able to address new and different applications by developing new products that increase energy output.

Going Concern

Our financial statements have been prepared assuming we will continue as a going concern. We have experienced substantial and recurring losses from operations, which losses have caused an accumulated deficit of \$192.6 million at October 31, 2017. Based on the Company's cash and cash equivalents and marketable securities balances as of October 31, 2017 the Company believes that it will be able to finance its capital requirements and operations into at least the quarter ending April 30, 2019.

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, 2017, 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 generally accepted accounting principles, or "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, 2017. There were no material changes in our critical accounting estimates or accounting policies during the six months ended October 31, 2017.

Recently Issued Accounting Standards

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2014-09, “*Revenue from Contracts with Customers (Topic 606)*.” ASU 2014-09 outlines a new, single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. This new revenue recognition model provides a five-step analysis in determining when and how revenue is recognized. The new model will require revenue recognition to depict the transfer of promised goods or services to customers in an amount that reflects the consideration a company expects to receive in exchange for those goods or services. The FASB subsequently issued additional clarifying standards to address issues arising from implementation of the new revenue standard, including a one-year deferral of the effective date for the new revenue standard. Public companies should now apply the guidance in ASU 2014-09 to annual reporting periods beginning after December 15, 2017 and interim periods within those annual periods. Earlier application is permitted only as of annual reporting periods beginning after December 15, 2016, including interim periods within that annual period. As such, the Company is required to adopt this standard effective in fiscal 2019, which begins May 1, 2018. Companies may use either a full retrospective or a modified retrospective approach to adopt ASU 2014-09. The Company has not yet completed its final review of the impact of this guidance; however, the Company anticipates applying the modified retrospective method upon adoption of ASU 2014-09 on May 1, 2018. The impact to the Company could be affected by the nature and terms of potential future contracts with customers, as those contracts may have terms that differ from the Company’s current contracts.

In August 2014, the FASB issued ASU 2014-15, “*Disclosure of Uncertainties about an Entity’s Ability to Continue as a Going Concern*”, which describes how an entity should assess its ability to meet obligations and sets rules for how this information should be disclosed in the financial statements. The standard provides accounting guidance that will be used along with existing auditing standards. The new standard applies to all entities for the first annual period ending after December 15, 2016, and interim periods thereafter. Early application is permitted. The Company adopted ASU 2014-15 for the fiscal year 2017. The Company’s addition of the standard did not have a material impact on its disclosures. See section (c) “Liquidity/Going Concern” within Note (1) “Background and Liquidity” of the consolidated financial statements included in this Quarterly Report on Form 10-Q for further discussion on the Company’s ability to continue as a going concern.

In January 2016, the FASB issued ASU No. 2016-01, “*Recognition and Measurement of Financial Assets and Financial Liabilities*”, which makes limited amendments to the guidance in U.S. GAAP on the classification and measurement of financial instruments. The update significantly revises an entity’s accounting related to the classification and measurement of investments in equity securities and the presentation of certain fair value changes for financial liabilities measured at fair value. It also amends certain disclosure requirements associated with the fair value of financial instruments. The update will take effect for public companies for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The Company will evaluate the effect of ASU 2016-01 for future periods as applicable.

