MODINE MANUFACTURING CO
Form 10-Q
October 30, 2014

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

FORM 10-Q

þ QUARTERLY REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2014

or

o 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 1-1373

MODINE MANUFACTURING COMPANY
(Exact name of registrant as specified in its charter)

WISCONSIN	39-0482000
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
1500 DeKoven Avenue, Racine, Wisconsin	53403
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code (262) 636 1200

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 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 þ No o

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 during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
Yes þ No o

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 definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer o Accelerated Filer þ

Non-accelerated Filer o (Do not check if a smaller reporting company)   Smaller reporting company o

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

The number of shares outstanding of the registrant's common stock, $0.625 par value, was 47,875,523 at October 23, 2014.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

MODINE MANUFACTURING COMPANY
CONSOLIDATED STATEMENTS OF OPERATIONS
For the three and six months ended September 30, 2014 and 2013
(In millions, except per share amounts)
(Unaudited)

	Three months ended September 30,		Six months ended September 30,	
	2014	2013	2014	2013
Net sales	$377.3	$364.2	$769.8	$740.0
Cost of sales	320.6	307.0	645.4	620.9
Gross profit	56.7	57.2	124.4	119.1
Selling, general and administrative expenses	47.8	46.0	90.6	88.4
Restructuring expenses	1.0	0.6	1.8	1.1
Operating income	7.9	10.6	32.0	29.6
Interest expense	(3.0)	(3.2)	(6.1)	(6.2)
Other income (expense) – net	0.5	-	0.3	(0.5)
Earnings before income taxes	5.4	7.4	26.2	22.9
Provision for income taxes	(3.4)	(2.4)	(10.1)	(7.3)
Net earnings	2.0	5.0	16.1	15.6
Net earnings attributable to noncontrolling interest	(0.3)	(0.4)	(0.7)	(1.0)
Net earnings attributable to Modine	$1.7	$4.6	$15.4	$14.6
Net earnings per share attributable to Modine shareholders:				
Basic	$0.04	$0.10	$0.32	$0.31
Diluted	$0.04	$0.10	$0.32	$0.31
Weighted average shares outstanding:				
Basic	47.2	46.8	47.1	46.8
Diluted	47.7	47.6	47.7	47.4

The notes to condensed consolidated financial statements are an integral part of these statements.

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MODINE MANUFACTURING COMPANY
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
For the three and six months ended September 30, 2014 and 2013
(In millions)
(Unaudited)

	Three months ended September 30,		Six months ended September 30,	
	2014	2013	2014	2013
Net earnings	$2.0	$5.0	$16.1	$15.6
Other comprehensive (loss) income:				
Foreign currency translation	(24.5)	10.2	(22.8)	5.9
Defined benefit plans, net of income taxes of $0.4, $0, $0.9 and $0	0.9	1.2	1.8	2.5
Cash flow hedges, net of income taxes of $0	-	0.1	-	0.2
Total other comprehensive (loss) income	(23.6)	11.5	(21.0)	8.6
Comprehensive (loss) income	(21.6)	16.5	(4.9)	24.2
Comprehensive income attributable to noncontrolling interest	(0.1)	(0.4)	(0.7)	(1.0)
Comprehensive (loss) income attributable to Modine	$(21.7)	$16.1	$(5.6)	$23.2

The notes to condensed consolidated financial statements are an integral part of these statements.

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MODINE MANUFACTURING COMPANY
CONSOLIDATED BALANCE SHEETS
September 30, 2014 and March 31, 2014
(In millions, except per share amounts)
(Unaudited)

	September 30, 2014	March 31, 2014
ASSETS		
Cash and cash equivalents	$ 71.3	$ 87.2
Trade accounts receivable – net	208.3	221.1
Inventories	126.5	116.8
Deferred income taxes	13.6	13.0
Other current assets	82.6	60.7
Total current assets	502.3	498.8
Property, plant and equipment – net	349.1	359.6
Intangible assets – net	11.4	12.4
Goodwill	27.5	28.7
Deferred income taxes	94.4	98.6
Other noncurrent assets	27.5	34.2
Total assets	$ 1,012.2	$ 1,032.3
LIABILITIES AND SHAREHOLDERS' EQUITY		
Short-term debt	$ 28.8	$ 32.4
Long-term debt – current portion	0.5	0.8
Accounts payable	158.5	171.1
Accrued compensation and employee benefits	63.8	70.8
Other current liabilities	101.5	82.1
Total current liabilities	353.1	357.2
Long-term debt	130.5	131.2
Deferred income taxes	6.9	7.3
Pensions	72.9	81.0
Other noncurrent liabilities	22.1	27.0
Total liabilities	585.5	603.7
Commitments and contingencies (see Note 15)		
Shareholders' equity:		
Preferred stock, $0.025 par value, authorized 16.0 million shares, issued - none	-	-
Common stock, $0.625 par value, authorized 80.0 million shares, issued 48.6 million and 48.3 million shares	30.4	30.2
Additional paid-in capital	179.5	175.7
Retained earnings	353.4	338.0
Accumulated other comprehensive loss	(124.9)	(103.9)
Treasury stock, at cost, 0.7 million shares	(16.2)	(15.2)
Total Modine shareholders' equity	422.2	424.8
Noncontrolling interest	4.5	3.8
Total equity	426.7	428.6
Total liabilities and equity	$ 1,012.2	$ 1,032.3

The notes to condensed consolidated financial statements are an integral part of these statements.

MODINE MANUFACTURING COMPANY
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
For the six months ended September 30, 2014 and 2013
(In millions)
(Unaudited)

	Six months ended September 30,	
	2014	2013
Cash flows from operating activities:		
Net earnings	$16.1	$15.6
Adjustments to reconcile net earnings with net cash provided by operating activities:		
Depreciation and amortization	26.5	31.7
Insurance proceeds from Airedale fire	7.3	6.5
Other – net	7.8	3.7
Net changes in operating assets and liabilities	(34.1)	(8.5)
Net cash provided by operating activities	23.6	49.0
Cash flows from investing activities:		
Expenditures for property, plant and equipment	(29.2)	(21.4)
Costs to replace building and equipment damaged in Airedale fire	(3.1)	-
Insurance proceeds from Airedale fire	-	1.4
Other – net	(0.1)	2.8
Net cash used for investing activities	(32.4)	(17.2)
Cash flows from financing activities:		
Borrowings of debt	21.5	120.4
Repayments of debt	(26.0)	(115.3)
Financing fees paid	-	(0.9)
Dividend paid to noncontrolling interest	-	(0.5)
Other – net	0.2	(0.6)
Net cash (used for) provided by financing activities	(4.3)	3.1
Effect of exchange rate changes on cash	(2.8)	1.2
Net (decrease) increase in cash and cash equivalents	(15.9)	36.1
Cash and cash equivalents – beginning of period	87.2	23.8
Cash and cash equivalents – end of period	$71.3	$59.9

The notes to condensed consolidated financial statements are an integral part of these statements.

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MODINE MANUFACTURING COMPANY
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(In millions, except per share amounts)
(unaudited)

Note 1: General

The accompanying condensed consolidated financial statements were prepared in conformity with generally accepted accounting principles ("GAAP") in the United States applied on a basis consistent with those principles used in the preparation of the annual consolidated financial statements of Modine Manufacturing Company ("Modine" or "the Company") for the fiscal year ended March 31, 2014. The financial statements include all normal recurring adjustments that are, in the opinion of management, necessary for a fair statement of results for the interim periods. Results for the first six months of fiscal 2015 are not necessarily indicative of the results to be expected for the full year. These financial statements should be read in conjunction with the consolidated financial statements and related notes in Modine's Annual Report on Form 10-K for the year ended March 31, 2014.

Out of period adjustments: During the second quarter of fiscal 2014, the Company recorded a customer pricing adjustment which related to prior fiscal years. The impact of this error to the second quarter of fiscal 2014 decreased pre-tax earnings by $0.6 million ($0.5 million after-tax). The Company does not believe that the impact of this error is material to its financial statements for the three or six months ended September 30, 2013.

New revenue recognition accounting guidance: In May 2014, the Financial Accounting Standards Board issued new guidance that outlines a comprehensive model for entities to use in accounting for revenue arising from contracts with customers. The core principal of the new guidance is that companies are to recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The new guidance also includes a cohesive set of disclosure requirements intended to provide users of financial statements with comprehensive information about revenue arising from contracts with customers. This new guidance is effective for the Company's first quarter of fiscal 2018 and early application is not permitted. The Company is currently evaluating the impact the new guidance will have on its consolidated financial statements.

Note 2: Airedale Facility Fire

On September 6, 2013, a fire caused significant destruction to the Company's Airedale manufacturing facility and offices in Rawdon (Leeds), United Kingdom. The Company reports Airedale's financial results within the Building HVAC segment (previously known as Commercial Products). There were no injuries caused by the fire. The Rawdon facility, which was leased, was used to manufacture cooling products and solutions for a variety of applications, including data centers, clean rooms, retail, leisure and process cooling. The fire caused the Company to temporarily suspend manufacturing at the Rawdon site; however, the Company transferred its operations to temporary facilities and has begun rebuilding the leased facility.

The Company maintains insurance coverage for damage to the leased facility, equipment, inventory, other assets, business interruption and lost profits, and recovery-related expenses caused by the fire. The Company believes that reimbursement from its insurance provider is probable for substantially all losses and costs directly attributable to the fire. During the first quarter of fiscal 2015, the Company recorded a $2.6 million gain from business interruption insurance within selling, general and administrative expenses for fiscal 2014 lost profits. Since the date of the fire, the Company has received cash proceeds of $44.9 million from its insurance provider for covered losses, written off inventory of $4.7 million and equipment with a net book value of $1.4 million, and incurred costs directly attributable to the fire totaling $15.9 million. The Company has recorded these losses and costs, which totaled $22.0 million, in the same statement of operations line as the related insurance recovery during the period in which they were incurred.

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The terms of the Rawdon lease agreement obligate the Company to rebuild the damaged facility. Through September 30, 2014, the Company paid reconstruction costs of $2.5 million. The Company estimates the total cost of reconstruction to be $59.2 million. The Company records costs incurred related to the reconstruction on the consolidated balance sheets as an asset. As of September 30, 2014, the liability to rebuild the facility was $59.2 million ($56.3 million within other current liabilities and $2.9 million within other noncurrent liabilities) and the total receivable from the Company's insurance provider was $38.9 million ($38.4 million within other current assets and $0.5 million within other noncurrent assets). As of March 31, 2014, the liability to rebuild the facility was $45.0 million ($37.0 million within other current liabilities and $8.0 million within other noncurrent liabilities) and the receivable from the Company's insurance provider was $25.4 million ($18.4 million within other current assets and $7.0 million within other noncurrent assets). The Company increased its estimate of the cost to rebuild the Rawdon facility and the associated insurance receivable by $14.2 million ($59.2 million at September 30, 2014 from $45.0 million at March 31, 2014), primarily due to an increase in the estimated costs to prepare the site's foundation based on results of soil and bedrock testing prior to the start of reconstruction.

Note 3: Fair Value Measurements

Fair value is defined as the price that would be received for an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants. Fair value measurements are classified under the following hierarchy:

- Level 1 – Quoted prices for identical instruments in active markets.
- Level 2 – Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs are observable in active markets.
- Level 3 – Model-derived valuations in which one or more significant inputs are not observable.

When available, the Company uses quoted market prices to determine fair value and classifies such measurements as Level 1. In some cases, where market prices are not available, the Company uses observable market-based inputs to calculate fair value, in which case the measurements are classified as Level 2. If quoted or observable market prices are not available, fair value is based upon valuation models that use, where possible, market-based data such as interest rates, yield curves or currency rates. These measurements are classified as Level 3.

The carrying values of cash and cash equivalents, trade accounts receivable, and accounts payable approximate fair value due to the short-term nature of these instruments. The Company holds trading securities in a deferred compensation trust to fund obligations under Modine's non-qualified deferred compensation plan. The securities' fair values, which are recorded as other noncurrent assets, are determined based on quoted prices from active markets and classified within Level 1 of the valuation hierarchy. The Company's deferred compensation obligations, which are recorded as other noncurrent liabilities, are recorded at the fair values of the investments held by the trust. The fair values of the Company's trading securities and deferred compensation obligations each totaled $2.7 million and $2.6 million at September 30, 2014 and March 31, 2014, respectively. The fair value of the Company's debt is disclosed in Note 14.

MODINE MANUFACTURING COMPANY
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(In millions, except per share amounts)
(unaudited)

Note 4: Pensions

During the three months ended September 30, 2014 and 2013, the Company contributed $2.0 million and $1.8 million, respectively, to its U.S. pension plans. During the six months ended September 30, 2014 and 2013, the Company contributed $3.8 million and $3.4 million, respectively, to its U.S. pension plans. Pension cost included the following components:

	Three months ended September 30,		Six months ended September 30,	
	2014	2013	2014	2013
Service cost	$0.2	$0.2	$0.3	$0.3
Interest cost	3.2	3.3	6.5	6.5
Expected return on plan assets	(4.2)	(4.0)	(8.4)	(7.9)
Amortization of unrecognized net loss	1.4	1.5	2.8	3.1
Net periodic benefit cost	$0.6	$1.0	$1.2	$2.0

Note 5: Stock-Based Compensation

The Company's stock-based incentive programs consist of the following: (1) a long-term incentive compensation program for officers and executives that consists of restricted stock and stock option components granted for retention and performance, (2) a discretionary equity program for management and other key employees, and (3) stock options and/or stock awards for non-employee directors.

