

Energy, Environmental & Industrial Technologies

1 **Ocean Power Technologies Inc. Fiscal Third Quarter 2015**
2 **Call Script**

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4 **03/07/2015 Version 3.0**

5 **Operator Comments**

6 Good day ladies and gentlemen, and welcome to the third quarter
7 fiscal year 2015 Ocean Power Technologies conference call. My
8 name is _____ and I'll be your coordinator for today.
9 **(Operator Instructions)** As a reminder, this conference call is being
10 recorded for replay purposes.

11
12 I would now like to turn the presentation over to your host for today's
13 call, Mr. Shawn Severson of The BlueShirt Group.

14
15 **Shawn Severson - Introduction**

16 Thank you and good morning. Thank you for joining us on OPT's
17 conference call and webcast to discuss the financial results for the 3-
18 month period ended January 31, 2015.

19
20 On the call with me today are George Kirby, President and CEO; and
21 Mark Featherstone, Chief Financial Officer. George will provide an
22 update on the company's recent developments, key activities and
23 strategy, after which Mark will review the financial results for the third
24 quarter.

25
26 Following our prepared remarks, we will open the call to questions.
27 This call is being webcast along with our earnings presentation on our
28 website, at www.oceanpowertechnologies.com. The presentation
29 material can be accessed through the Investor Relations section of
30 our website.

31
32 The webcast will be posted at www.oceanpowertechnologies.com for
33 replay approximately 2 hours following the end of this call. The replay
34 will stay on the site for on-demand review over the next several
35 months.

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36

37 [Note: Shawn Severson to read safe harbor language] Before we get
38 started, please turn to Slide 2 of our Slide Presentation where you
39 see a notice regarding the use of projections or other forward-looking
40 statements during this call as well as regarding future events or
41 financial performance of the Company within the meaning of the Safe
42 Harbor Provision of the Private Securities Litigation Reform Act of
43 1995.

44

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

47

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

49 Thank you, Shawn. Good morning, everyone. Although I've already
50 spoken with many of you on this call, I want to take a moment to
51 introduce myself. I joined OPT as CEO at the beginning of this year
52 and I'm excited about the prospects of our technology applications in
53 our chosen markets. We've performed an in-depth review of the
54 company's operations, strategy and commercialization initiatives and
55 I'm very enthusiastic about the opportunities ahead of us. I'm looking
56 forward to working with our customers, the OPT team and
57 shareholders as we transform our company into a leading energy
58 technology company.

59

60 Let's begin with Slide 3 as I'd like review some of the recent
61 developments at OPT.

62

63 First..... I'm excited to say that we have 3 PowerBuoy deployments
64 planned for calendar 2015. I'll be providing more details on this later.

65

66 Additionally, we've made significant progress on the redesign of the
67 APB-350. The new power take-off design, or PTO, is lighter weight,
68 less expensive and, we believe more durable. In addition to
69 deployments, our plan is to demonstrate durability using a highly
70 accelerated life test, or "HALT", which is scheduled to begin in May.

71

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72 Other recent highlights include significant work on the Mitsui
73 Engineering & Shipbuilding contract. As a reminder, this contract is
74 undergoing a stage-gate review, as more fully described in the MD&A
75 section of our latest 10-Q.

76

77 Lastly, we received \$1.1 million through the New Jersey Tax
78 certificate program. This cash infusion will be used to help offset our
79 product development costs and company operations.

80

81 Moving to Slide 4... I'd like to provide additional color around our
82 planned PowerBuoy deployments. We recently completed the
83 relocation and reassembly of the PB40 PowerBuoy in Bayonne, New
84 Jersey. From a timing perspective, we expect the PB40 to be fully
85 tested and ready for deployment later this month, and it will be our
86 first in calendar 2015. Actual deployment is expected to occur as
87 soon as final permits are received, and an acceptable weather
88 window opens. The PB40 features our modular PTO, which can be
89 scaled for buoys of various sizes and a range of power outputs.
90 Furthermore, several of the PB40 components and subsystems are
91 common to our APB-350 PowerBuoy and we expect that the PB40
92 deployment will further validate critical design and performance
93 parameters related to the on-going APB-350 optimization.