In February 2016, the FASB issued ASU No. 2016-02, “*Leases (Topic 842)*.” 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 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. ASU 2016-02 is effective for annual periods beginning after December 15, 2018, including interim periods within those annual periods, with early adoption permitted. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. The Company is evaluating the effect ASU 2016-02 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 March 2016, the FASB issued ASU No. 2016-09, “*Compensation - Stock Compensation (Topic 718)*.” The amendments of ASU No. 2016-09 were issued as part of the FASB’s Simplification initiative focused on improving areas of GAAP for which cost and complexity may be reduced while maintaining or improving the usefulness of information disclosed within the financial statements. The amendments focused on simplification specifically with regard to share-based payment transactions, including accounting for forfeitures, income tax consequences, classification of awards as equity or liabilities and classification on the statement of cash flows. The guidance in ASU No. 2016-09 is effective for fiscal years beginning after December 15, 2016, and interim periods within those annual periods. The Company adopted ASU 2016-09 on May 1, 2017. Certain of the amendments are applied using a modified retrospective transition method by means of a cumulative-effect adjustment to equity as of May 1, 2017, while other amendments are applied retrospectively, prospectively or using either a prospective or a retrospective transition method. Upon adoption, the Company is beginning to account for forfeitures as they occur rather than estimate a forfeiture rate and has recorded a cumulative-effect adjustment in equity of approximately \$11,000 on the date of initial adoption. In periods subsequent to adoption, a higher expense will be recognized earlier during the respective vesting periods of stock-based awards that are not forfeited. The Company expects that the income tax amendments within ASU 2016-09 will have no impact on its results of operations or cash flows because it is in a net operating loss position with a full valuation allowance.

In August 2016, the FASB issued ASU 2016-15, “*Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*”, providing additional guidance on eight specific cash flow classification issues. The goal of the ASU is to reduce diversity in practice of classifying certain items. The amendments in the ASU are effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years and early adoption is permitted. The Company has evaluated the effect ASU 2016-13 will have on its consolidated financial statements and

disclosures and has determined the standard will have no impact on its ongoing financial reporting at this time.

In November 2016, the FASB issued ASU 2016-18, “*Statement of Cash Flows (Topic 230): Restricted Cash*”, which amends guidance and presentation related to restricted cash in the statement of cash flows, including stating that amounts generally described as restricted cash and restricted cash equivalents should be included within cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown in the statement of cash flows. An entity is required to provide a disclosure indicating the reconciliation of all cash accounts. The amendments in the ASU are effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years and early adoption is permitted. The Company has early adopted ASU 2016-18 effective May 1, 2017. In connection with the adoption of the standard the Company has used a retrospective transition method for each period presented in the statement of cash flows. The Company reclassified \$488,000 and \$300,000 of restricted cash to cash, cash equivalents and restricted cash, beginning of period for the period April 30, 2017 and April 30, 2016 in the statement of cash flows. The Company reclassified \$306,000 of restricted cash to cash, cash equivalents and restricted cash, end of period for the period ended October 31, 2016 in the statement of cash flows.

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

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.

Generally, revenue under fixed price or cost plus contracts is recognized using the percentage-of-completion method, measured by the ratio of costs incurred to total estimated costs at completion. In certain circumstances, revenue under contracts that have specified milestones or other performance criteria may be recognized only when the customer acknowledges that such criteria have been satisfied. If an arrangement involves multiple deliverables, the delivered items are considered separate units of accounting if the items have value on a stand-alone basis. Amounts allocated to each element are based on its objectively determined fair value, such as the sales price for the product or service when it is sold separately or competitor prices for similar products or services.

In addition, recognition of revenue (and the related costs) may be deferred for fixed price contracts until contract completion if the Company is unable to reasonably estimate the total costs of the project prior to completion. These contracts are subject to interpretation and management may make a judgment as to the amount of revenue earned and recorded. Because the Company has a small number of contracts, revisions to the percentage-of-completion determination, management interpretation or delays in meeting performance and contractual criteria or in completing projects may have a significant effect on revenue for the periods involved. Upon anticipating a loss on a contract, the Company recognizes the full amount of the anticipated loss in the current period.

The following table provides information regarding the breakdown of our revenues by customer for the three and six months ended October 31, 2017 and 2016.

| Three months ended | Six months ended October 31, |
|--------------------------|------------------------------------|
|--------------------------|------------------------------------|

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October
31,
2017 2016 2017 2016
(in thousands)

| | | | | |
|---|------|-------|-------|-------|
| Mitsui Engineering & Shipbuilding | \$87 | \$188 | \$218 | \$390 |
| U.S. Department of Defense Office of Naval Research | 7 | 9 | 71 | 9 |
| U.S. Department of Energy | - | (27) | - | (27) |
| | \$94 | \$170 | \$289 | \$372 |

We currently focus our sales and marketing efforts on North America, Europe, Australia and Japan. The following table shows the percentage of our revenues by geographical location of our customers for the six months ended October 31, 2017 and 2016.

| Customer Location | Six months ended October 31, | |
|--------------------|------------------------------------|-------|
| | 2017 | 2016 |
| Asia and Australia | 75 % | 97 % |
| United States | 25 % | 3 % |
| | 100 % | 100 % |

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.

