Ocean Power Technologies, Inc.
Form S-1
September 07, 2016
As filed with the Securities and Exchange Commission on September 7, 2016

Registration No. 333-

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

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Form S-1

REGISTRATION STATEMENT

UNDER

THE SECURITIES ACT OF 1933

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Ocean Power Technologies, Inc.

(Exact name of registrant as specified in its charter)

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Delaware	**4911**	**22-2535818**
(State or other jurisdiction of incorporation or organization)	(Primary Standard Industrial Classification Code Number)	(I.R.S. Employer Identification No.)

1590 Reed Road
Pennington, New Jersey 08534
(609) 730-0400

(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

George H. Kirby
Chief Executive Officer
Ocean Power Technologies, Inc.
1590 Reed Road
Pennington, New Jersey 08534
(609) 730-0400

(Name, address, including zip code, and telephone number, including area code, of agent for service)

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Approximate date of commencement of proposed sale to the public: As soon as practicable after the effective date of this registration statement.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933 check the following box. [ ]

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. [ ]

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. [ ]

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. [ ]

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.

Large accelerated filer [ ]	Accelerated filer [ ]
Non-accelerated filer [ ] (Do not check if a smaller reporting company)	Smaller reporting company [X]

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CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered	**Proposed Maximum Aggregate Offering Price**	**Amount of Registration Fee**
Common Stock, par value $0.001 per share	$12,500,000 (1), (2)	$1,259

(1) Includes common stock to be sold upon exercise of the underwriters' option. See "Underwriting."

(2) The proposed maximum aggregate offering price has been estimated solely for the purpose of calculating the registration fee pursuant to Rule 457(o) of the Securities Act of 1933, as amended.

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The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with section 8(a) of the Securities Act of 1933 or until the registration statement shall become effective on such date as the Commission acting pursuant to said section 8(a), may determine.

The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

Subject to completion, DATED SEPTEMBER 7, 2016

PROSPECTUS

Shares of Common Stock

This prospectus relates to the offer and sale of shares of common stock of Ocean Power Technologies, Inc.

Our common stock is quoted on the NASDAQ Capital Market under the symbol “OPTT.” The last reported sale price of our common stock on September 6, 2016 was $7.85 per share.

Investing in our securities involves significant risks that are described in the “Risk Factors” section beginning on page 8 of this prospectus.

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	Price to Public	Underwriting Discounts and Commissions (1)	Proceeds to us
Per Share	$	$	$
Total	$	$	$

(1) We have also agreed to reimburse the underwriters for certain of their expenses. We refer you to ‘‘Underwriting’’ beginning on page 50 for additional information regarding total underwriting compensation.

The underwriters may also purchase up to an additional shares of common stock from us at the public offering price above, less the underwriting discounts and commissions, within 30 days of the date of this prospectus to cover any over-allotments.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities, or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The underwriters expect to deliver the shares of common stock to purchasers on or before , 2016.

The date of this prospectus is , 2016.

Roth Capital Partners Maxim Group LLC

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ABOUT THIS PROSPECTUS

You should rely only on the information contained in or incorporated by reference into this prospectus. We have not authorized anyone to provide you with additional or different information. We are offering to sell, and seeking offers to buy, shares of common stock only in jurisdictions where offers and sales are permitted.

This prospectus contains forward-looking statements that are subject to a number of risks and uncertainties, many of which are beyond our control. Please read “Risk Factors” and “Cautionary Note Regarding Forward-Looking Statements.”

Certain industry and market data presented in this prospectus has been derived from data included in various industry publications, surveys and forecasts. We have assumed the correctness and truthfulness of such data, including projections and estimates, when we use them in this prospectus.

PROSPECTUS SUMMARY

This summary highlights information contained elsewhere in or incorporated by reference into this prospectus. Because this summary provides only a brief overview of the key aspects of the offering, it does not contain all of the information that you should consider before investing in our common stock. You should read the entire prospectus carefully, including "Risk Factors" beginning on page 8, "Cautionary Note Regarding Forward-Looking Statements" beginning on page 27 and the documents incorporated by reference, which are described under "Incorporation of Certain Information by Reference," before making an investment decision. As used in this prospectus, unless otherwise indicated, "we," "our," "us," "Company" or similar terms refer collectively to Ocean Power Technologies, Inc. and its operating subsidiaries.