Compensation cost is calculated based on the fair value of the instrument at the time of grant, and is recognized as expense over the vesting period of the stock-based award. The Company recognized stock-based compensation cost of $1.7 million and $0.7 million for the three months ended September 30, 2014 and 2013, respectively. The Company recognized stock-based compensation cost of $2.7 million and $1.6 million for the six months ended September 30, 2014 and 2013, respectively. The performance component of awards granted under the Company's long-term incentive plan during the first quarter of fiscal 2015 is based upon a target three-year average consolidated return on average capital employed and three-year average revenue growth.

The fair market value of stock-based compensation awards granted during the six months ended September 30, 2014 and 2013 were as follows:

	Six months ended September 30,			
	2014		2013	
	Shares	Fair Value Per Award	Shares	Fair Value Per Award
Stock options	0.1	$10.21	0.2	$7.76

Restricted stock - retention	0.2	$14.94	0.3	$10.40
Restricted stock - performance based	0.2	$14.94	0.2	$10.40
Unrestricted stock	0.1	$14.83	-	$-

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The following assumptions were used in determining the fair value for stock options:

	Six months ended September 30,	
	2014	2013
Expected life of awards in years	6.3	6.3
Risk-free interest rate	2.1 %	1.3 %
Expected volatility of the Company's stock	76.1 %	88.7 %
Expected dividend yield on the Company's stock	0.0 %	0.0 %

As of September 30, 2014, unrecognized compensation cost related to non-vested stock-based compensation awards, which will be amortized over the remaining service periods, was as follows:

	Unrecognized Compensation Cost	Weighted Average Remaining Service Period in Years
Stock options	$ 2.2	3.1
Restricted stock - retention	5.8	2.9
Restricted stock - performance based	3.3	2.2
Total	$ 11.3	2.7

Note 6: Restructuring Expenses

During fiscal 2013, the Company announced its intention to restructure its Europe segment. The Company’s restructuring actions and plans have included exiting certain non-core product lines based upon Modine’s global product strategy, reducing manufacturing costs, consolidating production facilities, implementing headcount reductions, and disposing of and selling certain underperforming or non-strategic assets. The restructuring activities are designed to align the cost structure of the segment with the segment’s strategic focus on the commercial vehicle, off-highway, automotive component, and engine products markets, while improving gross margin and return on average capital employed.

Since commencement of the Europe segment restructuring program, the Company has recorded $28.6 million of employee severance costs, primarily related to headcount reductions at two manufacturing facilities and the segment headquarters, $26.1 million of asset impairment charges, and $8.7 million of accelerated depreciation and other restructuring and repositioning expenses.

Restructuring and repositioning expenses related to the Europe segment restructuring program were as follows:

	Three months	Six months ended

	ended September 30,		September 30,	
	2014	2013	2014	2013
Employee severance and related benefits	$ -	$ 0.5	$ -	$ 0.8
Accelerated depreciation	-	2.1	-	4.3
Other restructuring and repositioning expenses	0.8	0.1	1.1	0.3
Total restructuring and repositioning expenses	$ 0.8	$ 2.7	$ 1.1	$ 5.4

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During the three and six months ended September 30, 2014, the Company recorded $0.8 million and $1.1 million, respectively, of Europe segment restructuring and repositioning expenses as restructuring expenses in the consolidated statement of operations. During the three and six months ended September 30, 2013, the Company recorded Europe segment restructuring and repositioning costs of $0.6 million and $1.1 million, respectively, as restructuring expenses and $2.1 million and $4.3 million, respectively, within cost of sales.

The Company accrues severance in accordance with its written plans, procedures, and relevant statutory requirements. Changes in accrued severance related to the Europe segment restructuring program were as follows:

	Three months ended September 30,	
	2014	2013
Beginning balance	$16.6	$11.4
Additions	-	0.5
Payments	(0.4)	(1.6)
Effect of exchange rate changes	(1.2)	0.4
Ending balance	$15.0	$10.7

	Six months ended September 30,	
	2014	2013
Beginning balance	$18.3	$11.6
Additions	-	0.8
Payments	(1.9)	(2.2)
Effect of exchange rate changes	(1.4)	0.5
Ending balance	$15.0	$10.7

During the six months ended September 30, 2014, the Company recorded $0.5 million of restructuring expenses in its South America segment related to employee severance costs. The headcount reductions were in response to the economic slowdown in Brazil and reflect the Company's focus on maintaining profitability in the segment despite lower sales volume.

During the fourth quarter of fiscal 2014, the Company approved a plan to close its McHenry, Illinois manufacturing facility, reflecting its focus on operating scale manufacturing facilities to improve overall competitiveness and profitability. The Company has begun to transfer the facility's current production to other existing North America segment manufacturing facilities. During the three and six months ended September 30, 2014, the Company recorded $0.2 million of restructuring expenses related to the planned closure, primarily related to equipment transfer costs.

MODINE MANUFACTURING COMPANY
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(In millions, except per share amounts)
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Note 7: Other Income and Expense

Other income and expense consisted of the following:

	Three months ended September 30,		Six months ended September 30,	
	2014	2013	2014	2013
Equity in earnings of non-consolidated affiliate	$0.2	$0.2	$0.4	$0.4
Interest income	0.2	0.1	0.3	0.2
Foreign currency transactions	0.1	(0.3)	(0.4)	(1.1)
Total other income (expense) - net	$0.5	$-	$0.3	$(0.5)

Foreign currency transactions primarily consist of foreign currency transaction gains and losses on the re-measurement or settlement of foreign currency-denominated assets and liabilities, including intercompany transactions denominated in a foreign currency, along with unrealized gains and losses on foreign currency exchange contracts.

Note 8: Income Taxes

For the three months ended September 30, 2014 and 2013, the Company's effective income tax rate was 63.0 percent and 32.4 percent, respectively. For the six months ended September 30, 2014 and 2013, the Company's effective income tax rate was 38.5 percent and 31.9 percent, respectively.

The most significant factors impacting changes in the effective tax rate for the three and six months ended September 30, 2014 as compared with the prior year periods were increases in the valuation allowance for certain foreign jurisdictions for which no income tax benefit is recognized and the changing mix of foreign and domestic earnings. At September 30, 2014, the Company continued to record a full valuation allowance against its net deferred tax assets in certain foreign jurisdictions ($44.8 million) and a valuation allowance against certain U.S. deferred tax assets ($15.4 million), as it is more likely than not that these assets will not be realized based on historical financial results. The Company will continue to provide a valuation allowance against its net deferred tax assets in each of the applicable jurisdictions until the need for a valuation allowance is eliminated. The need for a valuation allowance is eliminated when the Company determines it is more likely than not the deferred tax assets will be realized.

Accounting policies for interim reporting require the Company to adjust its effective tax rate each quarter to be consistent with the estimated annual effective tax rate. Under this methodology, the Company applies its estimated annual income tax rate to its year-to-date ordinary earnings to derive its income tax provision each quarter. The tax impacts of certain significant, unusual or infrequently occurring items are recorded in the period in which they occur. The impact of the Company's operations in certain foreign locations are excluded from the overall effective tax rate methodology and recorded discretely based upon year-to-date results because the Company anticipates net operating losses for the full fiscal year in these jurisdictions.

The Company files income tax returns in multiple jurisdictions and is subject to examination by taxing authorities throughout the world. At September 30, 2014, the Company was not under audit, but had been notified by the Hungarian taxing authority of a future tax examination covering fiscal years 2011 and 2012. The Company was not notified of tax examinations covering open periods in any other taxing jurisdiction. The Company does not anticipate a significant change in unrecognized tax benefits during the next twelve months.

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Note 9: Earnings Per Share

The components of basic and diluted earnings per share were as follows:

	Three months ended September 30,		Six months ended September 30,	
	2014	2013	2014	2013
Net earnings attributable to Modine	$1.7	$4.6	$15.4	$14.6
Less: Undistributed earnings attributable to unvested shares	-	-	(0.2)	(0.1)
Net earnings available to Modine shareholders	$1.7	$4.6	$15.2	$14.5
Weighted average shares outstanding - basic	47.2	46.8	47.1	46.8
Effect of dilutive securities	0.5	0.8	0.6	0.6
Weighted average shares outstanding - diluted	47.7	47.6	47.7	47.4
Earnings per share:				
Net earnings per share - basic	$0.04	$0.10	$0.32	$0.31
Net earnings per share - diluted	$0.04	$0.10	$0.32	$0.31

For the three and six months ended September 30, 2014 and 2013, the calculation of diluted earnings per share excluded 0.7 million stock options because they were anti-dilutive.

Note 10: Inventories

Inventories consisted of the following:

	September 30, 2014	March 31, 2014
Raw materials and work in process	$ 93.8	$89.2
Finished goods	32.7	27.6
Total inventories	$ 126.5	$116.8

Note 11: Property, Plant and Equipment

Property, plant and equipment consisted of the following:

	September 30, 2014	March 31, 2014
Gross property, plant and equipment	$ 1,039.8	$1,078.6
Accumulated depreciation	(690.7)	(719.0)
Net property, plant and equipment	$ 349.1	$359.6

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(In millions, except per share amounts)
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Note 12: Goodwill and Intangible Assets

Changes in the carrying amount of goodwill were as follows:

	South America	Asia	Building HVAC	Total
Goodwill, March 31, 2014	$ 10.9	$0.5	$ 17.3	$28.7
Effect of exchange rate changes	(0.8)	-	(0.4)	(1.2)
Goodwill, September 30, 2014	$ 10.1	$0.5	$ 16.9	$27.5

Intangible assets consisted of the following:

	September 30, 2014			March 31, 2014		
	Gross Carrying Value	Accumulated Amortization	Net Intangible Assets	Gross Carrying Value	Accumulated Amortization	Net Intangible Assets
Tradenames	$9.8	$ (5.9)	$ 3.9	$10.1	$ (5.7)	$ 4.4
Acquired technology	5.8	(0.5)	5.3	5.8	(0.2)	5.6
Customer relationships	2.3	(0.1)	2.2	2.4	-	2.4
Total intangible assets	$17.9	$ (6.5)	$ 11.4	$18.3	$ (5.9)	$ 12.4

Amortization expense for the three months ended September 30, 2014 and 2013 was $0.4 million and $0.2 million, respectively. Amortization expense for the six months ended September 30, 2014 and 2013 was $0.8 million and $0.4 million, respectively. Estimated future amortization expense is as follows:

Fiscal Year	Estimated Amortization Expense
Remainder of 2015	$ 0.8
2016	1.7
2017	1.7
2018	1.7
2019	1.6
2020 & Beyond	3.9

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(In millions, except per share amounts)
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Note 13: Product Warranties

Changes in accrued warranty costs were as follows:

	Three months ended September 30,	
	2014	2013
Beginning balance	$13.9	$12.3
Accruals for warranties issued	1.6	1.0
Accruals related to pre-existing warranties	0.7	-
Settlements	(2.4)	(4.2)
Effect of exchange rate changes	(0.8)	0.2
Ending balance	$13.0	$9.3

	Six months ended September 30,	
	2014	2013
Beginning balance	$14.0	$12.6
Accruals for warranties issued	3.2	2.4
Accruals related to pre-existing warranties	1.3	2.5
Settlements	(4.8)	(8.2)
Effect of exchange rate changes	(0.7)	-
Ending balance	$13.0	$9.3

Note 14: Indebtedness

The Company's long-term debt includes $125.0 million of 6.8 percent Senior Notes. The Company also maintains a $175.0 million domestic revolving credit facility, which expires in August 2018. At September 30, 2014 and March 31, 2014, the Company had no borrowings outstanding under its revolving credit facility. At September 30, 2014, domestic letters of credit totaled $9.0 million, resulting in available borrowings under the Company's domestic revolving credit facility of $166.0 million.

The Company also maintains credit agreements for its foreign subsidiaries, with outstanding short-term borrowings at September 30, 2014 and March 31, 2014 of $28.8 million and $32.4 million, respectively. At September 30, 2014, the Company's foreign unused lines of credit totaled $41.0 million. In aggregate, the Company had total available lines of credit of $207.0 million at September 30, 2014.

Provisions in the Company's revolving credit facility, Senior Note agreements, and various foreign credit agreements require the Company to maintain compliance with various covenants and include certain cross-default clauses. The Company was in compliance with its debt covenants as of September 30, 2014.

The Company estimates the fair value of long-term debt using discounted future cash flows at rates offered to the Company for similar debt instruments of comparable maturities. At September 30, 2014 and March 31, 2014, the carrying value of Modine's long-term debt approximated fair value, with the exception of the Senior Notes, which had a fair value of approximately $138.0 million and $140.0 million, respectively. The fair value of the Senior Notes is categorized as Level 2 within the fair value hierarchy. Refer to Note 3 for the definition of a Level 2 fair value measurement.

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Note 15: Contingencies and Litigation

Environmental: The United States Environmental Protection Agency has designated the Company as a potentially responsible party for remediation of three sites where the Company had involvement. These sites include: Auburn Incinerator, Inc./Lake Calumet Cluster (Illinois), Cam-Or (Indiana) and a scrap metal site known as Chemetco (Illinois). In addition, Modine is voluntarily participating in the care of an inactive landfill owned by the City of Trenton (Missouri). These sites are not Company-owned and allegedly contain materials attributable to Modine from past operations. The percentage of material allegedly attributable to Modine is relatively low. Remediation of these sites is in various stages of administrative or judicial proceedings and includes recovery of past governmental costs and the costs of future investigations and remedial actions. The Company accrues for costs anticipated for the remedial settlement of the sites listed above if they are probable and can be reasonably determined. Costs anticipated for the remedial settlement of the sites listed above that are not probable or cannot be reasonably determined at this time have not been accrued; however, the Company does not believe any potential costs would be material to the Company’s financial position due to Modine’s relatively small portion of contributed materials.

