

Ocean Power Technologies, Inc.
Form 10-K
July 15, 2016

**UNITED STATES SECURITIES AND EXCHANGE
COMMISSION
Washington, D.C.
20549**

Form 10-K

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF
1934**

For the fiscal year ended April 30, 2016

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

Delaware

(State or other jurisdiction of incorporation or organization)

22-2535818

(I.R.S. Employer Identification No.)

1590 REED ROAD

PENNINGTON, NJ 08534

(Address of principal executive offices, including zip code)

Registrant's telephone number, including area code: (609) 730-0400

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Exchange on Which Registered
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Common Stock, par value \$0.001	The Nasdaq Capital Market
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Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

The aggregate market value of the common stock of the registrant held by non-affiliates as of October 31, 2015, the last business day of the registrant's most recently completed second fiscal quarter, was \$4.1 million based on the closing sale price of the registrant's common stock on that date as reported on the NASDAQ Capital Market.

The number of shares outstanding of the registrant's common stock as of June 30, 2016 was 2,511,850 (excluding 380,000 shares issuable under a pending litigation settlement).

Documents Incorporated by Reference

Portions of the Company's definitive proxy statement to be filed with the Securities and Exchange Commission for the Company's Annual Meeting of Stockholders are incorporated by reference into Part III of this report.

OCEAN POWER TECHNOLOGIES, INC.

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PowerBuoy® is a registered trademark of Ocean Power Technologies, Inc. and the Ocean Power Technologies logo is a trademark of Ocean Power Technologies, Inc. All other trademarks appearing in this annual report are the property of their respective holders.

Special Note Regarding Forward-Looking Statements

We have made statements in this Annual Report on Form 10-K (the "Annual Report") in, among other sections, Item 1 — "Business," Item 1A — "Risk Factors," Item 3 — "Legal Proceedings," and Item 7 — "Management's Discussion and Analysis of Financial Condition and Results of Operations" that are forward-looking statements. Forward-looking statements convey our current expectations or forecasts of future events. Forward-looking statements include statements regarding our future financial position, business strategy, 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.

Any or all of our forward-looking statements in this Annual Report may turn out to be inaccurate. We have based these forward-looking statements 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." In light of these risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this Annual Report may not occur as contemplated and actual results could differ materially from those anticipated or implied by the forward-looking statements.

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.

Our fiscal year ends on April 30. References to fiscal 2016 are to the fiscal year ended April 30, 2016.

Special Note regarding Reverse Stock Split

At the annual meeting of stockholders of Ocean Power Technologies, Inc. (the "Company," "we" or "us") on October 22, 2015, our stockholders approved a proposal to amend our Certificate of Incorporation to effect a reverse split of our common stock, par value \$0.001 ("common stock"), at a ratio to be determined by the Company's Board of Directors within a specific range and a reduction in the authorized number of shares of our common stock. On October 27, 2015, we filed a Certificate of Amendment to our Certificate of Incorporation to affect a one-for-10 reverse stock split of our common stock and to decrease the number of authorized shares of our Common Stock to 50,000,000 shares (the "Reverse Stock Split"). As of the effective date of the Reverse Stock Split, every 10 shares of issued and outstanding common stock were combined into one issued and outstanding share of common stock, without any change in the par

value per share. No fractional shares were issued in connection with the Reverse Stock Split. Total cash payments made by the Company to stockholders in lieu of fractional shares were not material. The common stock began trading on a reverse stock split-adjusted basis on the NASDAQ Stock Market (“NASDAQ”) on October 29, 2015. On November 12, 2015, NASDAQ notified the Company that our Common Stock had regained compliance with the NASDAQ listed company closing bid price requirement. All share and per share data included in this report has been retroactively restated to reflect the Reverse Stock Split.

PART I

ITEM 1. BUSINESS

Overview

Approximately 70% of the earth's surface is covered by water, with approximately 44% of the world's population living within approximately 150 miles of a coast. Thousands of 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 are expensive to operate while also limited in their electric power delivery. Most of these systems require significant tradeoffs in sensor accuracy, data processing and data communications bandwidth and frequency in order to operate within the available power. More persistent power systems requiring less maintenance 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 data communication intervals which could as a result improve scientific and economic returns.