Product development costs

Our 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 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 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 and cash equivalents, investments in commercial bank-issued certificates of deposit and US Treasury bills and notes 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. Due to the macroeconomic pressures in certain European countries, foreign exchange rates may become more volatile in the future.

We may invest our foreign cash reserves in certificates of deposit and we maintain cash accounts that are denominated in British pounds sterling, Euros and Australian dollars. These foreign-denominated certificates of deposit and cash accounts had a balance of \$1.1 million as of October 31, 2017 and \$1.1 million as of October 31, 2016, compared to our total cash, cash equivalents, restricted cash, and marketable securities balances of \$16.9 million as of October 31, 2017 and \$12.8 million as of October 31, 2016. These foreign currency balances are translated at 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, cash equivalents and marketable securities 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, 2017 compared to the three months ended October 31, 2016

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, 2017 and 2016.

| | Three months ended October 31, | | % change 2017 period to 2016 period | |
|---|--------------------------------------|----------|---|---|
| | 2017 | 2016 | | |
| | (in thousands) | | | |
| Revenues | \$94 | \$170 | -45 | % |
| Cost of revenues | (24) | 125 | -119 | % |
| Gross profit | 118 | 45 | | |
| Operating expenses: | | | | |
| Product development costs | 978 | 1,308 | -25 | % |
| Selling, general and administrative costs | 1,747 | 1,723 | 1 | % |
| Total operating expenses | 2,725 | 3,031 | | |
| Operating loss | (2,607) | (2,986) | | |
| Change in fair value of warrant liabilities | 31 | 2,017 | -98 | % |
| Interest income, net | 6 | 2 | 200 | % |
| Foreign exchange gain/(loss) | (7) | 1 | -800 | % |
| Net loss | \$(2,577) | \$(966) | 167 | % |

Revenues

Revenues decreased by \$0.1 million, or 45%, to \$0.1 million in the three months ended October 31, 2017 as compared to \$0.2 million in the three months ended October 31, 2016. The decline in revenue is due to the MES and ONR contracts nearing final stages of completion during the three months ended October 31, 2017.

Cost of revenues

Cost of revenues for the three months ended October 31, 2017 declined by \$0.1 million from \$0.1 million for the three months ended October 31, 2016. This decrease was the result of lowered manufacturing overhead costs and a change to estimated contract costs for the remainder of the project as the MES and ONR contracts were nearing final stages of completion during the three months ended October 31, 2017.

Product development costs

Product development costs during the three months ended October 31, 2017 and 2016 were \$1.0 million and \$1.3 million, respectively. The decrease of approximately \$0.3 million, or 25%, over 2016 is due to less product development projects for the three months ended October 31, 2017 as compared to the three months ended October 31, 2016.

Selling, general and administrative costs

Selling, general and administrative costs for the three months ended October 31, 2017 and 2016 were \$1.7 million as the spending for these two periods was relatively the same.

Change in fair value of warrant liabilities

The change in fair value of warrant liabilities during the three months ended October 31, 2017 was an unrealized gain of \$31,000 versus an unrealized gain of \$2,017,000 for the three months ended October 31, 2016. The change between periods is due to a higher risk-free rate, lower expected life and higher expected volatility assumptions for the three months ended October 31, 2017.

Interest income, net

Interest income, net during the three months ended October 31, 2017 was \$6,000, an increase of \$4,000 as compared to the three months ended October 31, 2016.