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 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 are expensive to operate while also limited in their electric power delivery. These incumbent systems often require significant tradeoffs in sensor accuracy, data processing and communications bandwidth and frequency in order to operate with available power. More persistent power systems requiring less maintenance, like our systems, may have the ability to save costs over current operating systems. Just as importantly, increases in available power may allow for better sensors and shorter data sampling and communication intervals up to real-time which could as a result improve scientific and economic returns.

Founded in 1994 and headquartered in Pennington, New Jersey, we believe we are the leader in ocean wave power. We are developing and seeking to commercialize our proprietary systems that generate electricity by harnessing the renewable energy of ocean waves. Our PowerBuoys® use proprietary technologies that convert the mechanical energy created by the heaving motion of ocean waves into electricity. We currently have designed and continue to develop our PowerBuoy product line which is based on modular, ocean-going buoys, which we have been periodically ocean testing since 1997.

We have designed our autonomous PowerBuoy to generate power for use in remote locations, independent of an existing power grid. Our current PowerBuoy product, the PB3, incorporates a unique power take-off ("PTO") and onboard system for energy storage and management, and is significantly smaller than our previous iteration utility-scale PowerBuoy. The PowerBuoy provides up to 3 kilowatts (kW) of peak power and 300 watts of continuous average power, which is deployment site dependent whereby average power can increase substantially in higher energy sites. Our standard energy storage system ("ESS") has an energy capacity of 44 kilowatt hours (kWh), scalable

up to 150 kWh to meet specific application requirements. We are continuing to develop and test our PowerBuoys, including incremental scale up in power production. We believe there is a substantial addressable market for the current capabilities of our PB3 model, which we believe could be utilized in a variety of applications.

Our PB3 PowerBuoy design leverages portions of earlier features that we do not believe require further validation prior to implementation in our current products. Currently, our product development and engineering efforts are focusing primarily on developing technologies that will increase the energy output and reliability of our product through design scalability to meet and to maintain quality and speed time to our targeted markets. Our marketing and development efforts are targeting applications that require reliable, persistent, and sustainable power sources operating independently of the utility grid, either by supplying electric power to payloads that are integrated directly in our PowerBuoy or located in its vicinity, including on the seabed.

Based on our market research and available public data, management believes that there is the potential for us to pursue business opportunities in multiple markets that would have a direct need for our PowerBuoys including oil and gas, ocean observing, defense and security, communications, and offshore wind. Depending on power needs, sensor types and other considerations, we believe our PowerBuoy could have the ability to satisfy several application requirements within these markets. We believe that the PB3 generates sufficient persistent power to meet the application needs of many of the potential customers within our target markets. We are continuing our development efforts to increase the energy output of the PowerBuoy to generate more power required for other applications within these 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 and development of our PowerBuoys. Our goal is that an increased portion of our revenues be from the sale or lease of our products and sales of services, as compared to revenue from grants 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 2015 and 2016, we continued work on projects with the U.S. Department of Energy ("DOE"), and Mitsui Engineering and Shipbuilding Co., Ltd. ("MES"), with whom we signed our first commercial leasing agreement in May 2016, and we continued our efforts to increase the reliability and power output of our PowerBuoys.

Competitive Advantages

We are currently seeking to commercialize our PowerBuoy by targeting customers principally in five markets (as discussed in further detail below) that require reliable, persistent, and sustainable power sources operating independently of the utility grid. We believe that our technology for generating electricity from wave energy and our commercial relationships may offer the following potential competitive advantages in the markets we are targeting for commercial sales and leases of our PowerBuoy and related products and services.

Ocean-tested technology to generate electricity. We have conducted a number of ocean tests of our PowerBuoy since 1997 seeking to validate and demonstrate the viability of our technology, including several ocean trials of our larger scale prototype PowerBuoys. We have also conducted multiple ocean tests of our autonomous PowerBuoy, initially through a previous iteration of our current autonomous PowerBuoy under a contract with the U.S. Navy in 2011. Our PowerBuoy structure is designed to be durable and has survived hurricanes and winter storms while deployed in the ocean.

Efficient design in harnessing wave energy. We have designed our PowerBuoy to optimize the power generated for average ocean wave conditions through efficient mechanical to electrical wave energy conversion. We have designed the onboard ESS to provide several days of continuous rated power during low or no wave periods. Our PowerBuoy is

equipped with a variety of communication capabilities including satellite, cellular, and Wi-Fi that transmits data in real time, subject to the limits of the carrier or service provider that is collected by its various payloads (e.g., sensors or equipment that require power and communications capabilities).