The Company has recorded environmental investigation and remediation accruals for groundwater contamination at its manufacturing facility in Brazil and subsurface contamination at its former manufacturing facility in the Netherlands, along with other lesser environmental matters at certain facilities located in the United States. These accruals generally relate to facilities where past operations followed practices and procedures that were considered acceptable under then-existing regulations, or where the Company is a successor to the obligations of prior owners, and current laws and regulations require investigative and/or remedial work to ensure sufficient environmental compliance. The accruals for these environmental matters totaled $4.6 million and $5.1 million at September 30, 2014 and March 31, 2014, respectively. As additional information becomes available, the Company will assess any potential liability related to these matters and revise the estimated accrual, if necessary. Based on currently available information, the Company believes that the ultimate outcome of these matters, individually and in the aggregate, will not have a material adverse effect on its financial position. However, these matters are subject to inherent uncertainties, and unfavorable outcomes could occur, including significant monetary damages. During fiscal 2011, one of the adjacent businesses to the Company’s facility in Brazil filed suit against Modine’s Brazilian subsidiary seeking remediation and certain other damages as a result of contamination allegedly attributable to Modine’s operations. The Company is defending this suit and believes that the ultimate outcome of this matter will not be material.

Other litigation: In the normal course of business, the Company and its subsidiaries are named as defendants in various other lawsuits and enforcement proceedings by private parties, governmental agencies and/or others in which claims are asserted against Modine. In the opinion of management, the liabilities, if any, which may ultimately result from such lawsuits or proceedings are not expected to have a material adverse effect on the Company’s consolidated financial statements.

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Note 16: Accumulated Other Comprehensive Loss

Changes in accumulated other comprehensive loss were as follows:

	Three months ended September 30, 2014			
	Foreign Currency Translation	Cash Flow Hedges	Defined Benefit Plans	Total
Balance, June 30, 2014	$ 28.8	$ -	$ (130.3)	$ (101.5)
Other comprehensive income before reclassifications	(24.3)	-	-	(24.3)
Reclassifications:				
Amortization of unrecognized net loss (a)	-	-	1.3	1.3
Income taxes	-	-	(0.4)	(0.4)
Total other comprehensive (loss) income	(24.3)	-	0.9	(23.4)
Balance, September 30, 2014	$ 4.5	$ -	$ (129.4)	$ (124.9)

	Three months ended September 30, 2013			
	Foreign Currency Translation	Cash Flow Hedges	Defined Benefit Plans	Total
Balance, June 30, 2013	$ 13.5	$ (1.0)	$ (143.8)	$ (131.3)
Other comprehensive income before reclassifications	10.2	-	-	10.2
Reclassifications:				
Amortization of unrecognized net loss (a)	-	-	1.5	1.5
Amortization of unrecognized prior service credit (a)	-	-	(0.3)	(0.3)
Commodity derivatives (b)	-	0.1	-	0.1
Total other comprehensive income	10.2	0.1	1.2	11.5
Balance, September 30, 2013	$ 23.7	$ (0.9)	$ (142.6)	$ (119.8)

	Six months ended September 30, 2014			
	Foreign Currency Translation	Cash Flow Hedges	Defined Benefit Plans	Total
Balance, March 31, 2014	$ 27.3	$ -	$ (131.2)	$ (103.9)
Other comprehensive income before reclassifications	(22.8)	-	-	(22.8)
Reclassifications:				
Amortization of unrecognized net loss (a)	-	-	2.7	2.7

Income taxes	-	-	(0.9)	(0.9)
Total other comprehensive (loss) income	(22.8)	-	1.8	(21.0)
Balance, September 30, 2014	$4.5	$ -	$(129.4)	$(124.9)

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	Six months ended September 30, 2013			
	Foreign Currency Translation	Cash Flow Hedges	Defined Benefit Plans	Total
Balance, March 31, 2013	$17.8	$ (1.1)	$(145.1)	$(128.4)
Other comprehensive income before reclassifications	5.9	-	-	5.9
Reclassifications:				
Amortization of unrecognized net loss (a)	-	-	3.1	3.1
Amortization of unrecognized prior service credit (a)	-	-	(0.6)	(0.6)
Commodity derivatives (b)	-	0.2	-	0.2
Total other comprehensive income	5.9	0.2	2.5	8.6
Balance, September 30, 2013	$23.7	$ (0.9)	$(142.6)	$(119.8)

(a) Amounts are included in the calculation of net periodic benefit cost. See Note 4 for additional information.
(b) Reclassifications for commodity derivatives are included in cost of sales.

Note 17: Segment Information

During the first quarter of fiscal 2015, the Company changed the name of its Commercial Products segment to Building HVAC in order to better reflect the nature of the segment's product lines. There were no changes to the operations or reported financial results of the segment as a result. The following is a summary of net sales, gross profit, operating income, and total assets by segment:

	Three months ended September 30,		Six months ended September 30,	
Net sales:	2014	2013	2014	2013
North America	$143.8	$146.0	$295.5	$294.7
Europe	146.4	138.9	305.0	285.1
South America	27.2	31.8	52.4	66.2
Asia	19.0	16.2	39.8	34.5
Building HVAC	45.5	34.8	86.2	67.2
Segment net sales	381.9	367.7	778.9	747.7
Corporate and eliminations	(4.6)	(3.5)	(9.1)	(7.7)
Net sales	$377.3	$364.2	$769.8	$740.0

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	Three months ended September 30,				Six months ended September 30,			
	2014		2013		2014		2013	
Gross profit:	$'s	% of sales	$'s	% of sales	$'s	% of sales	$'s	% of sales
North America	$20.9	14.5%	$25.0	17.1%	$49.0	16.6%	$50.5	17.1%
Europe	16.7	11.4%	14.7	10.6%	38.9	12.8%	34.0	11.9%
South America	3.6	13.4%	5.8	18.2%	7.1	13.6%	11.9	18.0%
Asia	2.1	11.1%	1.8	10.7%	5.7	14.3%	4.1	11.8%
Building HVAC	13.2	29.2%	9.8	28.1%	23.1	26.9%	18.3	27.2%
Segment gross profit	56.5	14.8%	57.1	15.5%	123.8	15.9%	118.8	15.9%
Corporate and eliminations	0.2	-	0.1	-	0.6	-	0.3	-
Gross profit	$56.7	15.0%	$57.2	15.7%	$124.4	16.2%	$119.1	16.1%

	Three months ended September 30,		Six months ended September 30,	
Operating income:	2014	2013	2014	2013
North America	$7.9	$11.7	$24.0	$26.0
Europe	4.6	3.3	15.0	11.3
South America	0.3	2.5	0.1	5.1
Asia	(0.7)	(1.1)	0.2	(1.4)
Building HVAC	3.2	1.2	6.4	2.2
Segment operating income	15.3	17.6	45.7	43.2
Corporate and eliminations	(7.4)	(7.0)	(13.7)	(13.6)
Operating income	$7.9	$10.6	$32.0	$29.6

	September 30, 2014	March 31, 2014
Total assets:		
North America	$ 225.4	$218.1
Europe	336.9	367.9
South America	73.2	80.1
Asia	92.7	92.8
Building HVAC	150.5	132.7
Corporate and eliminations	133.5	140.7
Total assets	$ 1,012.2	$1,032.3

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

When we use the terms "Modine," "we," "us," the "Company," or "our" in this report, we are referring to Modine Manufacturi Company. Our fiscal year ends on March 31 and, accordingly, all references to quarters refer to our fiscal quarters. The quarter ended September 30, 2014 was the second quarter of fiscal 2015.

Second Quarter Highlights: Sales in the second quarter of fiscal 2015 increased $13.1 million, or 4 percent, from the second quarter of fiscal 2014, primarily due to sales increases in our Building HVAC, Europe, and Asia segments, partially offset by a sales decrease in our South America segment as economic conditions remained weak in Brazil. Gross margin decreased 70 basis points, primarily due to unfavorable sales mix and production inefficiencies. Selling, general and administrative ("SG&A") expenses increased slightly as a percentage of sales. During the second quarter of fiscal 2015, our net earnings were $2.0 million, compared with $5.0 million in the prior year.

Year-to-Date Highlights: Sales in the first six months of fiscal 2015 increased $29.8 million, or 4 percent, from the same period last year, primarily due to sales increases in each of our business segments, except in our South America segment, in which sales were negatively impacted by continued weak economic conditions in Brazil, and an $8.4 million favorable impact of foreign currency exchange rate changes. Gross profit and gross margin each increased, primarily due to sales volume improvements. SG&A expenses decreased slightly as a percentage of sales and included a benefit of $2.6 million related to an insurance recovery. During the first six months of fiscal 2015, our net earnings were $16.1 million, compared with $15.6 million in the prior year.

CONSOLIDATED RESULTS OF OPERATIONS

The following table presents consolidated financial results on a comparative basis for the three and six months ended September 30, 2014 and 2013:

	Three months ended September 30,				Six months ended September 30,			
	2014		2013		2014		2013	
(in millions)	$'s	% of sales	$'s	% of sales	$'s	% of sales	$'s	% of sales
Net sales	$377.3	100.0%	$364.2	100.0%	$769.8	100.0%	$740.0	100.0%
Cost of sales	320.6	85.0 %	307.0	84.3 %	645.4	83.8 %	620.9	83.9 %
Gross profit	56.7	15.0 %	57.2	15.7 %	124.4	16.2 %	119.1	16.1 %
Selling, general and administrative expenses	47.8	12.7 %	46.0	12.6 %	90.6	11.8 %	88.4	11.9 %
Restructuring expenses	1.0	0.2 %	0.6	0.2 %	1.8	0.2 %	1.1	0.2 %
Operating income	7.9	2.1 %	10.6	2.9 %	32.0	4.2 %	29.6	4.0 %
Interest expense	(3.0)	-0.8 %	(3.2)	-0.9 %	(6.1)	-0.8 %	(6.2)	-0.8 %
Other income (expense) – net	0.5	0.1 %	-	-	0.3	-	(0.5)	-0.1 %
Earnings before income taxes	5.4	1.4 %	7.4	2.0 %	26.2	3.4 %	22.9	3.1 %
Provision for income taxes	(3.4)	-0.9 %	(2.4)	-0.6 %	(10.1)	-1.3 %	(7.3)	-1.0 %
Net earnings	$2.0	0.5 %	$5.0	1.4 %	$16.1	2.1 %	$15.6	2.1 %

Comparison of Three Months Ended September 30, 2014 and 2013

Second quarter sales of $377.3 million were $13.1 million, or 4 percent, higher than the second quarter of the prior year, primarily due to sales increases in our Building HVAC, Europe, and Asia segments and a $1.6 million favorable impact of foreign currency exchange rate changes, partially offset by a sales decrease in our South America segment as economic conditions remained weak in Brazil.

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Second quarter gross profit decreased $0.5 million from the second quarter of fiscal 2014. Gross margin decreased 70 basis points to 15.0 percent in the second quarter of fiscal 2015, primarily due to unfavorable sales mix, driven by a higher mix of lower margin product, and production inefficiencies, including overtime, scrap and expedited freight, partially offset by $2.1 million of accelerated depreciation recorded in the prior year.

SG&A expenses increased $1.8 million from the second quarter of fiscal 2014 to the second quarter of fiscal 2015, yet remained relatively consistent as a percentage of sales. The increase was primarily due to higher compensation-related expenses in the current year.

Restructuring expenses increased $0.4 million in the second quarter of fiscal 2015 compared with the prior year, primarily due to plant consolidation and equipment transfer costs in our Europe and North America segments.

Operating income of $7.9 million in the second quarter of fiscal 2015 represented a $2.7 million decline from $10.6 million in the second quarter of fiscal 2014, primarily due to decreased gross profit and higher SG&A expenses.

The provision for income taxes was $3.4 million and $2.4 million in the second quarter of fiscal 2015 and 2014, respectively. The $1.0 million increase was primarily due to higher income tax expense due to the reversal of a significant portion of the Company's U.S. income tax valuation allowances during the fourth quarter of fiscal 2014.

Comparison of Six Months Ended September 30, 2014 and 2013

Fiscal 2015 year-to-date sales of $769.8 million were $29.8 million, or 4 percent, higher than the same period last year, primarily due to improved sales in each of our business segments, except in our South America segment, in which sales were negatively impacted by continued weak economic conditions in Brazil, and an $8.4 million favorable impact of foreign currency exchange rate changes.

Fiscal 2015 year-to-date gross profit of $124.4 million increased $5.3 million from the same period last year and gross margin increased slightly to 16.2 percent, primarily due to sales volume improvements, $4.3 million of accelerated depreciation recorded in the prior year due to manufacturing process changes at a facility in Germany and a $1.6 million favorable impact of foreign currency exchange rate changes, partially offset by unfavorable sales mix.

Fiscal 2015 year-to-date SG&A expenses increased $2.2 million from the same period last year, yet decreased slightly as a percentage of sales to 11.8 percent. The increase was primarily due to higher compensation-related expenses in the current year, partially offset by a $2.6 million gain from business interruption insurance in the first quarter of fiscal 2015 related to the Airedale fire.