Foreign exchange gain

Foreign exchange loss during the three months ended October 31, 2017 was \$7,000, an increase of \$8,000 as compared to a gain of \$1,000 during the three months ended October 31, 2016. 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, 2017 compared to the six months ended October 31, 2016

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, 2017 and 2016.

| Six months ended October 31, | | % change 2017 period to 2016 period |
|---------------------------------|------|---|
| 2017 | 2016 | |
| (in thousands) | | |

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| | | | | |
|---|-----------|-----------|-----|---|
| Revenues | \$289 | \$372 | -22 | % |
| Cost of revenues | 193 | 252 | -23 | % |
| Gross profit | 96 | 120 | | |
| Operating expenses: | | | | |
| Product development costs | 2,080 | 2,944 | -29 | % |
| Selling, general and administrative costs | 3,388 | 3,242 | 5 | % |
| Total operating expenses | 5,468 | 6,186 | | |
| Operating loss | (5,372) | (6,066) | | |
| Change in fair value of warrant liabilities | 68 | 1,265 | -95 | % |
| Interest income, net | 9 | 2 | 350 | % |
| Foreign exchange gain | 55 | 6 | 817 | % |
| Net loss | \$(5,240) | \$(4,793) | 9 | % |

Revenues

Revenues decreased by \$0.1 million, or 22%, to \$0.3 million in the six months ended October 31, 2017 as compared to \$0.4 million in the six months ended October 31, 2016. The decline in revenue is due to the MES and ONR contracts nearing final stages of completion during the six months ended October 31, 2017.

Cost of revenues

Cost of revenues for the six months ended October 31, 2017 was \$0.2 million as compared to \$0.3 million for the six months ended October 31, 2016. The decrease of approximately \$0.1 million, or 23%, is due to the MES and ONR contracts nearing final stages of completion during the six months ended October 31, 2017.

Product development costs

Product development costs during the six months ended October 31, 2017 and 2016 were \$2.1 million and \$2.9 million, respectively. The decrease of approximately \$0.8 million, or 29%, is due to less product development projects in the six months ended October 31, 2017 compared to the six months ended October 31, 2016. Six months ended October 31, 2016 included costs related to the redeployment of the PB3-A1 and retrieval costs for the PB40 mooring anchor system.

Selling, general and administrative costs

Selling, general and administrative costs during the six months ended October 31, 2017 and 2016 were \$3.4 million and \$3.2 million, respectively. The increase of approximately \$0.2 million, or 5%, over 2016 is primarily due to higher employee related costs of \$0.3 million, partially offset by lower stock compensation expense of \$0.1 million.

Change in fair value of warrant liabilities

The change in fair value of warrant liabilities during the six months ended October 31, 2017 was an unrealized gain of \$68,000 versus an unrealized gain of \$1,265,000 for the six months ended October 31, 2016. The change between periods is due to a higher risk-free rate, lower expected life and higher expected volatility assumptions for the six months ended October 31, 2017.

Interest income, net

Interest income, net during the six months ended October 31, 2017 was \$9,000, an increase of \$7,000 as compared to the six months ended October 31, 2016.

Foreign exchange gain

Foreign exchange gain during the six months ended October 31, 2017 was \$55,000 an increase of \$49,000 as compared to a gain of \$6,000 during the six months ended October 31, 2016. 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, 2017, our aggregate revenues were \$1.5 million, our aggregate net losses were \$22.6 million and our aggregate net cash used in operating activities was \$21.0 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, 2017 were \$6.7 million, an increase of \$0.4 million compared to \$6.3 million during the six months ended October 31, 2016. The increase was primarily related to a reduction of \$1.3 million in accounts payable and accrued expenses balances and a higher loss of \$0.4 million mostly offset by a lower change in fair value of warrant liabilities of \$1.2 million for the six months ended October 31, 2017 compared to the same period in 2016.

Net cash used in investing activities

Net cash used in investing activities during the six months ended October 31, 2017 was \$63,000, an increase of \$101,000 compared to net cash provided by investing activities of \$38,000 during the six months ended October 31, 2016. The increase in net cash used in investing activities was primarily due to the purchase of equipment of \$51,000, purchase of marketable securities of \$25,000 and maturity of marketable securities of \$25,000.