Numerous applications within multiple, major market segments. We have designed our PowerBuoy systems to work in multiple offshore applications around the world. In particular, we are targeting our marketing to customers with applications in the oil and gas, ocean observing, defense and security, offshore wind and communications.

Prior commercial relationships enabled the development of our technology. Our prior and existing relationships with the U.S. Navy, DOE, U.S. Department of Homeland Security, and MES have allowed us to develop our PowerBuoys for a variety of needs in various industries. We believe these relationships have helped position us within the industry in support of commercialization, which we believe enhances our market visibility and attractiveness to our prospective customers. For example, our PowerBuoy provided persistent power to an integrated radar and sonar system, signficantly extending the U.S. Navy's surveillance. We have also demonstrated persistent maritime vessel detection with the U.S. Department of Homeland Security by integrating a hydrophone onto our PowerBuoy and demonstrating enhanced maritime traffic detection. In each instance, resulting critical data have informed our next design iterations to address critical operations and reliability improvements.

Greater and more persitent power compared to certain existing, incumbent solutions. We believe that our PowerBuoy may provide more power than certain existing battery, solar, and other powered systems. This added power could enable additional sensors to be employed at the application site, or allow for a higher rate of sensor data transmission. We also believe that greater and more persistent power could extend the application's operating period.

Potentially considerable life cycle cost savings over incumbent solutions. Our PowerBuoys are designed to operate over extended intervals between required servicing as compared to battery-powered systems which we believe generally require more frequent recharging or replacement. We have developed several case studies around ocean observing applications which illustrate that our PowerBuoy system may reduce costs over multi-year operation of an application as compared with incumbent solutions. These cost reductions are mostly due to lower vessel and personnel servicing costs associated with the retrieval and redeployment of current battery-powered solutions.

Modular and scalable designs. Our PowerBuoy systems are designed with a modular ESS which will allow us to tailor the PowerBuoy configuration to specific application requirements, including expansion of energy storage capacity. We believe that our PowerBuoys are scalable to higher power levels, and may also be installed in an array in order to achieve higher levels of aggregate power generation, although we have not demonstrated a PowerBuoy array to date.

Real-time data communications. Some incumbent solutions with less available power than our PowerBuoy may have limited communication capabilities or may be able to communicate data only over shorter periods due to power limitations. Some incumbent solutions may only make data accessible upon physical retrieval of the sensor. Our PowerBuoys can be equipped with a variety of communications equipment which enables the transmission of data on a more frequent basis as compared to incumbent solutions. We believe that more frequent data communication could enable an end-user to more quickly and proactively make data-driven decisions which could result in economic advantages.

Flexible electrical, mechanical and communication interfaces for sensors. Our PowerBuoys can be equipped with sensor packages, either mounted on or within the PowerBuoy, or tethered to the PowerBuoy. Our PowerBuoys have mechanical and electrical interfaces which may allow for simplified integration of sensors, creating flexibility for the end user.

Standard transportation and deployment. Our PowerBuoy is designed for transportation and handling using conventional means that are readily available and used in standard marine operations. Our PowerBuoy can be packaged inside of a standard 40 foot shipping container which may result in lower transportation and deployment costs than incumbent solutions. Our autonomous PowerBuoy can be transported and deployed using conventional vessels, and can be lifted using conventional marine cranes.

Environmentally benign and aesthetically non-intrusive system design. We believe that our PowerBuoy does not present significant risks to marine life, or emit significant levels of pollutants, and therefore has minimal environmental impact. We believe there is no significant audible impact and such systems have not been shown to have a negative effect on marine life as validated by the US Navy and DOE.

Business Strategy

As part of our strategic pivot toward smaller scale autonomous, remote offshore power, we are currently focused on developing and commercializing our PowerBuoy products and services for use in autonomous power applications. Generally, these applications are independent of the power grid and are situated in remote offshore locations. We have incorporated our prior knowledge and best practices into our product design and validation processes, some of which were gained during the development of utility-scale buoys. Based on market research and available public data, we believe considerable business opportunity could exist in markets which require autonomous offshore power.