Restructuring expenses increased $0.7 million from the first six months of fiscal 2014, primarily due to plant consolidation and equipment transfer costs in our Europe and North America segments.

Operating income of $32.0 million during the first six months of fiscal 2015 represented a $2.4 million improvement from the same period last year, primarily due to increased gross profit, partially offset by higher SG&A and restructuring expenses.

The provision for income taxes was $10.1 million and $7.3 million during the first six months of fiscal 2015 and 2014, respectively. The $2.8 million increase was primarily due to higher income tax expense due to the reversal of a significant portion of the Company's U.S. income tax valuation allowances during the fourth quarter of fiscal 2014.

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SEGMENT RESULTS OF OPERATIONS

During the first quarter of fiscal 2015, we changed the name of our Commercial Products segment to Building HVAC in order to better reflect the nature of the segment's product lines. There were no changes to the operations or reported financial results of the segment as a result.

The following is a discussion of our segment results of operations for the three and six months ended September 30, 2014 and 2013:

North America

	Three months ended September 30,				Six months ended September 30,			
	2014		2013		2014		2013	
(in millions)	$'s	% of sales	$'s	% of sales	$'s	% of sales	$'s	% of sales
Net sales	$143.8	100.0%	$146.0	100.0%	$295.5	100.0%	$294.7	100.0%
Cost of sales	122.9	85.5 %	121.0	82.9 %	246.5	83.4 %	244.2	82.9 %
Gross profit	20.9	14.5 %	25.0	17.1 %	49.0	16.6 %	50.5	17.1 %
Selling, general and administrative expenses	12.8	8.9 %	13.3	9.1 %	24.8	8.4 %	24.5	8.3 %
Restructuring expenses	0.2	0.1 %	-	-	0.2	0.1 %	-	-
Operating income	$7.9	5.5 %	$11.7	8.0 %	$24.0	8.1 %	$26.0	8.8 %

Comparison of Three Months Ended September 30, 2014 and 2013

North America sales decreased $2.2 million, or 2 percent, from the second quarter of fiscal 2014 to the second quarter of fiscal 2015, primarily due to lower sales volume to off-highway customers and lower tooling sales, partially offset by increased sales volume to commercial vehicle customers. Gross margin decreased 260 basis points to 14.5 percent, primarily due to unfavorable sales mix, higher warranty costs, and production inefficiencies caused by increased volume at certain manufacturing facilities and plant consolidation activities. SG&A expenses decreased $0.5 million, primarily due to lower engineering and development costs. Restructuring expenses in the second quarter of fiscal 2015 consisted primarily of equipment transfer costs as a result of the planned closure of our McHenry, Illinois manufacturing facility. Operating income decreased $3.8 million to $7.9 million during the second quarter of fiscal 2015, primarily due to decreased gross profit, partially offset by lower SG&A expenses.

Comparison of Six Months Ended September 30, 2014 and 2013

North America year-to-date sales increased $0.8 million, or less than 1 percent, from the same period last year, primarily due to higher sales volume to commercial vehicle customers, partially offset by decreased sales volume to off-highway customers and lower tooling sales. Gross margin decreased 50 basis points to 16.6 percent, primarily due to unfavorable sales mix and production inefficiencies. SG&A expenses increased $0.3 million and were relatively consistent as a percentage of sales. Operating income decreased $2.0 million to $24.0 million, primarily due to decreased gross profit.

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Europe

	Three months ended September 30,				Six months ended September 30,			
	2014		2013		2014		2013	
(in millions)	$'s	% of sales	$'s	% of sales	$'s	% of sales	$'s	% of sales
Net sales	$146.4	100.0%	$138.9	100.0%	$305.0	100.0%	$285.1	100.0%
Cost of sales	129.7	88.6 %	124.2	89.4 %	266.1	87.2 %	251.1	88.1 %
Gross profit	16.7	11.4 %	14.7	10.6 %	38.9	12.8 %	34.0	11.9 %
Selling, general and administrative expenses	11.3	7.8 %	10.8	7.8 %	22.8	7.5 %	21.6	7.6 %
Restructuring expenses	0.8	0.5 %	0.6	0.4 %	1.1	0.3 %	1.1	0.4 %
Operating income	$4.6	3.1 %	$3.3	2.4 %	$15.0	4.9 %	$11.3	4.0 %

Comparison of Three Months Ended September 30, 2014 and 2013

Europe sales increased $7.5 million, or 5 percent, from the second quarter of fiscal 2014 to the second quarter of fiscal 2015, primarily due to increased sales volume to commercial vehicle and automotive customers, partially offset by lower tooling sales. Gross profit increased $2.0 million and gross margin increased 80 basis points to 11.4 percent, primarily due to higher sales volume and the absence of $2.1 million of accelerated depreciation recorded in the prior year for production equipment that is no longer used due to manufacturing process changes, partially offset by unfavorable sales mix and production inefficiencies caused by increased volume at certain manufacturing facilities and plant consolidation activities. SG&A expenses increased $0.5 million in the second quarter of fiscal 2015, primarily due to higher engineering and development costs. Operating income improved $1.3 million to $4.6 million during the second quarter of fiscal 2015, primarily due to increased gross profit, partially offset by higher SG&A expenses.

Comparison of Six Months Ended September 30, 2014 and 2013

Europe year-to-date sales increased $19.9 million, or 7 percent, from the same period last year, primarily due to increased sales volume to commercial vehicle and automotive customers and a $7.3 million favorable impact of foreign currency exchange rate changes, partially offset by lower tooling sales. Gross profit increased $4.9 million and gross margin increased 90 basis points to 12.8 percent, primarily due to higher sales volume, the absence of $4.3 million of accelerated depreciation recorded in the prior year and a $1.1 million favorable impact of foreign currency exchange rate changes, partially offset by unfavorable sales mix and production inefficiencies. SG&A expenses increased $1.2 million, primarily due to higher engineering and development costs and a $0.5 million unfavorable impact of foreign currency exchange rate changes. Operating income increased $3.7 million to $15.0 million, primarily due to increased gross profit, partially offset by higher SG&A expenses.

South America

	Three months ended September 30,				Six months ended September 30,			
	2014		2013		2014		2013	
(in millions)	$'s	% of sales	$'s	% of sales	$'s	% of sales	$'s	% of sales
Net sales	$27.2	100.0%	$31.8	100.0%	$52.4	100.0%	$66.2	100.0%
Cost of sales	23.6	86.6 %	26.0	81.8 %	45.3	86.4 %	54.3	82.0 %
Gross profit	3.6	13.4 %	5.8	18.2 %	7.1	13.6 %	11.9	18.0 %
Selling, general and administrative expenses	3.3	12.3 %	3.3	10.4 %	6.5	12.5 %	6.8	10.3 %
Restructuring expenses	-	0.2 %	-	-	0.5	1.0 %	-	-

Operating income	$0.3	0.9	%	$2.5	7.8	%	$0.1	0.1	%	$5.1	7.7	%

Comparison of Three Months Ended September 30, 2014 and 2013

South America sales decreased $4.6 million, or 14 percent, from the second quarter of fiscal 2014 to the second quarter of fiscal 2015, primarily due to lower sales volume to commercial vehicle, off-highway and automotive customers, as weak economic conditions in Brazil continue. Gross profit decreased $2.2 million and gross margin decreased to 13.4 percent, primarily due to lower sales volume. SG&A expenses of $3.3 million were consistent with the prior year. Operating income decreased $2.2 million to $0.3 million during the second quarter of fiscal 2015, primarily due to lower gross profit.

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Comparison of Six Months Ended September 30, 2014 and 2013

South America year-to-date sales decreased $13.8 million, or 21 percent, from the same period last year, primarily due to lower sales volume to commercial vehicle, off-highway and automotive customers, as weak economic conditions in Brazil continue, and a $1.9 million unfavorable impact of foreign currency exchange rate changes. Gross profit decreased $4.8 million and gross margin decreased to 13.6 percent, primarily due to lower sales volume. SG&A expenses decreased $0.3 million, primarily due to cost reduction efforts, reflecting our focus on maintaining profitability in the segment despite the lower sales volume. We recorded restructuring expenses of $0.5 million for employee severance costs to reduce headcount and better align our cost structure with the current market conditions in Brazil. Operating income decreased $5.0 million to $0.1 million, primarily due to lower gross profit.

Asia

	Three months ended September 30,				Six months ended September 30,			
	2014		2013		2014		2013	
(in millions)	$'s	% of sales	$'s	% of sales	$'s	% of sales	$'s	% of sales
Net sales	$19.0	100.0%	$16.2	100.0%	$39.8	100.0%	$34.5	100.0%
Cost of sales	16.9	88.9 %	14.4	89.3 %	34.1	85.7 %	30.4	88.2 %
Gross profit	2.1	11.1 %	1.8	10.7 %	5.7	14.3 %	4.1	11.8 %
Selling, general and administrative expenses	2.8	14.8 %	2.9	17.6 %	5.5	13.9 %	5.5	15.9 %
Operating (loss) income	$(0.7)	-3.7 %	$(1.1)	-6.9 %	$0.2	0.4 %	$(1.4)	-4.1 %

Comparison of Three Months Ended September 30, 2014 and 2013

Asia sales increased $2.8 million, or 17 percent, from the second quarter of fiscal 2014 to the second quarter of fiscal 2015, primarily due to new program launches and a $0.5 million favorable impact of foreign currency exchange rate changes, partially offset by lower sales volume within the off-highway markets in China and Korea. Gross profit increased $0.3 million and gross margin increased to 11.1 percent, primarily due to higher sales volume. SG&A expenses were relatively consistent with the prior year and decreased as a percentage of sales. The operating loss decreased $0.4 million to $0.7 million during the second quarter of fiscal 2015, primarily due to higher gross profit.

Comparison of Six Months Ended September 30, 2014 and 2013

Asia year-to-date sales increased $5.3 million, or 15 percent, from the same period last year, primarily due to new program launches, higher sales volume to automotive customers, and a $0.7 million favorable impact of foreign currency exchange rate changes, partially offset by lower sales volume within the off-highway markets in China and Korea. Gross profit increased $1.6 million and gross margin increased to 14.3 percent, primarily due to higher sales volume. SG&A expenses were consistent with the prior year, yet decreased as a percentage of sales. Operating income of $0.2 million improved $1.6 million from an operating loss of $1.4 million in the prior year, primarily due to higher gross profit.

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Building HVAC

	Three months ended September 30,					Six months ended September 30,				
	2014		2013			2014			2013	
(in millions)	$'s	% of sales	$'s	% of sales		$'s		% of sales	$'s	% of sales
Net sales	$45.5	100.0	13,333 (b)	7,466	(b)					
				30,000	(c)	16,800	(c)			
				60,000	(d)	33,600	(d)			
Kirby										
				60,000	(f)	33,600	(f)			
				120,000	(g)	67,200	(g)			
Total	32,575	63,333		389,999		218,399				

(a) These options were granted on January 20, 2014 and vest over a three year period based on performance criteria determined by the Compensation Committee.

(b) These shares were granted on January 20, 2014 and vest over a three year period based on performance criteria determined by the Compensation Committee.

(c) These shares were granted on October 22, 2014 and vest over a three year period based on service requirements.

(d) These shares were granted on December 19, 2014 and vest over a three year performance-based period tied to the Company's total shareholder return (TSR) relative to the shareholder return of three alternative energy Exchange Traded Funds as measured over a specific performance period.

(e) These options were fully vested on the grant date.

(f) These shares were granted on January 20, 2015 and vest over a three year period based on service requirements.

(g) These shares were granted on January 20, 2015 and vest over a three year performance-based period tied to the Company's total shareholder return (TSR) relative to the shareholder return of three alternative energy Exchange Traded Funds as measured over a specific performance period.

Potential Payments upon Termination of Employment or Change in Control

The following information sets forth the terms of potential payments to each of our named executive officers in the event of a termination of employment.

Termination by Company without Cause; Termination by Executive for Good Reason. Our employment agreement with Mr. Kirby provides for severance pay equal to one-half (1/2) of a year of base salary in a lump sum within 30 days in the event that employment is terminated by the Company, other than for cause, upon Mr. Kirby's disability or by the executive with good reason, each occurring during the first year of employment (i.e., prior to January 20, 2016). After the first year of employment, the amount of severance pay increases to one (1) year of base salary. In both instances, Mr. Kirby would also be entitled to receive any other payments owed such as a short-term bonus, long-term compensation, benefits and expenses reimbursements to the degree such payments are owed for service provided up to the date of termination. Finally, the expiration date of any other options held by Mr. Kirby would be extended to a date 90 days after the date of termination.

Our employment contract with Mr. Heinz provides for severance pay equal to three months if termination occurs after 180 days, six months if termination occurs after 360 days and twelve months if termination occurs after 720 days of employment.

Our employment contract with Mr. Featherstone provides for severance pay equal to one year of base salary payable as salary continuation in accordance with regular payroll practices and the continuation of health care benefits for 12 months in the event that employment is terminated by the Company other than for cause or by the executive with good reason.

Termination by Company for Cause; Termination by Executive without Good Reason. Under our employment contracts with Mr. Kirby, Mr. Featherstone and Mr. Heinz upon termination for cause or at the executive's election without good reason, the executive is entitled to the base salary and benefits due and owing to the executive as of the date of termination.