Founded in 1994 and headquartered in Pennington, NJ, Ocean Power Technologies seeks to become a 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 PowerBuoy® systems use proprietary technologies that convert the mechanical energy created by the heaving motion of ocean waves into electricity. We currently have designed and are seeking to commercialize 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 product offering, an autonomous PowerBuoy, 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. We are continuing to develop and test our PowerBuoys, which we believe could be utilized in a variety of applications. While we believe that we have validated our autonomous PowerBuoy and subsystems through factory and in-ocean tests, we are continuing to develop our PowerBuoy and product offerings, and only beginning to seek to commercialize our products and therefore, we cannot assure you that our products will operate as designed or provide our potential customers with a cost-effective alternative source of in-ocean power for all applications. In our current PowerBuoy design, we are leveraging portions of earlier designs and 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, while also seeking to ensure design scalability to meet the power demands in 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. We also seek to supply electric power to payloads that are integrated directly in our PowerBuoy and/or located in its vicinity when deployed in the ocean, including on the seabed. Based on our market research and available public data, our 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, offshore wind, and ocean aquaculture. 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 our current PowerBuoy product, the PB3, generates sufficient persistent power to meet the application needs of many of the potential customers within our target markets, but we also believe that we will need to increase the energy output of the PowerBuoy to generate the power required for other applications within these markets and are seeking to do so with our continued research and development efforts. We cannot assure you that we will be successful in our efforts to seek commercial adoption of our PowerBuoy and related services.

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”), and we continued our efforts to increase the reliability and power output of our PowerBuoys.

We were incorporated under the laws of the State of New Jersey in April 1984 and began commercial operations in 1994. On April 23, 2007, we reincorporated in Delaware. Our principal executive offices are located at 1590 Reed Road, Pennington, New Jersey 08534, and our telephone number is (609) 730-0400. Our website address is www.oceanpowertechnologies.com. We make available free of charge on our website our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and all amendments to those reports as soon as reasonably practicable after such material is filed electronically with the Securities and Exchange Commission (“SEC”). The information on our website is not a part of this Annual Report. Our common stock has been listed on NASDAQ since April 24, 2007, the date on which we completed our initial public offering in the United States, and since July 2015, our common stock has been listed on the NASDAQ Capital Market. Our fiscal year begins on May 1 and ends on April 30. When we refer to a particular fiscal year, we are referring to the fiscal year ending on April 30 of that year. For example, fiscal 2016 refers to the fiscal year beginning on May 1, 2015 and ending on April 30, 2016. Other fiscal years follow similarly.

Competitive Advantages

We are currently seeking to commercialize our PowerBuoy by targeting customers principally in six 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 test and demonstrate the viability of our technology. Several ocean trials of our larger scale prototype PowerBuoys were conducted between 2005 and 2011, and we conducted an ocean test of our autonomous PowerBuoy, a previous iteration of our current autonomous PowerBuoy, under a contract with the U.S. Navy. We believe that these tests support the use of our technology as a potential persistent power source for systems requiring remote power at sea. 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 PowerBuoys to optimize the power generated for a given location through efficient mechanical to electrical wave energy conversion. We have designed the onboard energy storage system (“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, and can also accommodate other capabilities such as high frequency communication. Our PowerBuoy is capable of transmitting real-time data, which 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 potential applications in the oil and gas, ocean observing, defense and security, offshore wind, communications, and ocean aquaculture industries.

Prior commercial relationships enabled the development of our technology. Our prior relationships with the U.S. Navy, DOE, and U.S. Department of Homeland Security have allowed us to develop our PowerBuoys, which we believe enhances our market visibility and attractiveness to our prospective customers. We believe that our projects with the DOE, the U.S. Navy, MES, and the U.S. Department of Homeland Security provided us with an initial opportunity to develop our PowerBuoys and we are seeking to leverage these relationships in our efforts to commercialize our PowerBuoys for use where autonomous power could potentially improve existing applications and enable new ones.

Greater 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, enabling additional sensors to be employed or a higher rate of data transmission, and/or extend the period during which the application can be employed on the ocean.

Potentially considerable life cycle cost savings over incumbent solutions. Our PowerBuoy systems are designed to operate over extended intervals between required servicing as compared to battery-powered or other systems which we believe generally require more frequent recharging or replacement. We have developed several case studies around various ocean observing applications which, in our opinion, illustrate that our PowerBuoy system may reduce costs over multi-year operation of an application as compared with incumbent solutions, mostly due to lower vessel and personnel servicing costs associated with the retrieval and redeployment of current battery-powered solutions. We also believe that our enhanced communication capabilities may provide further value to potential end users by enabling proactive mission critical-decision making based on data transmitted in real-time. We believe that longer operating intervals between servicing has the potential to provide life cycle savings for certain applications.