Net cash provided by financing activities

Net cash provided by financing activities during the six months ended October 31, 2017 and 2016 was \$14.6 million and \$12.1 million, respectively. The increase in net cash provided by financing activities was primarily due to higher net proceeds from the sale of common stock during the six months ended October 31, 2017 as compared to the six months ended October 31, 2016 by \$2.5 million.

Effect of exchange rates on cash and cash equivalents

The effect of exchange rates on cash and cash equivalents was an increase of \$68,000 in the six months ended October 31, 2017 and a decrease of \$18,000 in the six months ended for October 31, 2016. 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 \$192.6 million at October 31, 2017. As of October 31, 2017, we had approximately \$16.3 million in cash on hand. In addition, as of October 31, 2017, our restricted cash balance was approximately \$0.5 million. The Company generated revenues of \$0.3 million and \$0.4 million during the six months ended October 31, 2017 and 2016, respectively. Based on the Company's cash and cash equivalents and marketable securities balances as of October 31, 2017, the Company believes that it will be able to finance its capital requirements and operations into at least the quarter ending April 30, 2019. 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;

that we will be successful in our efforts to commercialize our PowerBuoy or the timetable upon which commercialization can be achieved, if at all;

our ability to identify and penetrate markets for our PowerBuoys and our wave energy technology;

our ability to implement our commercialization strategy as planned, or at all;

our ability to maintain the listing of our common stock on the NASDAQ Capital Market;

the reliability of our technology and our PowerBuoys;

our ability to improve the power output, survivability and reliability of our PowerBuoys;

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 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 2018, 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.

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, 2017 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, 2017 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, 2017 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

Shareholder Litigation and Demands

The Company and certain of its current and former directors and officers are defendants in a derivative lawsuit filed on March 18, 2015 in the United States District Court for the District of New Jersey captioned *Labare v. Dunleavy, et al.*, Case No. 3:15-cv-01980-FLW-LHG. The derivative complaint alleges claims for breach of fiduciary duty, abuse of control, gross mismanagement and unjust enrichment relating to the now terminated agreement between Victorian Wave Partners Pty. Ltd. (VWP) and the Australian Renewable Energy Agency (ARENA) for the development of a wave power station. The derivative complaint seeks unspecified monetary damages and other relief.

On July 10, 2015, a second derivative lawsuit, captioned *Rywolt v. Dunleavy, et al.*, Case No. 3:15-cv-05469, was filed by another shareholder against the same defendants in the United States District Court for the District of New Jersey alleging similar claims for breach of fiduciary duty, gross mismanagement, abuse of control, and unjust enrichment relating to the now terminated agreement between VWP and ARENA. The *Rywolt* complaint also seeks unspecified monetary damages and other relief. On February 8, 2016, the Court issued an order consolidating the *Labare* and *Rywolt* actions, appointing co-lead plaintiffs and lead counsel, and ordering a consolidated amended complaint to be filed within 30 days of the order. On March 9, 2016, the co-lead plaintiffs filed an amended complaint consolidating their claims and seeking unspecified monetary damages and other relief.

On April 21, 2016, a third derivative lawsuit, captioned *LaCalamito v. Dunleavy, et al.*, Case No. 3:16-cv-02249, was filed by another shareholder against certain current and former directors and officers of the Company in the United States District Court for the District of New Jersey alleging similar claims for breach of fiduciary duty relating to the now terminated agreement between VWP and ARENA. The *LaCalamito* complaint seeks unspecified monetary damages and other relief. The Company has not been formally served and has not yet responded to the complaint.