Change in Control. Our employment agreement with Mr. Kirby provides for severance pay equal to one (1) year of base salary if a change of control occurs and Mr. Kirby is terminated by the Company or Mr. Kirby terminates the agreement, each occurring within 90 days of the change of control. Mr. Kirby would also be entitled to receive any other payments owed such as a short-term bonus, long-term compensation, benefits and expenses reimbursements to the degree such payments are owed for service provided up to the date of termination. Finally, the expiration date of any other options held by Mr. Kirby would be extended to a date 90 days after the date of termination. In addition, to the extent that Mr. Kirby has not previously vested in rights and interests held by, Mr. Kirby under the Company's stock and other equity plans (including stock options, restricted stock, RSU's, performance units or performance shares) such rights and interest will become 100% vested.

The employment agreements for Mr. Featherstone and Mr. Heinz do not contain change of control provisions; therefore, payments for cash severance and continued healthcare benefits are the same as for termination without cause. The restricted stock agreement provides for accelerated stock vesting upon a change in control.

Termination upon Failure to Renew by the Company. In the event that our employment agreement with Mr. Kirby terminates the end of the term and is not renewed as a result of a decision by the Company not to renew, prior to a decision by Executive not to renew, the Company will pay Mr. Kirby a severance payment in the amount of one (1) year base salary in a lump sum within 30 days after the termination date.

The employment agreements for Mr. Featherstone and Mr. Heinz do not contain similar provisions.

Qualifying retirement. Under our restricted stock agreements with the named executive officers, upon a Qualifying Retirement 50% of unvested restricted shares will vest immediately. A "Qualifying Retirement" means retirement by the recipient after satisfaction of the conditions in either clause (A) or clause (B): (A) the recipient has both (1) attained the age of 55 and (2) completed at least ten years of employment with the Company; or (B) the sum of the recipient's age plus the number of years he or she has been employed by the Company equals or exceeds 75 years.

ITEM 12. *SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS*

The following table sets forth certain information regarding the beneficial ownership of Common Stock as of May 31, 2015 by (a) each person known by us to be the beneficial owner of more than 5% of the outstanding shares of Common Stock, (b) each named executive officer identified in the Summary Compensation Table below, (c) each director and nominee for director, and (d) all executive officers and directors as a group.

The Percentage of Common Stock outstanding is based on 18,349,111 shares of our Common Stock outstanding as of May 31, 2015. For purposes of the table below, and in accordance with the rules of the SEC, we deem shares of Common Stock subject to options that are currently exercisable or exercisable within sixty days of May 31, 2015 and restricted stock that is currently vested or that will vest within sixty days of May 31, 2015, to be outstanding and to be beneficially owned by the person holding the options or restricted stock for the purpose of computing the percentage ownership of that person, but we do not treat them as outstanding for the purpose of computing the percentage ownership of any other person. Except as otherwise noted, each of the persons or entities in this table has sole voting and investing power with respect to all of the shares of Common Stock beneficially owned by them, subject to community property laws, where applicable. The street address of each beneficial owner is c/o Ocean Power Technologies, Inc., 1590 Reed Road, Pennington, NJ 08534.

Name	Amount	Percentage
Executive Officers and Directors		
George H. Kirby	—	—
Mark A. Featherstone(1)	27,208	*
David R. Heinz(2)	73,691	*
Robert J. Burger	—	—
Eileen M. Competti(3)	35,538	*
Terence J. Cryan(4)	66,000	*
Dean J. Glover	—	—
David L. Keller(5)	46,092	*
Seymour S. Preston III(6)	66,768	*
Charles F. Dunleavy	107,902	*
All current and former executive officers and directors as a group 10 individuals (7)(8)	423,199	2.3%

Owners of more than 5%		
Five More Special Situations Fund Ltd. (9)	1,180,000	6.4%

* Represents a beneficial ownership of less than one percent of our outstanding Common Stock.

(1) Includes 9,250 shares of Common Stock issuable upon the exercise of options that are currently exercisable or exercisable within sixty days of May 31, 2015.

(2) Includes 23,325 shares of Common Stock issuable upon the exercise of options that are currently exercisable or exercisable within sixty days of May 31, 2015.

(3) Includes 35,538 shares of Common Stock issuable upon the exercise of options that are currently exercisable or exercisable within sixty days of May 31, 2015.

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(4) Includes 65,000 shares of Common Stock issuable upon the exercise of options that are currently exercisable or exercisable within sixty days of May 31, 2015. Mr. Cryan received 9,000 of these options for his service as a member of the Company's Board of Advisors.

(5) Includes 46,092 shares of Common Stock issuable upon the exercise of options that are currently exercisable or exercisable within sixty days of May 31, 2015.

(6) Includes 5,000 shares of Common Stock issuable upon the exercise of options that are currently exercisable or exercisable within sixty days of May 31, 2015.

(7) Includes former Chief Executive Officer Charles F. Dunleavy.

(8) Excludes vesting performance based stock awards for fiscal 2015. These are awards that have not been determined as of the date of this filing.

(9) Based on a Schedule 13D filed with the SEC on April 29, 2014. FiveT Capital AG acts as the investment advisor of the beneficial owner.

Equity Compensation Plan Information

The following table summarizes the total number of outstanding options and shares available for other future issuances of options under all of our equity compensation plans as of April 30, 2015.

Plan Category	**Number of Shares to be Issued Upon Exercise of Outstanding Options, Warrants and Rights**	**Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights**	**Number of Shares Remaining Available for Future Issuance Under the Equity Compensation Plan**

				(Excluding Shares in First Column)
Equity compensation plans approved by stockholders(1)	1,083,952	$	4.32	338,382
Equity compensation plans not approved by stockholders	—		—	—

(1) Consists of our 2001 Stock Plan and our 2006 Stock Incentive Plan.

ITEM 13. *CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE*

Board Determination of Independence

Under applicable NASDAQ rules, a director will only qualify as an “independent director” if they are not an executive officer or employee of the Company, and, in the opinion of our Board of Directors, that person does not have a relationship which would interfere with the exercise of independent judgment in carrying out the responsibilities of a director.

Our Board has determined that none of Mr. Cryan, Mr. Keller, Ms. Competti, Mr. Glover or Mr. Burger has a relationship that would interfere, or has interfered, with the exercise of independent judgment in carrying out the responsibilities of a director, and that each of these directors is an “independent director” as defined under Rule 5605(a)(2) of the NASDAQ Marketplace Rules.

Certain Relationships and Related Person Transactions

Review and Approval of Related Person Transactions

The Audit Committee is charged with the responsibility of reviewing and approving all related person transactions (as defined in SEC regulations), and periodically reassessing any related person transaction entered into by the Company to ensure continued appropriateness. This responsibility is set forth in our Audit Committee charter. A related party transaction will only be approved if the members of the Audit Committee determine that the transaction is in the best interests of the Company. If a director is involved in the transaction, he or she will recue himself or herself from all decisions regarding the transaction.

ITEM 14. ***PRINCIPAL ACCOUNTING FEES AND SERVICES***

Fees of Independent Registered Public Accounting Firm

The following table summarizes the fees of KPMG LLP, our independent registered public accounting firm, billed to us for each of the last two fiscal years.

Fee Category	**Fiscal 2015**	**Fiscal 2014**
Audit Fees(1)	$249,320	$284,831
Audit-Related Fees(2)	15,000	163,564
Tax Fees(3)	24,294	47,698
All Other Fees(4)	—	—
Total Fees	$288,614	$496,093

(1) Audit fees consist of fees for the audit and quarterly reviews of our consolidated financial statements and other professional services provided in connection with statutory and regulatory filings or engagements.

(2) Audit-related fees consist of fees for assurance and related services that are reasonably related to the performance of the audit and the review of our consolidated financial statements and which are not reported under “Audit Fees.” Audit related fees in 2015 consisted of fees for consent in connection with Form S-8 filing. Audit related fees in 2014 consisted of fees for comfort letters in connection with the At the Market (ATM) offering agreement with Ascendiant Capital Markets and an Underwriting Agreement with Roth Capital Partners, LLC, in addition to audit related fees for reviews of grant milestones in the UK and US.

(3) Tax fees for fiscal 2015 and fiscal 2014 include fees for tax return preparation assistance and review. In addition, fiscal year 2015 included consulting services related to our subsidiary, Ocean Power Technologies, Ltd. in the United Kingdom and fiscal year 2014 included tax services related to our Victorian Wave Partner Pty Ltd project in Australia.

(4) We were not billed any “Other Fees” in fiscal 2015 or fiscal 2014.

Pre-Approval Policies and Procedures

The Audit Committee’s policy is that all audit services and all non-audit services to be provided to us by our independent registered public accounting firm must be approved in advance by our Audit Committee. The Audit Committee’s approval procedures include the review and approval of engagement letters from our independent registered public accounting firm that document the fees for all audit services and non-audit services, primarily tax advice and tax return preparation and review.

All audit services and all non-audit services in fiscal 2015 and 2014 were pre-approved by the Audit Committee. The Audit Committee has determined that the provision of the non-audit services for which these fees were rendered is compatible with maintaining the independent auditor’s independence.

PART IV

ITEM 15. ***EXHIBITS AND FINANCIAL STATEMENT SCHEDULES***

(a) (1) Financial Statements: See Index to Consolidated Financial Statements on page F-1.

(3) Exhibits: See Exhibits Index on pages 60 to 61.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

Date: July 6, 2015

/s/ George H. Kirby
By: George H. Kirby
Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated:

Signature	Title	Date
/s/ George H. Kirby George H. Kirby	Chief Executive Officer (Principal Executive Officer) Director	July 6, 2015
/s/ Mark A. Featherstone Mark A. Featherstone	Chief Financial Officer and Treasurer (Principal Financial Officer and Principal Accounting Officer)	July 6, 2015

/s/ Terence J. Cryan Terence J. Cryan	Director	July 6, 2015
/s/ David L. Keller David L. Keller	Director	July 6, 2015
/s/ Eileen M. Competti Eileen M. Competti	Director	July 6, 2015
/s/ DEAN J. GLOVER Dean J. Glover	Director	July 6, 2015
/s/ ROBERT J. BURGER Robert J. Burger	Director	July 6, 2015

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Exhibits Index

Exhibit Number		Description
3	.1	Restated Certificate of Incorporation of the registrant (incorporated by reference from Exhibit 3.1 to Form 10-Q filed September 14, 2007)
3	.2	Amended and Restated Bylaws of the registrant (incorporated by reference from Exhibit 3.2 to Form 10-Q filed September 14, 2007)
4	.1	Specimen certificate of common stock (incorporated by reference from Exhibit 4.1 to Form S-1/A filed March 19, 2007)
10	.1	Option Agreement for Purchase of Emissions Credits, dated November 24, 2000 between Ocean Power Technologies, Inc. and its affiliates and Woodside Sustainable Energy Solutions

	Pty. Ltd. (incorporated by reference from Exhibit 10.4 to Form S-1 filed November 13, 2006)
10 .2	2001 Stock Plan (incorporated by reference from Exhibit 10.7 to Form S-1 filed November 13, 2006)*
10 .3	Amended and Restated 2006 Stock Incentive Plan (incorporated by reference from Exhibit A to Proxy Statement filed August 28, 2013)*
10 .4	Amended and Restated Employment Agreement, dated April 8, 2009, between Charles F. Dunleavy and Ocean Power Technologies, Inc. (incorporated by reference from Exhibit 10.2 to Form 8-K filed April 13, 2009)*
10 .5	Lease Agreement, dated August 30, 2005 between Ocean Power Technologies, Inc. and Reed Road Industrial Park LLC #1, as amended on January 27, 2006 (incorporated by reference from Exhibit 10.16 to Form S-1 filed November 13,

	2006)
10 .6	Agreement for Renewable Energy Economic Development Grants, dated November 3, 2003, between State of New Jersey Board of Public Utilities and Ocean Power Technologies, Inc. (incorporated by reference from Exhibit 10.18 to Form S-1/A filed March 19, 2007)
10 .7	Marketing Cooperation Agreement, dated September 9, 2006, between Ocean Power Technologies, Inc. and Lockheed Martin Corporation through its Maritime Systems and Sensors business unit (incorporated by reference from Exhibit 10.21 to Form S-1/A filed April 10, 2007)
10 .8	Financial Assistance Award agreement between Ocean Power Technologies, Inc. and US Department of Energy dated September 23, 2008 (incorporated by reference from Exhibit 10.1 to Form 10-Q filed December 10,

	2008)+
10 .9	Modification of Financial Assistance Award agreement between Ocean Power Technologies, Inc. and US Department of Energy dated October 16, 2008 (incorporated by reference from Exhibit 10.2 to Form 10-Q filed December 10, 2008)+
10 .10	Form of Restricted Stock Agreement (incorporated by reference from Exhibit 10.1 to Form 10-Q filed March 14, 2011)*
10 .11	Amended Option Agreement for Purchase of Emissions Credits, dated December 4, 2012, between Ocean Power Technologies, Inc. and its affiliates and Metasource Pty Ltd (formerly known as Woodside Sustainable Energy Solutions Pty Ltd) (incorporated by reference from Exhibit 10.23 to Form 10-K filed July 12, 2013)
10 .12	Second Addendum to Lease Agreement, dated June 1, 2008, between Ocean

	Power Technologies, Inc. and Reed Road Industrial Park LLC #1 (incorporated by reference from Exhibit 10.24 to Form 10-K filed July 12, 2013)
10 .13	Third Addendum to Lease Agreement, dated March 11, 2013, between Ocean Power Technologies, Inc. and Reed Road Industrial Park LLC #1 (incorporated by reference from Exhibit 10.25 to Form 10-K filed July 12, 2013)
10 .14	Amendment Letter to Employment Agreement, dated December 12, 2012, between Charles F. Dunleavy and Ocean Power Technologies, Inc. (incorporated by reference from Exhibit 10.2 to Form 10-Q filed December 14, 2012)*
10 .15	At the Market Offering Agreement, dated as of June 6, 2013, by and between Ocean Power Technologies, Inc. and Ascendiant Capital Markets, LLC (incorporated by reference from

	Exhibit 10.1 to Form 8-K filed June 7, 2013)
10 .16	Amendment Letter to Employment Agreement, dated July 11, 2013, between George W. Taylor and Ocean Power Technologies, Inc. (incorporated by reference from Exhibit 10.29 to Form 10-K filed July 12, 2013)*
10 .17	Amendment Letter to Employment Agreement, dated July 11, 2013, between Charles F. Dunleavy and Ocean Power Technologies, Inc. (incorporated by reference from Exhibit 10.30 to Form 10-K filed July 12, 2013)*
10 .18	Commercialization Agreement, dated October 23, 2013, by and between Ocean Power Technologies, Inc. and Mitsui Engineering & Shipbuilding Co. Ltd. (incorporated by reference from Exhibit 10.1 to Form 10-Q filed December 13, 2013) +
10 .19	Employment Agreement, dated December 2, 2013, between Mark A. Featherstone and Ocean Power Technologies, Inc.