94

95 The second expected deployment is our optimized APB-350
96 PowerBuoy. What I will tell you is that this device is a strategic fit for
97 us, as we believe that we remain well-positioned to capitalize on the
98 growing market for off-grid power production at smaller scales. We
99 are excited about our next generation APB-350, referred to as A1.
100 We expect to deploy this prototype in the summer of 2015. A1 will
101 utilize the existing buoy *structure* deployed in 2013 and will include a
102 newly designed PTO and upgraded components.

103

104 Our third planned 2015 deployment will be the APB-350 A2. This unit
105 is being designed with an optimized geometry for improved operating
106 efficiency as well as reduced fabrication, transportation and
107 deployment costs. Our plan is for A2 to also incorporate an improved
108 energy storage system and to undergo a preliminary design review in

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109 the second calendar quarter of 2015, with a planned deployment in
110 late 2015.

111

112 Turning to Slide 5..... I'd like to discuss the key strategic shift we are
113 making at OPT. After conducting a comprehensive review of our
114 technology, markets and opportunities, we believe the highest-return
115 opportunity for our technology is in smaller scale applications, which
116 offers a number of benefits versus larger utility-scale power projects,
117 and will better serve our company and shareholders.

118

119 We believe this will result in a more manageable technical roadmap
120 with more near-term deployment opportunities and better risk and
121 cost management. We also believe this strategy gives us a more cost
122 competitive solution and, as a result, will lead to faster commercial
123 revenues.

124

125 There are four key market segments which we are targeting: ocean
126 observing, offshore wind, defense and security, and oil and gas. To
127 help you better understand how our technology functions in these
128 markets, I'd like to provide you with two examples.

129

130 Let's start with the ocean observing industry. There are several
131 thousand systems deployed today, collecting various meteorological
132 and ocean data to support weather monitoring and prediction, and to
133 support studies in climate change and maritime operations. This data
134 is also important to defense and security, as well as the oil and gas
135 industries which must design, build, and operate structures that
136 endure this harsh ocean environment. These systems predominantly
137 use battery and solar power, which lasts from three to twelve months
138 before requiring service. Ocean Power Technologies' PowerBuoy
139 system is intended to provide these industries with significantly more
140 continuous power than is commercially available today for
141 autonomous applications, and with what we expect to be a
142 substantially longer service interval, thus enabling new or enhanced
143 data collection opportunities.

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145 The offshore wind industry is also very exciting for us. It requires
146 substantial data to determine ocean environment and wind resource
147 conditions for turbine design and layout, power generation prediction,
148 and for financing purposes. A wave powered mobile monitoring
149 system is a re-deployable asset for use across multiple projects
150 during early-stage development, or advantageous during the entire
151 project life-cycle for monitoring and correlation of project output to
152 wind resources. We see significant opportunities in this market in the
153 UK, and there is growing potential in the US and Asian markets.

154

155 Moving onto Slide 6...as mentioned in our recent public
156 announcements, we have carried out a strategic pivot: We are
157 shifting our focus toward what we believe to be a faster path to
158 commercial revenues, with lower technical and manufacturing risk,
159 and a lower and more attractive overall cost. We are moving away
160 from large utility-scale project development to address the needs of
161 autonomous remote applications as our first priority. We believe that
162 our products and technologies will offer disruptive and enabling
163 advantages, such as reliable and persistent power supply, reduced
164 maintenance and support, competitive economic value, and multi-
165 sensor capabilities given increased power, and enhanced interface
166 and packaging compatibility.

167

168 As previously mentioned, A1 is anticipated for deployment this
169 summer, demonstrating what we expect will be our commercial-ready
170 PTO system. A2 deployment is expected later in 2015, and we expect
171 this to demonstrate our commercial-ready structure. The goal of
172 these efforts is to help us to validate the reliability, seaworthiness and
173 manufacturability of the APB-350. Also discussed earlier, we're
174 preparing to deploy our PB40 when permitting and weather allow. In
175 addition to incorporating our modular PTO technology, the PB40
176 includes various components and subsystems that are used onboard
177 the APB350. This deployment will provide additional important data
178 related to performance risk of the 350, as well as critical information
179 related to the scalability of our technology in general.