On June 9, 2016, a fourth derivative lawsuit, captioned *Pucillo v. Dunleavy, et al.*, was filed by another shareholder against certain current and former directors and officers of the Company in the United States District Court for the District of New Jersey alleging similar claims for breach of fiduciary duty, unjust enrichment, and abuse of control relating to the now terminated agreement between VWP and ARENA. The *Pucillo* complaint seeks unspecified monetary damages and other relief. On August 2, 2016, the parties in the *Pucillo* lawsuit filed a Stipulation and Proposed Order pursuant to which: (i) the defendants agreed to accept service of the *Pucillo* complaint; (ii) the parties agreed to stay the *Pucillo* action pending the filing and resolution of a motion to consolidate the *Pucillo* action with the *Labare* and *Rywolt* actions; and (iii) the parties agreed that the defendants shall not be required to respond to the *Pucillo* complaint during the pendency of the stay. The Court approved the Stipulation on August 3, 2016.

On October 25, 2016, the Court approved and entered a Stipulation and Order that, among other things, (i) consolidated the four derivative actions; (ii) identified plaintiff *Pucillo* as the lead plaintiff in the consolidated actions; and (iii) stayed the consolidated actions pending the settlement hearing scheduled for November 14, 2016 in the securities class action and further order of the Court. During the month of August, 2017, the Company tentatively reached a settlement with the plaintiff subject to final documentation. The settlement, once finalized and if approved by the court, provides, among other things, for a settlement payment by or on behalf of the Company of \$350,000, of which the Company's insurer would pay the complete amount of \$350,000. As a result, the Company has accrued \$350,000 related to this matter as a probable and reasonably estimable loss contingency during the six months ended October 31, 2017. The Company also recorded a receivable of \$350,000 from its insurance carrier with the offset to the statement of operations.

On May 26, 2017, an attorney claiming to represent two stockholders sent the Company's Board of Directors a Stockholder Litigation Demand letter ("Stockholder Demand"). The Stockholder Demand alleges that the voting of shares for the 1-for-10 reverse stock split at the 2015 annual meeting of stockholders held on October 22, 2015 was not properly counted, and further alleges that, although the Company reported the reverse stock split as having been passed, if the vote was properly counted the reverse stock split would not have been approved. The Stockholder Demand requests the Board of Directors either to deem the reverse stock split as ineffective and disclose the same or to seek a proper and effective stockholder ratification of the reverse stock split. In addition, the Stockholder Demand requests the Board of Directors to adopt and implement adequate internal controls and systems to prevent the alleged improper voting from recurring. On June 23, 2017, the Company responded to the Stockholder Demand, explained the procedures that were followed for the 2015 annual meeting of stockholders and provided the Oath of the Inspector of Elections and the Certificate of the Inspector of Elections that certified as accurate the results of the voting at the meeting including voting on the reverse stock split proposal. On June 26, 2017, the attorney representing the alleged stockholders replied to the Company's response, further alleged that the proxy statement underlying the 2015 annual meeting provided voting instructions that misled the stockholders regarding whether their brokers could vote on the reverse stock split proposal, and renewed their requests of the Board. On July 24, 2017, the Company provided an additional response to the Stockholders Demand, denied the allegations, and declined to take any of the actions requested.

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. The Company and Mr. Dunleavy have agreed to suspend his alleged employment claims pending resolution of the shareholder litigation, and have since agreed to continue the suspension pending resolution of the derivatives litigation.

Except for the pending settlement noted previously, we have not established any provision for losses relating to these claims and pending litigation. Due to the stages of these proceedings, and considering the inherent uncertainty of these claims and litigation, at this time we are not able to predict or reasonably estimate whether we have any possible loss exposure or the ultimate outcome of these claims.

(b) Regulatory Matters

SEC Investigation

On February 4, 2015, the Company received a subpoena from the SEC requesting information related to the VWP Project. The Company has provided information to the SEC in response to that subpoena. As part of the same investigation, on July 12, 2016, the SEC issued second subpoena requesting information related to the Company's April 4, 2014 public offering. The Company has provided information to the SEC in response to that subpoena. The SEC investigation is ongoing and the Company continues to cooperate with the SEC in its investigation. We are unable to predict what action, if any, might be taken by the SEC or its staff as a result of this investigation or what impact, if any, the cost of responding to the SEC's investigation or its ultimate outcome might have on our financial position, results of operations or liquidity. We have not established any provision for losses relating to this matter.