	(incorporated by reference from Exhibit 10.1 to Form 10-Q filed March 14, 2014)*
10 .20	Amendment letter to Employment Agreement, dated December 11, 2013, between George W. Taylor and Ocean Power Technologies, Inc. (incorporated by reference from Exhibit 10.2 to Form 10-Q filed March 14, 2014)*
10 .21	Amendment letter to Employment Agreement, dated December 11, 2013, between Charles F. Dunleavy and Ocean Power Technologies, Inc. (incorporated by reference from Exhibit 10.3 to Form 10-Q filed March 14, 2014)*
10 .22	Executive Transition Agreement between Ocean Power Technologies, Inc. and George W. Taylor, dated April 11, 2014 (incorporated by reference from Exhibit 10.1 to Form 8-K filed April 17, 2014)*
10 .23	Renewable Energy Demonstration Program-Funding Deed, dated as of September 9,

2010, by and between Victorian Wave Partners Pty Ltd. and Commonwealth of Australia represented by the Department of Resources, Energy and Tourism (incorporated by reference from Exhibit 10.1 to Form 8-K filed July 14, 2014)+

Exhibit Number		Description
10	.24	Deed of Variation to Funding Deed (and Notice of Waiver) dated as of January 9, 2014, by and between Victorian Wave Partners Pty Ltd. and Australian Renewable Energy Agency (incorporated by reference from Exhibit 10.2 to Form 8-K filed July 14, 2014)+
10	.25	Employment Agreement, dated December 30, 2013, between David R. Heinz and Ocean Power Technologies, Inc.*(incorporated by reference from Exhibit 10.37 to Form 10-K filed July 29, 2014)
10	.26	Employment Agreement, dated June 9, 2014, between David L. Keller and Ocean Power Technologies, Inc.* (incorporated by reference from Exhibit 10.38 to Form 10-K filed July 29, 2014)
10	.27	Employment Agreement, dated December 29, 2014, between George H. Kirby

		and Ocean Power Technologies, Inc. (incorporated by reference from Exhibit 10.1 to Form 10-Q filed March 11, 2015)*
10	.28	Fourth Addendum to Lease Agreement, dated January 13, 2015, between Ocean Power Technologies, Inc. and Reed Road Industrial Part LLC #1
21	.1	Subsidiaries of the registrant
23	.1	Consent of KPMG LLP
31	.1	Certification of Chief Executive Officer
31	.2	Certification of Chief Financial Officer
32	.1	Certification of Chief Executive Officer pursuant to Section 906 of Sarbanes-Oxley Act of 2002
32	.2	Certification of Chief Financial Officer pursuant to Section 906 of Sarbanes-Oxley Act of 2002
101		The following materials formatted in eXtensible Business Reporting Language (XBRL) from Ocean Power Technologies, Inc Annual Report on Form 10-K for the fiscal years ended

April 30, 2015 and 2014: (i) Consolidated Balance Sheets, (ii) Consolidated Statements of Operations, (iii) Consolidated Statements of Cash Flows, (iv) Consolidated Statements of Stockholders' Equity and Comprehensive Loss and (v) Notes to Consolidated Financial Statements.

* Management contract or compensatory plan or arrangement.

\+ Indicates that confidential treatment has been requested for this exhibit.

OCEAN POWER TECHNOLOGIES, INC. AND SUBSIDIARIES

Index to Consolidated Financial Statements

Reports of Management

Management's Report on Consolidated Financial Statements

The accompanying consolidated financial statements have been prepared by the management of Ocean Power Technologies, Inc. (the Company) in conformity with generally accepted accounting principles to reflect the financial position of the Company and its operating results. The financial information appearing throughout this Annual Report is consistent with the consolidated financial statements. Management is responsible for the information and representations in such consolidated financial statements, including the estimates and judgments required for their preparation. The consolidated financial statements have been audited by KPMG LLP, an independent registered public accounting firm, as stated in their report, which appears herein.

The Audit Committee of the Board of Directors, which is composed entirely of directors who are not officers or employees of the Company, meets regularly with management and the independent registered public accounting firm. The independent registered public accounting firm has had, and continues to have, direct access to the Audit Committee without the presence of other management personnel, and have been directed to discuss the results of their audit work and any matters they believe should be brought to the Committee's attention. The independent registered public accounting firm reports directly to the Audit Committee.

Management's Annual Report on Internal Control over Financial Reporting

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles in the United States. The Company's internal control over financial reporting includes those policies and procedures that:

- pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company;

- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and

- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

The Company's management assessed the effectiveness of the Company's internal control over financial reporting as of April 30, 2015. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control — Integrated Framework (1992)*. Based on this assessment using those criteria, management concluded that the Company's internal control over financial reporting was effective as of April 30, 2015.

/s/ GEORGE H. KIRBY
George H. Kirby
Chief Executive Officer

/s/ MARK A. FEATHERSTONE
Mark A. Featherstone
Chief Financial Officer

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders

Ocean Power Technologies, Inc.:

We have audited the accompanying consolidated balance sheets of Ocean Power Technologies, Inc. and subsidiaries as of April 30, 2015 and 2014, and the related consolidated statements of operations, comprehensive loss, stockholders' equity, and cash flows for each of the years in the two-year period ended April 30, 2015. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Ocean Power Technologies, Inc. and subsidiaries as of April 30, 2015 and 2014, and the results of their operations and their cash flows for each of the years in the two-year period ended April 30, 2015, in conformity with U.S. generally accepted accounting principles.

/s/ KPMG LLP

Philadelphia, Pennsylvania

July 6, 2015

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OCEAN POWER TECHNOLOGIES, INC. AND SUBSIDIARIES

Consolidated Balance Sheets

	April 30, 2015	2014
ASSETS		
Current assets:		
Cash and cash equivalents	$17,335,734	$13,858,659
Marketable securities	75,000	14,493,881
Restricted cash	438,561	6,124,960
Accounts receivable	103,470	308,731
Unbilled receivables	81,658	37,410
Other current assets	186,641	568,377
Total current assets	18,221,064	35,392,018
Property and equipment, net	263,898	317,513
Patents, net	—	828,298
Restricted cash	50,000	1,221,696
Other noncurrent assets	335,924	325,310
Total assets	$18,870,886	$38,084,835
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$352,827	$501,397
Accrued expenses	2,507,119	2,931,239
Advance payment received from customer	—	4,709,055
Unearned revenues	—	992,447
Current portion of long-term debt	100,000	100,000
Total current liabilities	2,959,946	9,234,138
Long-term debt	50,000	150,000
Deferred credits payable-noncurrent	600,000	600,000
Total liabilities	3,609,946	9,984,138
Commitments and contingencies (note 13)		
Ocean Power Technologies, Inc. Stockholders' equity:		
Preferred stock, $0.001 par value; authorized 5,000,000 shares, none issued or outstanding	—	—
Common stock, $0.001 par value; authorized 105,000,000 shares, issued 18,387,769 and 17,593,637 shares, respectively	18,388	17,594
Treasury stock, at cost; 38,658 and 37,852 shares, respectively	(132,016)	(130,707)
Additional paid-in capital	180,786,790	180,454,341
Accumulated deficit	(164,755,055)	(151,640,503)
Accumulated other comprehensive loss	(229,915)	(225,733)
Total Ocean Power Technologies, Inc. stockholders' equity	15,688,192	28,474,992
Noncontrolling interest in Ocean Power Technologies (Australasia) Pty Ltd	(427,252)	(374,295)

Total equity	15,260,940	28,100,697
Total liabilities and stockholders’ equity	$18,870,886	$38,084,835

See accompanying notes to consolidated financial statements.

OCEAN POWER TECHNOLOGIES, INC. AND SUBSIDIARIES

Consolidated Statements of Operations

	Year Ended April 30,	
	2015	**2014**
Revenues	$4,105,424	$1,498,892
Cost of revenues	4,671,403	1,510,336
Gross (loss) profit	(565,979)	(11,444)
Operating expenses:		
Product development costs	4,149,388	4,564,898
Change in contract loss reserve	—	(785,000)
Selling, general and administrative costs	9,571,193	9,358,967
Total operating expenses	13,720,581	13,138,865
Operating loss	(14,286,560)	(13,150,309)
Interest (expense) income, net	(31,634)	29,656
Other income	419,432	—
Foreign exchange (loss) gain	(462,777)	183,704
Loss before income taxes	(14,361,539)	(12,936,949)
Income tax benefit	1,137,872	1,745,895
Net loss	(13,223,667)	(11,191,054)
Less: Net loss attributable to the noncontrolling interest in Ocean Power Technologies (Australasia) Pty Ltd.	109,115	221,862
Net loss attributable to Ocean Power Technologies, Inc.	$(13,114,552)	$(10,969,192)
Basic and diluted net loss per share	$(0.75)	$(0.91)
Weighted average shares used to compute basic and diluted net loss per share	17,490,552	12,041,824

See accompanying notes to consolidated financial statements.

OCEAN POWER TECHNOLOGIES, INC. AND SUBSIDIARIES

Consolidated Statements of Comprehensive Loss

	Year Ended April 30,	
	2015	**2014**
Net loss	$(13,223,667)	$(11,191,054)
Foreign currency translation adjustment	51,976	(128,859)
Total comprehensive loss	(13,171,691)	(11,319,913)
Comprehensive loss attributable to the noncontrolling interest in Ocean Power Technologies (Australasia) Pty Ltd.	52,957	204,774
Comprehensive loss attributable to Ocean Power Technologies, Inc.	$(13,118,734)	$(11,115,139)

See accompanying notes to consolidated financial statements.

OCEAN POWER TECHNOLOGIES, INC. AND SUBSIDIARIES

Consolidated Statements of Stockholders' Equity

	Common Shares		**Treasury Shares**		**Additional Paid-In Capital**	**Accumulated Deficit**	**Accumulated Other Comprehensive Loss**	**Total Ocean Power Technologies, Inc, Stockholders' Equity**	
	Shares	**Amount**	**Shares**	**Amount**					
Balance, April 30, 2013	10,403,215	$10,403	$(33,771)	$(123,893)	$159,155,365	$(140,671,311)	$(79,786)	$18,290,778	$
Net loss	—	—	—	—	—	(10,969,192)	—	(10,969,192)	
Stock based compensation	—	—	—	—	702,091	—	—	702,091	
Issuance of restricted stock, net	79,822	80	—	—	69,475	—	—	69,555	
Stock issued upon exercise of stock options	4,266	5	—	—	8,528	—	—	8,533	
Acquisition of treasury stock	—	—	(4,081)	(6,814)	—	—	—	(6,814)	
Sale of stock, net	7,106,334	7,106	—	—	20,518,882	—	—	20,525,988	
Other comphrehesive loss	—	—	—	—	—	—	(145,947)	(145,947)	
Balance, April 30, 2014	17,593,637	$17,594	(37,852)	$(130,707)	180,454,341	(151,640,503)	(225,733)	28,474,992	
Net loss	—	—	—	—	—	(13,114,552)	—	(13,114,552)	

Stock based compensation	—	—	—	—	179,468	—	—	179,468	
Issuance of restricted stock, net	794,132	794	—	—	152,331	—	—	153,125	
Acquisition of treasury stock	—	—	(806)	(1,309)	—	—	—	(1,309)	
Sale of stock, net	—	—	—	—	650	—	—	650	
Other comphrehesive loss	—	—	—	—	—	—	(4,182)	(4,182)	
Balance, April 30, 2015	18,387,769	$18,388	$(38,658)	$(132,016)	$180,786,790	$(164,755,055)	$(229,915)	$15,688,192	$

See accompanying notes to consolidated financial statements.