Modular and scalable designs. Our PowerBuoy systems are designed with a modular energy storage system (“ESS”) which we believe will allow us to tailor the PowerBuoy configuration to the specific needs of the end-user and therefore offer a cost effective solution, while also allowing us to expand the energy storage capacity within the PowerBuoy depending on the power requirements of specific applications. We believe this could be accomplished by integrating energy storage modules into the PowerBuoy, potentially eliminating the need for alterations or customization and providing both flexibility and cost-effectiveness to the end-user. We also believe that our PowerBuoys might also be installed in an array in order to achieve higher levels of aggregate power generation, although we have not done so to date. Additionally, we believe that our PowerBuoy technology and designs may be scalable to higher power levels.

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

Flexible electrical, mechanical and communication interfaces for sensors. Our PowerBuoys can be equipped with sensor packages and also provide capability for the addition of sensors, either mounted directly 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 by us, the end-user, or a third party.

Standard transportation and deployment. The size and weight of our autonomous PowerBuoy allows for transportation and handling using conventional means. Our autonomous PowerBuoy can fit in a standard 40 foot shipping container which may result in significantly lower transportation and deployment costs compared to earlier iterations of our utility scale PowerBuoy. Our autonomous PowerBuoy can be transported 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. For example, in connection with our project at the U.S. Marine Corps Base in Hawaii in 2003, the U.S. Navy obtained an independent environmental assessment of our PowerBuoy prior to installation, as required by the National Environmental Policy Act. This assessment resulted in a “Finding of No Significant Impact,” the highest rating obtainable by the assessor. In addition, in 2011, we received a “Finding of No Significant Impact” from the DOE after an environmental assessment in connection with our Reedsport, Oregon project. Since our PowerBuoys are typically located far offshore, they are usually not visible from land. We believe that our PowerBuoy has only a minimal visual and audible impact, where only a small portion of the unit is visible at close range, with the bulk of the unit being hidden below the surface of the water. We believe there is no significant audible impact and such systems have not been shown to have a negative effect on marine life.

Business Strategy

As part of our strategic pivot in operations initiated in fiscal 2015, 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 located 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 the PowerBuoy addresses power requirements in remote offshore applications and locations. Since we believe our autonomous PowerBuoy is well suited for many of these applications, we do not expect the need for continued subsidies or other price incentives for longer-term market adoption. Our fundamental long-term business plan for our selected markets is to sell and lease PowerBuoys, and provide services associated with product sales and 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 represents a potential market for our autonomous PowerBuoys given appropriate wave conditions, political and economic stability, the existence of selected market applications, 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 MES in Japan, and we continue to seek other opportunities to collaborate with application experts from within our selected markets. We continue to engage market stakeholders who we believe may be critical to gaining market entry and speeding adoption of our products and services during our commercialization process. We cannot make assurances that we will be successful in our commercialization efforts. We continue to receive stakeholder interest in participating in future in-ocean trials to ensure that relevant application objectives are met.

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. The buoy hull of our PowerBuoy may be shipped to our facility for integration of the PTO, or integration may occur closer to the expected deployment site. 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 the leverage of a larger more qualified supply base. We believe the use of suppliers that are in close proximity to our potential customers will reduce shipping costs and risk, and will provide direct visibility to our potential customers, which may improve our credibility and competitiveness.

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. By improving our design and manufacturing, we intend to simultaneously remove cost from our PowerBuoys through further design iterations and manufacturing ramp-up. In so doing, we expect to be able to improve customer value, displace more incumbent solutions, and become a viable power source for additional applications in our target market segments.

Maximize customer funding of technology development. We actively seek to obtain external funding for the continued development of our technology, including cost-sharing obligations, under our customer contracts. In April 2010, we were awarded \$1.5 million from the DOE for the development of our utility scale PowerBuoy technology. In fiscal 2011, we were awarded an additional \$2.4 million from the DOE and \$2.3 million from the United Kingdom (“U.K.”) Government’s Technology Strategy Board for utility scale technology development. In fiscal 2014, the DOE amended our contract to provide funding for the development of an optimized PTO system, and our work under this contract was successfully completed in fiscal 2016.

Market Opportunities

We are targeting our sales and marketing efforts in the following six markets, which we believe present market opportunities for our Company as we seek to commercialize our products and services.