Spain IVA (sales tax)

In June 2012, the Company received notice that the Spanish tax authorities are inquiring into its 2010 IVA (value-added tax) filing for which the Company benefitted from the offset of approximately \$0.3 million of input tax. The Company believes that the inquiry will find that the tax credit was properly claimed and, therefore, no liability

has been recorded. The Company issued two letters of credit in the amount of €0.3 million (\$0.3 million) at the request of the Spanish tax authorities. On January 31, 2017 the Company has received \$0.2 million from the Spanish Tax authorities as a result of the conclusion of the inquiry. In addition, during February 2017, the Spanish tax authorities approved of the release of the two outstanding letters of credit.

Spain Income Tax Audit

The Company is currently undergoing an income tax audit in Spain for the period from 2008 to 2014, when its Spanish branch was closed. The branch reported net operating losses for each of the years reported. It is anticipated that the Company will be assessed a penalty relating to these tax years for these losses. The Company has estimated this penalty to be \$132,000, and as such, for the period ended April 30, 2017 and October 31, 2017, has recorded \$132,000 for this penalty to Selling, general and administrative costs in its statement of operations.

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, 2017 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 14, 2017.

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 \$192.6 million as of October 31, 2017. As of October 31, 2017, the Company had approximately \$16.3 million in cash on hand. The Company generated revenues of \$0.3 million and \$0.4 million during the six months ended October 31, 2017 and 2016, respectively. Based on the Company's cash and cash equivalents and marketable securities balances as of October 31, 2017, the Company believes that it will be able to finance its capital requirements and operations into at least the quarter ending April 30, 2019.

We continue to experience operating losses and currently have only two revenue producing contracts. We continue to experience operating losses and currently have two revenue producing contracts. The first is an agreement with MES (the "MES Agreement") to, among other things, lease and deploy our PB3 PowerBuoy off Kozushima Island, Japan and to provide certain engineering and other services. The total value of the lease and other services to be provided by us under the MES Agreement is \$1.0 million. The term of the lease commenced in March 2017, and the term of the MES Agreement was completed in September 2017. The second contract is with 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. During fiscal 2017, our net burn rate (cash used in operations less cash generated by operations) including product development spending was approximately \$900,000 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 \$12.3 million in fiscal 2018 including product development spending of more than \$5.5 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 2018, 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 attributable to Ocean Power Technologies, Inc. of \$5.2 million during the six months ended October 31, 2017 and \$9.5 million in fiscal 2017. As of October 31, 2017, we had an accumulated deficit of \$192.6 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.

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 (1) | 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 | 1,683 | \$ 1.30 | - | - |
| October 1 - October 31 | - | \$ - | - | - |

(1) Represents shares delivered back to the Company by employees to pay taxes related to the vesting of restricted shares.

Item 3. *DEFAULTS UPON SENIOR SECURITIES*

None.

Item 4. *MINE SAFETY DISCLOSURES*

Not applicable.

Item 5. *OTHER INFORMATION*

None.

Item 6. EXHIBITS

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, 2017, formatted in eXtensible Business Reporting Language (XBRL): (i) Consolidated Balance Sheets – October 31, 2017 (unaudited) and April 30, 2017, (ii) Consolidated Statements of Operations (unaudited) – three and six months ended October 31, 2017 and 2016, (iii) Consolidated Statements of Comprehensive Loss (unaudited) – three and six months ended October 31, 2017 and 2016, (iv) Consolidated Statements of Cash Flows (unaudited) – six months ended October 31, 2017 and 2016, (v) Consolidated Statement of Stockholders' Equity (unaudited) – six months ended October 31, 2017 (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 12, 2017 By: */s/ George H. Kirby III*
George H. Kirby III
President and Chief Executive Officer

Date: December 12, 2017 By: */s/ Matthew T. Shafer*
Matthew T. Shafer
Chief Financial Officer