OCEAN POWER TECHNOLOGIES, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

	Year Ended April 30, 2015	2014
Cash flows from operating activities:		
Net loss	$(13,223,667)	$(11,191,054)
Adjustments to reconcile net loss to net cash used in operating activities:		
Foreign exchange loss (gain)	462,777	(183,704)
Depreciation and amortization	965,156	421,836
Loss on disposals of property, plant and equipment	3,703	195,977
Impairment of long-lived assets	—	2,658
Provision for doubtful accounts	—	(299,958)
Treasury note discount amortization	—	5,391
Compensation expense related to stock option grants and restricted stock	332,593	771,646
Changes in operating assets and liabilities:		
Accounts receivable	205,261	787,601
Unbilled receivables	(44,248)	90,188
Other assets	339,460	(448,115)
Accounts payable	(144,791)	(12,363)
Accrued expenses	(368,970)	(983,835)
Advance payment received from customer	(4,709,055)	4,709,055
Unearned revenues	(992,447)	(362,401)
Net cash used in operating activities	(17,174,228)	(6,497,078)
Cash flows from investing activities:		
Purchases of marketable securities	(13,821,959)	(23,982,431)
Maturities of marketable securities	28,240,840	23,489,021
Restricted cash	6,828,896	(5,924,960)
Purchases of equipment	(76,390)	(27,268)
Net cash provided by (used in) investing activities	21,171,387	(6,445,638)
Cash flows from financing activities:		
Repayment of debt	(100,000)	(100,000)
Proceeds from the exercise of stock options	—	8,533
Proceeds from the sale of common stock, net of costs	650	20,525,988
Acquisition of treasury stock	(1,309)	(6,814)
Net cash (used in) provided by financing activities	(100,659)	20,427,707
Effect of exchange rate changes on cash and cash equivalents	(419,425)	880
Net increase in cash and cash equivalents	3,477,075	7,485,871
Cash and cash equivalents, beginning of period	13,858,659	6,372,788
Cash and cash equivalents, end of period	$17,335,734	$13,858,659
Supplemental disclosure of noncash investing and financing activities:		
	$11,200	—

Capitalized purchases of equipment financed through accounts payable and accrued expenses

See accompanying notes to the consolidated financial statements

OCEAN POWER TECHNOLOGIES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(1) Background and Liquidity

(a) Background

Ocean Power Technologies, Inc. (the "Company") was incorporated in 1984 in New Jersey, commenced business operations in 1994 and re-incorporated in Delaware in 2007. The Company is developing and is seeking to commercialize proprietary systems that generate electricity by harnessing the renewable energy of ocean waves. 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 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 its products and services.

(b) Liquidity

The Company has incurred net losses and negative operating cash flows since inception. As of April 30, 2015, the Company had an accumulated deficit of $164.8 million. As of April 30, 2015, the Company's cash and cash equivalents and marketable securities balance was approximately $17.4 million. Based upon the Company's cash and cash equivalents and marketable securities balance as of April 30, 2015, the Company believes that it will be able to finance its capital requirements and operations through at least July 31, 2016. In addition, as of April 30, 2015, the Company's restricted cash balance was approximately $0.5 million.

During fiscal 2015 and 2014, 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 futer operating results and cause actual results to vary materially from expectations include, but are not limited to, risks from insufficiencies of capital, technology development, scalability of technology and production, dependence on skills of key personnel, concentration of customers and suppliers, performance of PowerBuoys, deployment risks and laws, regulations and permitting. In order to complete our future growth strategy, the Company requires additional equity and/or debt financing. There is no assurance that additional equity and/or debt financing will be available to the Company as needed. Historically, the Company has raised proceeds through public capital markets. If our common stock is delisted from NASDAQ, our ability to raise capital through such markets could be adversely affected. If sufficient financing is not obtained, the Company may be required to further curtail or limit certain product development costs, and/or selling, general and administrative activities in order to reduce our cash expenditures.

In January 2013, the Company filed a shelf registration statement on Form S-3 (the “S-3” or the “S-3 Shelf”). The S-3 Shelf was declared effective in February 2013. Under the S-3 Shelf in June 2013, the Company established an at the market offering facility (the “ATM” Facility) with Ascendiant Capital Markets, LLC via an at the market offering agreement (the “ATM” Agreement) Under the ATM Agreement, the Company offered and sold shares of our common stock from time to time through the Manager, acting as sales agent, in ordinary brokerage transactions at prevailing market prices. Under the ATM Facility, during fiscal 2014, the Company issued 3,306,334 shares of our common stock at an average price to the public of $3.02 per share, receiving net proceeds from the ATM Facility of approximately $9,698,000.

Also in fiscal 2014, the Company entered into an Underwriting Agreement with Roth Capital Partners, LLC on April 4, 2014, with respect to the issuance and sale in an underwritten Public Offering of an aggregate of 3,800,000 shares of our common stock at a price of $3.10 per share. The Underwriting Agreement contained customary representations, warranties and agreements by the Company, customary conditions to closing, indemnification obligations, and a 90 day lock-up period that limited transactions in our common stock by the Company. Net proceeds from the Public Offering, which was completed in early April 2014, were approximately $10,828,000.

Form S-3 limits the aggregate market value of securities that we are permitted to offer in any 12-month period under Form S-3, whether under the ATM Agreement, the Underwriting Agreement or otherwise, to one third of the Company public float. After the 2014 share sales, we fully utilized the ATM Agreement. However, we regained the ability to utilize Form S-3 as we entered fiscal 2016. Of the $40 million authorized under the S-3 Shelf, approximately $18.2 million remains available for issuance. During fiscal 2015, there were no proceeds from the sale of stock under the S-3 Shelf.

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, these securities could have rights senior to those associated with our common stock and could contain covenants that would restrict our operations. Financing may not be available in amounts or on terms acceptable to us, or at all. If we are unable to obtain required financing, we may be required to reduce the scope of our current projects, planned product development and marketing efforts, which could harm our financial condition and operating results.

OCEAN POWER TECHNOLOGIES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements— (Continued)

(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. Participation of stockholders other than the Company in the net assets and in the earnings or losses of a consolidated subsidiary is reflected as a non-controlling interest in the Company's Consolidated Balance Sheets and Statements of Operations, which adjusts the Company's consolidated results of operations to reflect only the Company's share of the earnings or losses of the consolidated subsidiary. As of April 30, 2015, there was one noncontrolling interest, consisting of 11.8% of the Company's Australian subsidiary, Ocean Power Technologies (Australasia) Pty. Ltd. ("OPTA"). OPTA owns 100% of Victorian Wave Partners Pty. Ltd. ("VWP"), which is also organized under the laws of Australia.

In addition, the Company evaluates its relationships with other entities to identify whether they are variable interest entities, and to assess whether it is the primary beneficiary of such entities. If the determination is made that the Company is the primary beneficiary, then that entity is included in the consolidated financial statements. As of April 30, 2015, there were no such entities.

(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; valuation allowances for receivables and deferred income tax assets; 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. Currently, 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 product development and services specified in the contract. 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.

Generally, the Company recognizes 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 the 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 the Company is unable to reasonably estimate the total costs of the project prior to completion. Some revenue contracts may contain complex criteria or uncertainty surrounding the terms of performance and customer acceptance. 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.

Under cost plus and firm fixed price contracts, there is a profit or loss on the project depending on whether actual costs are more or less than the agreed upon amount. 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.

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 in unbilled receivables, and to the extent that those billings exceed costs incurred plus applicable profit margin, they are recorded as unearned revenues.

Some of the Company's projects in fiscal year 2015 were under cost-sharing contracts.

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OCEAN POWER TECHNOLOGIES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements— (Continued)

(d) 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.

	April 30, 2015	April 30, 2014
Checking and savings accounts	$4,614,400	$2,358,891
Overnight repurchase account	12,721,334	
Certificates of deposits and US Treasury obligations		11,499,768
	$17,335,734	$13,858,659

(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 April 30, 2015 and April 30, 2014, all of the Company's investments were classified as held-to-maturity.

Restricted Cash and Credit Facility

(f)

A portion of the Company’s cash is restricted under the terms of three security agreements.

One agreement is between Ocean Power Technologies, Inc. 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 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. During fiscal 2015, the Company reduced the credit facility from €800,000 ($964,656) to approximately €307,000 ($338,561). As of April 30, 2015, there was €278,828 ($307,492) in letters of credit outstanding under this agreement.

The second agreement is between Ocean Power Technologies, Inc. and the New Jersey Board of Public Utilities (NJBPU). The Company received a $500,000 recoverable grant award from the NJBPU of which $150,000 is outstanding at April 30, 2015. Under this arrangement, the Company annually assigns to the NJBPU a certificate of deposit in an amount equal to the outstanding grant balance. See Note 7.

In addition, the Company previously had a letter of credit outstanding for the benefit of the Oregon Department of State Lands for the removal of certain of the Company’s anchoring and mooring equipment from the seabed off the coast of Oregon. During fiscal 2015, the Company completed the removal activity and reduced the letters of credit from $1,200,000 to $0.

The Company had classified the initial grant funding received from the Australian Renewable Energy Agency (“ARENA”) of A$5,595,723 ($5,179,960), which includes an amount required to be submitted as goods and services tax (GST), as restricted cash as of April 30, 2014.

During fiscal 2015, the Company remitted the GST in the amount of A$508,702 ($470,905) to the Australian Tax Office (ATO) in accordance with local tax laws and also reclaimed this amount from the ATO during the fiscal period. The Company also returned the initial grant funding received of A$5,595,723 ($5,179,960) and interest of A$109,051 ($102,061) to ARENA in accordance with the Deed of Variation and Termination of Funding Deed executed between the parties in August 2014. The Company had accrued this amount in accrued expenses and recorded this amount as restricted cash at April 30, 2014.

OCEAN POWER TECHNOLOGIES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements— (Continued)

Restricted cash includes the following:

	April 30, 2015	**April 30, 2014**
Australian Renewable Energy Agency (ARENA)		$5,179,960
NJBPU agreement	100,000	100,000
Oregon Department of State Lands		845,000
Barclay's Bank Agreement	338,561	
	$438,561	$6,124,960

	April 30, 2015	**April 30, 2014**
Long Term:		
Barclay's Bank Agreement		$996,696
NJBPU agreement	50,000	225,000
	$50,000	$1,221,696

(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) ***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 gains and losses are included in foreign exchange loss in the accompanying consolidated statements of operations.

	Year Ended April 30,	
	2015	**2014**
Foreign exchange (loss) gain	$(462,777)	$183,704

Foreign currency denominated certificates of deposit and cash accounts:

	April 30,	
	2015	**2014**
Restricted	$338,561	$6,176,656
Unrestricted	1,100,371	1,232,111
	$1,438,932	$7,408,767

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OCEAN POWER TECHNOLOGIES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements— (Continued)

(i) Patents

External costs related to the filing of patents, including legal and filing fees, are capitalized if expenses related to the filing of a patent are significant. The Company continually re-assesses the remaining useful lives of its long-lived assets and costs are expensed when it is no longer probable that such technology will be utilized. Patents are also reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the patent may not be recoverable. Amortization expense was approximately $828,000 and $215,000 for the years ended April 30, 2015 and 2014, respectively. The increase in amortization during fiscal 2015 is reflective of the company’s decision to reduce the estimated remaining useful lives, for the purpose of amortizing capitalized external patent costs, from approximately five years to one year, effective for fiscal 2015.

(j) 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:

	Years Ended April 30,	
	2015	**2014**
Mitsui Shipbuilding & Engineering	40%	38 %
US Department of Energy	37%	34 %
European Union	23%	15 %
UK Government's Technology Strategy Board		12 %

The loss of, or a significant reduction in revenues from, any of the current customers could significantly impact the Company's financial position or results of operations. The Company does not require its customers to post collateral.

(k) 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 because of their anti-dilutive effect.

In computing diluted net loss per share, options to purchase shares of common stock and non-vested restricted stock issued to employees and non-employee directors, totaling 1,924,793 and 1,569,902 for the years ended April 30, 2015 and 2014, respectively, were excluded from the computations as the effect would be anti-dilutive due to the Company's losses.

(l) Stock-Based Compensation

Costs resulting from all share-based payment transactions are recognized in the consolidated financial statements at their fair values. The aggregate share-based compensation expense recorded in the consolidated statements of operations for the years ended April 30, 2015 and 2014 was approximately $333,000 and $772,000, respectively.

OCEAN POWER TECHNOLOGIES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements— (Continued)

Valuation Assumptions for Restricted Stock and Options Granted During the Years Ended April 30, 2015 and 2014

Restricted Stock

Compensation expense for non-vested restricted stock can be recorded based on its market value on the date of grant and recognized over the associated service and performance period. If the vesting requirement of performance-based grants is tied to the Company's total shareholder return (TSR) relative to the total shareholder return of alternative energy Exchange Traded Funds as measured over a specific performance period then the 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.

Options

The fair value of each stock option granted during the years ended April 30, 2015 and 2014 was estimated at the date of grant 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 Securities and Exchange Commission's Staff Accounting Bulletin No. 107, *Share-Based Payment.* Expected volatility was based on the Company's historical volatility for fiscal 2015 and for fiscal 2014.

	Years Ended April 30,	
	2015	**2014**
Risk-free interest rate	1.6 %	1.66 %
Expected dividend yield	0.0 %	0.0 %
Expected life (in years)	5.5	5.91
Expected volatility	85.49%	76.40%

The above assumptions were used to determine the weighted average per share fair value of $0.72 and $1.27 for stock options granted during the years ended April 30, 2015 and 2014, respectively.

(m) Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences and operating loss and tax credit carryforwards are expected to be recovered, settled or utilized. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

The Company recognizes the effect of income tax positions only if those positions are more likely than not of being sustained upon examination. Recognized income tax positions are measured at the largest amount that is greater than 50% likely of being realized. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs. The Company records interest related to unrecognized tax benefits in interest expense and penalties in selling, general, and administrative expenses, to the extent incurred.

(n) Accumulated Other Comprehensive Loss

The functional currency for the Company's foreign operations is the applicable local currency. The translation from the applicable foreign currencies to US dollars is performed for balance sheet accounts using the exchange rates in effect at the balance sheet date and for revenue and expense accounts using an average exchange rate during the period. The unrealized gains or losses resulting from such translation are included in accumulated other comprehensive loss within stockholders' equity.