Our business strategy is to commercialize our autonomous PowerBuoy systems. In order to achieve this goal, we are pursuing the following business objectives:

Sell and/or Lease PowerBuoys. We believe our autonomous PowerBuoy is well suited for many remote offshore applications. Within our selected markets we intend to sell or lease PowerBuoys, and provide services associated with product sales or leases such as maintenance, application engineering, planning, training, and logistics support required for the PowerBuoy life-cycle.

Concentrate sales and marketing efforts in specific geographic markets. We are currently focusing our sales and marketing efforts in North America, Europe, Australia, and parts of Asia, including Japan. We believe that each of these areas has appropriate wave conditions, political and economic stability, sizeable end market opportunities, and high levels of industrialization and economic development.

Expand our relationships in key market areas. 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"), and Gardline Environmental (an international and multi-disciplinary marine service company at the forefront of marine management with offices on five continents) We continue to seek other opportunities to collaborate with application experts from within our selected markets.

Outsource most of the equipment fabrication and deployment. 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. However, 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 value-adding core competencies while also enabling the cost effectiveness of our PowerBuoy through leveraging a larger more qualified supply base.

Continue to increase PowerBuoy output. Our product development and engineering efforts are focused on increasing the energy output, reliability, and expected operating life of our PowerBuoys, as well as optimizing manufacturability of our designs with a focus on cost competitiveness. We believe that by increasing the energy output we will be able to address larger segments of our target markets.

Market Opportunity

The National Oceanographic and Atmospheric Administration ("NOAA") Ocean Enterprise Report for 2016 estimated that the annual market for what NOAA describes as the "Ocean Enterprise" is $7 billion. The report addressed businesses involved in the for-profit and not-for-profit businesses that support ocean measurement, observation and forecasting. Among the market sectors included in the report are oil and gas, ocean observing and security and defense sectors.

Oil and Gas

We believe the oil and gas industry is undergoing a significant transformation. In light of industry consolidation due to relatively low oil prices, the industry continues to invest in new technologies that enable cost savings as well as the digitization of operations. The industry encompasses more than 10,000 sites, including exploration, production, reservoir management, and sites pending decommissioning based on information from the U.S. Bureau of Safety and Environmental Enforcement and industry organizations and publications. We believe that opportunities exist at a large number of these sites to provide power in applications that are not currently possible, or to displace incumbent power solutions.

Ocean Observing

Ocean observing provides information for the entire ocean enterprise, which supports ocean measurement, observation and forecasting, and is an important provider of information to maritime commerce and the entire "blue economy". Maritime commerce and the scientific community depend on information about areas such as weather, climate change, ocean seismometry, meteorology, and biological processes in order to inform operations and development and often require a power and communications solution in remote offshore locations. According to the NOAA's 2016 Ocean Enterprise report, the total U.S. available market over the five years beginning 2017 for ocean based systems infrastructure is $2.0 billion. Annual 2014 revenues for this sector were projected to be $287 million.

Security and Defense

We believe that a PowerBuoy can be used to provide power and communications for multiple applications, based on our current design which allows for multiple payloads to be integrated with or supported by the PowerBuoy. This may be an attractive feature for defense and security, as their systems can hide in plain sight or be easily integrated into other PowerBuoy applications. Example applications for domestic and international defense departments and defense contractors include forward deployed energy and communications outposts, above and below sea surface, early detection and warning systems, remote sensing stations, high frequency radar, sonar, electro-optical and infrared sensors for maritime security, network communications systems, and unmanned underwater vehicle docking stations. According to a 2014 Frost and Sullivan report, market expenditures for global security reached $29 billion in 2012 and are projected to reach $56.5 billion in 2022. Maritime security expenditures were approximately 45% of the market.

Other Markets

We believe that opportunities also exist in markets such as communications and offshore wind.

With regard to communications, the addition of nearshore and offshore cellular and WiFi platforms with persistent power could decrease communications costs for the marine and airline industries. As an example, according to a 2015 Frost & Sullivan Oil & Gas Satellite Communications market report, the estimated 2020 annual spend on satellite communications in this market projected at $459 million.

We also believe that opportunities also exist in the offshore wind market. There are approximately 9 GW of offshore wind installed worldwide as of the first quarter of 2015 according to an U.S. National Renewable Energy Laboratory ("NREL") 2014 - 2015 Offshore Wind Technologies Market report. This cumulative capacity is projected to increase to nearly 45 GW of installed capacity for projects with an announced Commercial Operations Date ("COD") through 2020. The NREL report projected a cumulative pipeline of nearly 250 GW for all projects, including those in the planning or early stages. For offshore wind applications, the PowerBuoy could be equipped with a Light Detection and Ranging system to provide wind data for application in this market, after validation of the integrated system.