180

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181 I'll now turn it over to Mark, who will review our financial results in the
182 quarter.

183

184 **Mark A. Featherstone- Chief Financial Officer**

185 Thanks, George, and good morning, everyone. I will now briefly
186 review results for the third quarter before we go on to questions.

187

188 Turning to Slide 7, revenue in the third quarter of fiscal 2015 of \$0.3
189 million increased \$0.1 million from the same period last year. The
190 higher revenue in the quarter reflects the increased billable work
191 under the current phase of our project with Mitsui Engineering &
192 Shipbuilding ("MES"). As George noted, the MES project is currently
193 undergoing a stage gate review which is further discussed in the
194 MD&A section of our latest Form 10-Q.

195

196 The net loss for the three months ended January 31, 2015 was \$2.2
197 million as compared to a net loss of \$0.8 million for the three months
198 ended January 31, 2014. The increase in the Company's net loss
199 year-over-year primarily reflects increased product development
200 costs associated with our PB40 PowerBuoy prototype that we intend
201 to deploy off the coast of New Jersey and increased costs with the
202 next generation of the prototype APB-350. In addition, costs related
203 to consulting fees and patent amortization were also higher. These
204 increases were partially offset by decreased site development
205 expenses related to our terminated project in Australia. The increase
206 in net loss was also a result of a decrease in income tax benefits
207 compared to the prior year and losses on foreign exchange.

208

209 For the nine months ended January 31, 2015, OPT reported revenue
210 of \$3.6 million, as compared to revenue of \$1.1 million for the nine
211 months ended January 31, 2014. The increase in revenue year-over-
212 year is primarily due to increased billable work for the removal of the
213 anchoring and mooring equipment from the seabed off the coast of
214 Oregon, increased billable work under the current phase of our
215 project with MES and the completion of our WavePort contract with
216 the European Union. These increases were partially offset by

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217 decreased revenue on other billable development projects.

218

219 The net loss for the nine months ended January 31, 2015 was \$9.9
220 million, as compared to a net loss of \$7.9 million for the nine months
221 ended January 31, 2014. The increase in the Company's net loss
222 year-over-year primarily reflects increased estimated project costs
223 associated with our contract with MES, increased legal fees as well
224 as higher consulting and patent amortization costs. These increases
225 were partially offset by decreased product development costs due to
226 the substantial completion of our cost-sharing contract with the US
227 Department of Energy ("DOE"), for our Reedsport project in Oregon.
228 In addition, there were decreased costs associated with other
229 internally funded development projects, in addition to lower employee
230 related costs and decreased site development expenses related to
231 our terminated project in Australia.

232

233 Turning now to the balance sheet on Slide 8.

234

235 Total cash, cash equivalents, restricted cash and marketable
236 securities was \$20.5 million as of January 31, 2015, compared to
237 \$19.6 million as of January 31, 2014.

238

239 With that, I'll turn it back to George before we open the call up for
240 questions.

241

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

243 Thanks Mark.

244

245 Let's turn to Slide 9 please. In summary, we're focused on smaller
246 scale, off-grid wave power, with what we believe are significant
247 opportunities in our target markets. In the third quarter, we further
248 increased our technical capabilities with additional engineering
249 resources to help us accelerate our product development and
250 commercialization, with a continued focus on reliability, durability and
251 life-cycle costs. We have three deployments planned for calendar
252 year 2015 to validate these criteria, and we believe that our
253 accelerated life testing will provide additional confidence in our PTO

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254 design. We continue to believe that we have strong growth prospects
255 in front of us. Key markets include offshore wind, oil and gas, defense
256 and security, and ocean observing. And these markets continue to
257 benefit from long-term growth trends; we believe our solutions will
258 play a critical role, just as our market engagements are confirming
259 their significant interest in off-grid autonomous power applications.

260

261 Thank you for your support and time today. Operator, we're now
262 ready to take questions.

263

264 **Question-and-Answer Session**