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 which enable cost savings as well as the digitization of operations. We believe that minor improvements in oil field management can equate to significant additional revenues or cost savings for the operator and is driving the industry to search for new and enabling technologies. We believe that the addition of increased offshore power sources could enable activities like powering

seafloor processes and/or augmenting associated power systems. We also believe that cost savings, potential increased revenues, and risk management are key drivers for the oil and gas industry. We also believe that applications such as charging stations for autonomous underwater vehicles, equipment monitoring, communications, reservoir management, weather forecasting, ocean current predictions, and seismic mapping are all significant customer market opportunities for our products.

Ocean Observing

Ocean observing provides information for the entire ocean enterprise, consisting of for-profit and not-for-profit businesses which support 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 and biological processes in order to inform operations and development. The instruments used to collect maritime data and environmental intelligence require a power and communications solution in remote offshore locations. We believe that our PowerBuoy may provide savings over the project life-cycle of incumbent solutions, and the increased power provided by the PowerBuoy may allow for additional sensors and enhanced data communications and/or may enable brand new and critical sensing missions that may have been prohibited due to the lack of sufficient offshore power as provided by incumbent solutions.

Security and Defense

In 2011, we deployed a prototype autonomous PowerBuoy off the coast of New Jersey, which we designed and manufactured for the U.S. Navy for coastal security and maritime surveillance (described more fully below under “Customers – Historical Projects – U.S. Navy”). Our PowerBuoy provided persistent power to an integrated radar system for nearly three months, and the system successfully extended the U.S. Navy’s surveillance range by a significant amount. Two years later, we redeployed the system, powering both radar and sonar. We believe there is the potential for the U.S. Navy to seek to incorporate this type of surveillance capability in major ports throughout the U.S.

We believe that a PowerBuoy can be used to provide power and communications for multiple applications, while appearing the same regardless of the application. This may be an attractive feature for defense and security, as their systems can hide in plain sight. An example of such would be an array of PowerBuoys providing surveillance across an inlet or harbor, with communications back to a remote base which could be used to help protect critical and high-value infrastructure. Forward deployed energy and communications outposts, above and below sea surface, early detection and warning systems, remote sensing stations, high frequency radar and sonar, electro-optical and infrared sensors, network communications systems and unmanned underwater vehicle docking stations are all applications for domestic and international defense departments and defense contractors.

Other Markets

We believe that opportunities also exist in markets such as offshore wind, communications, and aquaculture. For example, the addition of nearshore and offshore cellular and WiFi platforms with persistent power could decrease communications costs for the marine and airline industries. Continuous power and data communications for the aquaculture industry could potentially transform location requirements of the industry.

Offshore wind requires meteorological and environmental data to permit, finance and build wind turbine installations. Currently two methods of data collection are used for offshore wind: (1) meteorological masts, which are a significant cost to install on the ocean floor and can take more than 12 months for permitting and construction; and (2) floating, which uses a Light Detection and Ranging device (“LiDAR”) and which is gaining acceptance in the industry. Current power and communications platforms for floating LiDAR exist but may not be adequate for continuous data collection. We believe that our PowerBuoy solution may be able to decrease life cycle costs compared to these incumbent solutions. Global wind farm development market data suggest that hundreds of offshore wind sites are in the initial planning stages or beyond, with more being added each year.

Product and Technologies

The following is a summary of the development and history of our current PowerBuoy product and our technologies.

Wave Energy

The energy contained in ocean waves is a form of renewable energy that can be harnessed to generate electricity. Ocean waves are created when wind moves across the ocean surface. The interaction between the wind and the ocean surface causes energy to be exchanged. At first, small waves occur on the ocean surface. As this process continues, the

waves become larger and the distance between the top of the waves becomes longer. Wave size, and the amount of kinetic wave energy, depends on wind speed, the duration the wind blows across the waves and the distance covered. The vertical motion of the waves moves the float component of our PowerBuoy, creating mechanical energy which our proprietary technologies convert into usable electricity.

We believe that there are the following potential benefits to using wave energy for electricity generation, compared to existing incumbent solutions.

Scalability within a small site area. Due to the dense energy in ocean waves, we believe that multiple PowerBuoys may be aggregated in an array that would occupy a reasonably small area to supply electricity to larger payloads. We believe the aggregation of a larger number of appropriately sized PowerBuoys could offer end users a variety of advantages in availability, reliability and scalability. To date, we have not deployed an array of PowerBuoys to test and validate our hypothesis, and we cannot assure that a PowerBuoy array would generate the energy required to meet the needs of prospective customers.