Recent Developments

On July 27, 2016, we completed a best efforts public offering of 595,000 units, with each unit consisting of one share of common stock and 0.3 of a warrant to purchase one share of our common stock. Each unit was sold at a combined purchase price of $6.75 per unit. The warrants were immediately exercisable at a price of $9.36 per full share of common stock and are exercisable for a period of five years from the initial exercise date. In the offering, we issued a total of 595,000 shares of its common stock and warrants to purchase up to 178,500 shares of its common stock. We received net proceeds of approximately $3.6 million from the offering which we intend to use for general corporate purposes such as sales and marketing of our PowerBuoys, and which may also include additional development, testing and demonstrations of our PowerBuoy system.

Corporate Information

Our principal executive offices are located at 1590 Reed Road, Pennington, New Jersey 08534, and our telephone number is (609) 730-0400. We were incorporated in New Jersey in 1984 and reincorporated in Delaware in 2007. We maintain a website at www.oceanpowertechnologies.com where general information about us is available. We are not incorporating the contents of the website into this prospectus.

The Offering

Common stock offered by us	shares, or shares if the underwriters exercise their option to purchase additional shares of our common stock in full
Issue price	$ per share
Common stock outstanding immediately after this offering	shares, or shares if the underwriters exercise their option to purchase additional shares of our common stock in full
Use of proceeds	We estimate that our net proceeds from this offering will be approximately $ million (based on an assumed price of $ per share, which is the last reported sales price of our common stock on the NASDAQ Capital Market on , 2016) after deducting underwriting discounts and commissions and estimated offering expenses, or approximately $ million if the underwriters' option to purchase additional shares is exercised in full. We intend to use the net proceeds from this offering for general corporate purposes, which may include additional development, testing and demonstrations of our PowerBuoy system with the goal of furthering and accelerating our commercialization efforts and expanding our sales and marketing functions. Accordingly, we will retain broad discretion over how the net proceeds are used. For more, see "Use of Proceeds".
Dividend policy	We have not declared or paid any cash or other dividends on our common stock, and do not expect to declare or pay any cash or other dividends on our common stock in the foreseeable future.
Risk factors	You should consider carefully the risks discussed under the "Risk Factors" beginning on page 8 of this prospectus, as well as those described in our Annual Report on Form 10-K for the year ended April 30, 2016, as amended, and the other disclosures contained or incorporated by reference herein and therein.
NASDAQ Capital Market symbol	OPTT

The number of shares of common stock to be outstanding after this offering is based on shares outstanding as of the date of this prospectus and excludes (i) options outstanding as of that date representing the right to purchase a total of shares of common stock at a weighted average exercise price of approximately $ per share, (ii) 380,000 shares of common stock that may be issued in the future pursuant to a settlement agreement of certain pending securities litigation, which is subject to court approval and other requirements, (iii) outstanding warrants to purchase up to 145,952 shares of our common stock that will first become exercisable beginning on December 8, 2016

at a price of $6.08, and (iv) outstanding warrants to purchase up to 178,500 shares of our common stock which are currently exercisable at a price of $9.36.

Unless otherwise indicated, all information in this prospectus give effect to the 1-for-10 reverse stock split of the common stock that went into effect on October 27, 2015.

RISK FACTORS

Investing in our common stock involves substantial risk. You should carefully consider the risk factors disclosed below as well as those contained in our most recent Annual Report on Form 10-K, as amended, which is incorporated by reference herein, as updated by our subsequent filings under the Exchange Act and the other information contained in this prospectus before acquiring any of our common stock. These risks could have a material adverse effect on our business, results of operations or financial condition and cause the value of our common stock to decline. You could lose all or part of your investment.

This prospectus also contain or incorporate by reference forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those anticipated in the forward-looking statements as a result of certain factors, including the risks faced by us described or incorporated by reference in this prospectus. See "Cautionary Statement Regarding Forward-Looking Information."

Risks Related to Growth of our Business

We depend on a limited number of customers for substantially all of our revenues. The loss of, or a significant reduction in revenues from, any of these customers could significantly reduce our revenues and harm our operating results.

Historically, a small number of customers have provided substantially all of our revenues, and these revenues have been generated under development and cost reimbursement agreements rather than commercial contracts. The European Union ("E.U.") accounted for 58%, the DOE accounted for 28% and MES accounted for 14% of our revenues during fiscal 2016. In fiscal 2015, revenues from the E.U. accounted for 23%, revenues from the DOE accounted for 37% and revenues from MES accounted for 40% of our total revenues. Our existing contracts with the DOE were completed in fiscal 2016. In order to receive future funding from the DOE, we would be required to enter into additional contracts with the DOE, which would require appropriation by the U.S. Congress. Additional funding for projects may not be approved or we may not be able to negotiate future agreements on acceptable terms, if at all.

Generally, we recognize revenue using the percentage-of-completion method based on 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 our customer acknowledges that such criteria have been satisfied. In addition, recognition of revenue (and the related costs) may be deferred for fixed-price contracts until contract completion if we are unable to reasonably estimate the total costs of the project prior to completion. Because we currently have a small number of customers and contracts, problems with a single contract would adversely affect

our business, financial condition and results of operations.

We currently only have one revenue producing contract, which is our agreement with MES. Historically, we have relied on a small group of customers for substantially all of our revenue, and we expect that such concentration will continue for the foreseeable future. A customer's payment default, or the loss of a customer as a result of competition, creditworthiness, our failure to perform, our inability to negotiate extensions or replacements of contracts, or otherwise, would adversely affect our business, financial condition and results of operations. We cannot assure you that we will be successful in our efforts to secure additional commercial customers, or additional revenue-generating contracts.

Wave energy technology may not gain broad commercial acceptance and, therefore, our revenues may not increase and we may be unable to achieve and, even if achieved, sustain profitability.

Wave energy technology is at an early stage of development, and the extent to which wave energy power generation will be commercially viable is uncertain. Many factors may affect the commercial acceptance of wave energy technology, including the following:

- performance, reliability and cost-effectiveness of wave energy technology compared to autonomous conventional and other renewable energy sources and products;
- developments relating to other renewable energy generation technologies;
- fluctuations in economic and market conditions that affect the cost or viability of conventional and renewable energy sources, such as increases or decreases in the prices of oil and other fossil fuels;
- overall growth in the renewable energy equipment market;
- availability and terms of government subsidies and incentives to support the development of renewable energy sources, including wave energy; and
- the development of new and profitable applications requiring the type of remote electric power provided by our autonomous wave energy systems.

If wave energy technology does not gain broad commercial acceptance, it is unlikely that we will be able to commercialize our PowerBuoy and our business will be materially harmed, in which case, we may curtail or cease operations.

If sufficient demand for our PowerBuoys does not develop or takes longer to develop than we anticipate, our revenue generation will be limited, and it is unlikely that we will be able to achieve and, if achieved, then sustain profitability.

Even if wave energy technology achieves broad commercial acceptance, our PowerBuoys may not prove to be a commercially viable technology for generating electricity from ocean waves. We have invested a significant portion of our time and financial resources since our inception in the development of our PowerBuoys, but have not yet achieved successful commercialization of our PowerBuoys. As we seek to begin to manufacture, market, sell and deploy our PowerBuoys in greater quantities, we may encounter unforeseen hurdles that would limit the commercial viability of our PowerBuoys, including unanticipated manufacturing, deployment, operating, maintenance and other costs. Our

target customers and we may also encounter technical obstacles to deploying, operating and maintaining PowerBuoys.

If demand for our PowerBuoys fails to develop sufficiently, it is unlikely that we will be able to grow our business or generate sufficient revenues to achieve and then sustain profitability. In addition, demand for PowerBuoys in our presently targeted markets, including coastal North America, Europe, Australia and Japan, may not develop or may develop to a lesser extent than we anticipate.

If we are not successful in commercializing our PowerBuoy, or are significantly delayed in doing so, our business, financial condition and results of operations will be adversely affected.

Our strategic pivot in our business may not be successful.

Our going forward business strategy is based on the fundamental assumption that our pivot away from the utility-scale PowerBuoys and associated market that was initiated during fiscal year 2015 will be successful. This pivot was fundamentally implemented on the premise that technical and financial risks to our business will be considerably reduced while also assuming that the autonomous offshore applications and markets will provide sufficient business growth opportunities. We have been working diligently over the past two years, to better understand and quantify the autonomous market