OCEAN POWER TECHNOLOGIES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements— (Continued)

(o) Recent Accounting Pronouncements

On May 28, 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers*, which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The ASU will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective. The new standard is effective for the Company on January 1, 2017. Early application is not permitted. The standard permits the use of either the retrospective or cumulative effect transition method. The Company is evaluating the effect that ASU 2014-09 will have on its consolidated financial statements and related disclosures. The Company has not yet selected a transition method nor has it determined the effect of the standard on its ongoing financial reporting.

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 is evaluating the effect ASU 2014-15 will have on its consolidated financial statements and disclosures and have not yet determined the effect of the standard on its ongoing financial reporting at this time.

(3) Marketable Securities

	April 30, 2015	**April 30, 2014**
Certificates of Deposit and US Treasury obligations	$75,000	$14,493,881

(4) Property and Equipment

The components of property and equipment are as follows:

	Life (in years)	April 30, 2015	2014
Computers and software	3	$527,070	$527,244
Equipment	3 to 7	725,555	845,424
Office furniture and equipment	3 to 7	249,960	283,346
Leasehold improvements	2	182,285	182,285
		1,684,870	1,838,299
Less accumulated depreciation and amortization		(1,420,972)	(1,520,786)
		$263,898	$317,513

Depreciation expense was $136,858 and $206,945 for the years ended April 30, 2015 and 2014, respectively.

OCEAN POWER TECHNOLOGIES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements — (Continued)

(5) Balance Sheet Detail

	April 30, 2015	2014
Patents		
Patents	$1,536,029	1,536,029
Accumulated amortization	(1,536,029)	(707,731)
		$828,298
Accrued expenses		
Project costs	$867,771	1,263,293
Contract loss reserve	198,819	
Employee incentive payments	529,274	310,370
Accrued salary and benefits	468,366	455,909
Legal and accounting fees	274,656	168,402
Goods and services tax (GST) due to Australian Tax Office		470,905
Other	168,233	262,360
	$2,507,119	2,931,239

(6) Related Party Transactions

	Year Ended April 30, 2015	2014
Related party consulting expense	$494,188	$

In April 2014, the Company entered into an Executive Transition Agreement with George W. Taylor, who was formerly employed by the Company as Executive Vice Chairman and served on the Company's Board of Directors prior to that date. Under this agreement, Dr. Taylor will receive up to fifteen months of consulting fees at a monthly rate of $20,000. During fiscal 2015, the Company recorded $240,000 in expense relating to this agreement.

In June 2014, the Company entered into an agreement with David L. Keller, who had served as a non-executive director of the Company since October 2013. Under this agreement, Mr. Keller served as Interim Chief Executive Officer effective with the June 9, 2014 termination of the Company’s former Chief Executive Officer, Charles F. Dunleavy and received a consulting fee of $1,500 per day of services provided. Effective January 20, 2015, Mr. George H. Kirby was appointed President, Chief Executive Officer and Director of the Company and Mr. Keller resigned as Interim CEO. Mr. Keller continues to serve as a non-executive director of the Company. During fiscal 2015, the Company recorded $254,188 in expense relating to Mr. Keller’s agreement.

OCEAN POWER TECHNOLOGIES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements— (Continued)

(7) Debt

The Company was awarded a recoverable grant totaling $500,000, between April 2009 and June 2010, from the NJBPU under the Renewable Energy Business Venture Assistance Program. Under the terms of this agreement, the amount to be repaid is a fixed monthly amount of principal only, repayable over a five-year period beginning in November 2011. The terms also required the Company to assign to the NJBPU a certificate of deposit in an amount equal to the outstanding grant balance. See Note 2(f).

	April 30,	
	2015	**2014**
Total debt	$150,000	$250,000
Current portion of long-term debt	(100,000)	(100,000)
Long-term debt	$50,000	$150,000

(8) Deferred Credits Payable

During the year ended April 30, 2001, in connection with the sale of common stock to an investor, the Company received $600,000 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 $600,000, 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 April 30, 2015, the Company has not generated any emissions credits eligible for purchase under the agreement. The $600,000 has been classified as a noncurrent liability as of April 30, 2015 and 2014.

(9) Common Stock

During the year ended April 30, 2014, the Company issued 3,306,334 shares of common stock under its ATM Facility for an average purchase price of $3.02 per share, resulting in net proceeds to the Company of approximately $9,698,000, and issued 3,800,000 shares of common stock under the Underwriting Agreement at a price of $3.10 per share, resulting in net proceeds to the Company of approximately $10,828,000. These transactions were registered under the Company's S-3 Shelf.

(10) Preferred Stock

The Company has authorized 5,000,000 shares of undesignated preferred stock with a par value of $0.001 per share. As of April 30, 2015, and 2014, no shares of preferred stock had been issued.

(11) Share-Based Compensation Plans

In 2001, the Company approved the 2001 Stock Plan, which provides for the grant of incentive stock options and nonqualified stock options. A total of 1,000,000 shares were authorized for issuance under the 2001 Stock Plan. As of April 30, 2015, the Company had issued or reserved for issuance 40,200 shares under the 2001 Stock Plan. No further options or other awards have been or will be granted under the 2001 Stock Plan.

OCEAN POWER TECHNOLOGIES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements— (Continued)

In 2007, the Company's 2006 Stock Incentive Plan became effective. A total of 803,215 shares were authorized for issuance under the 2006 Stock Incentive Plan. In 2009, an amendment to the 2006 Stock Incentive Plan was approved by the Company’s stockholders, increasing the aggregate number of shares authorized for issuance by 850,000 shares to 1,653,215. On October 2, 2013, a further amendment to the 2006 Stock Incentive Plan was approved by the Company’s stockholders, increasing the aggregate number of shares authorized for issuance by an additional 800,000 shares to 2,453,215. As of April 30, 2015, the Company had issued share-based awards for 1,043,752 shares of common stock and had reserved an additional 338,382 shares of common stock for future issuance under the 2006 Stock Incentive Plan. The Company's employees, officers, directors, consultants and advisors are eligible to receive awards under the 2006 Stock Incentive Plan; however, incentive stock options may only be granted to employees. The maximum number of shares of common stock with respect to which awards may be granted to any participant under the 2006 Stock Incentive Plan is 200,000 per calendar year. Vesting provisions of stock options are determined by the board of directors. The contractual term of these stock options is up to ten years. The 2006 Stock Incentive Plan is administered by the Company's board of directors, who may delegate authority to one or more committees or subcommittees of the board of directors or to the Company's officers. If the board of directors delegates authority to an officer, the officer has the power to make awards to any of the Company's employees, other than executive officers. The board of directors will fix the terms of the awards to be granted by such officer. No award may be granted under the 2006 Stock Incentive Plan after December 7, 2016, but the vesting and effectiveness of awards granted before that date may extend beyond that date.

(a) Stock Options

A summary of stock options under the plans described above is as follows:

	Shares Under Option	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (In Years)
Outstanding April 30, 2013	1,305,988	$ 7.43	5.9
Exercised	(4,266)	2.00	
Forfeited	(320,932)	6.84	

Granted	491,502	1.32	
Outstanding April 30, 2014	1,472,292	5.53	5.9
Forfeited	(504,253)	7.11	
Granted	115,913	1.02	
Outstanding April 30, 2015	1,083,952	4.32	5.7
Exercisable April 30, 2015	785,983	$ 5.45	4.7

As of April 30, 2015, the total intrinsic value of outstanding and exercisable options was $0. As of April 30, 2015, approximately 289,000 additional options were unvested, which options had no intrinsic value and a weighted-average remaining contractual term of 8.3 years. There was approximately $74,000 and $587,000 of total recognized compensation cost related to employees for stock options during the years ended April 30, 2015 and 2014, respectively. As of April 30, 2015, there was approximately $158,000 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 2.1 years. The Company typically issues new shares to satisfy option exercises under these plans.

Certain options were granted to non-employee directors and consultants during the years ended April 30, 2015 and 2014. The Company has charged compensation expense of approximately $106,000 and $91,000 related to these option grants, the majority of which relates to non-employee directors. These expenses have been included in selling, general and administrative costs in the accompanying consolidated statements of operations for the years ended April 30, 2015 and 2014, respectively.

OCEAN POWER TECHNOLOGIES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements — (Continued)

During fiscal year 2015, the Company terminated the employment of Chief Executive Officer Charles F. Dunleavy. At the time of Mr. Dunleavy's termination, he held 427,357 outstanding options, 304,895 of which were exercisable, at a weighted average per share exercise price of $7.02 and $8.65, respectively. These options were forfeited upon termination.

(b) Restricted Stock

Compensation expense for non- 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 fiscal 2015, the Company granted 438,012 shares subject to service-based vesting requirements and 371,000 shares subject to performance-based vesting requirements. The service-based vesting grants include a grant to a non-executive director of the Company for 104,000 shares. This grant was issued pursuant to the Company's Amended and Restricted 2006 Stock Incentive Plan and will vest immediately upon the approval by the shareholders at the 2015 Annual Meeting of additional shares to be authorized under the 2006 Stock Incentive Plan. In the event that the shareholder approval referred to above is not obtained or is otherwise deemed unnecessary, the Board will determine such other vesting schedule or other form(s) of equivalent compensation as may be necessary or appropriate. 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. During fiscal 2015, 9,380 shares of non-vested restricted stock subject to performance-based vesting requirements were forfeited in accordance with performance objectives. Restricted stock issued and unvested at April 30, 2015 included 404,662 shares of non-vested restricted stock subjected to performance-based vesting requirements.

A summary of non-vested restricted stock under the plans is as follows

	Number of Shares	Weighted Average Price per Share

Issued and unvested at April 30, 2013	54,802	$ 4.52
Granted	96,239	2.19
Forfeited	(16,417)	5.75
Vested	(37,014)	3.96
Issued and unvested at April 30, 2014	97,610	2.23
Granted	809,012	0.65
Forfeited	(14,880)	1.71
Vested	(50,901)	2.13
Issued and unvested at April 30, 2015	840,841	$ 0.73

There was approximately $57,000 and $60,000 of total recognized compensation cost relating to restricted stock granted to employees during the years ended April 30, 2015 and 2014, respectively. Certain shares of restricted stock were granted to non-employee directors during the years ended April 30, 2015 and 2014, with respect to which the Company recorded compensation expenses of approximately $96,000 and $34,000 in 2015 and 2014, respectively. As of April 30, 2015, there was approximately $338,000 of total unrecognized compensation cost related to non-vested restricted stock granted under the plans. This cost is expected to be recognized over a weighted-average period of 2.3 years.

(c) Treasury Stock

During the years ended April 30, 2015 and 2014, 806 and 4,081 shares of common stock, respectively, were purchased by the Company from employees to pay taxes related to the vesting of restricted stock.

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OCEAN POWER TECHNOLOGIES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements — (Continued)

(12) Income Taxes

Loss before income taxes for the years ended April 30, 2015 and 2014 consisted of the following components:

	April 30, 2015	2014
Domestic	$(12,403,155)	$(9,532,725)
Foreign	(1,958,384)	(3,404,224)
Total loss before income taxes	$(14,361,539)	$(12,936,949)

The components of income taxes (benefit) for the years ended April 30, 2015 and 2014 were as follows:

	April 30, 2015	2014
Current:		
Federal	$–	$–
State	(1,137,872)	(1,745,895)
Foreign	–	–
Total current	(1,137,872)	(1,745,895)
Deferred:		
Federal	–	–
State	–	–
Foreign	–	–
Total deferred	-	-
Total income tax benefit	$(1,137,872)	$(1,745,895)

OCEAN POWER TECHNOLOGIES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements — (Continued)

Tax Rate Reconciliation

The effective income tax rate differed from the percentages computed by applying the US federal income tax rate of 34% to loss before income taxes as a result of the following:

	April 30, 2015	**2014**
Computed "expected" tax benefit	(34)%	(34)%
Increase (reduction) in income taxes resulting from:		
State income taxes, net of federal benefit	(5)	(6)
Stock-based compensation expense		1
Federal research and development tax credits	(1)	(1)
Foreign rate differential	1	2
Other non-deductible expenses	3	4
Expiration of net operating losses and tax credit carryforwards		
Expiration in compensatory options		
Proceeds of sale of New Jersey tax benefits	(8)	(13)
Other	8	10
Increase in valuation allowance	28	24
Income tax benefit	(8)%	(13)%

OCEAN POWER TECHNOLOGIES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements — (Continued)

Significant Components of Deferred Taxes

The tax effects of temporary differences and carryforwards that give rise to the Company's deferred tax assets and deferred tax liabilities are presented below.

	April 30, 2015	2014
Deferred tax assets:		
Federal net operating loss carryforwards	$37,135,000	$29,724,000
Foreign net operating loss carryforwards	5,952,000	6,021,000
State operating loss carryforwards	2,175,000	1,411,000
Federal and New Jersey research and development tax credits	2,392,000	2,178,000
Stock compensation	799,000	730,000
Capitalized research and development costs, net of amortization	—	4,901,000
Unrealized foreign exchange loss	518,000	258,000
Accrued expenses	730,000	652,000
Other	1,087,000	881,000
Gross deferred tax assets	50,788,000	46,756,000
Valuation allowance	(50,788,000)	(46,756,000)
Net deferred tax assets	$-	$-

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences and carryforwards become deductible or are utilized. As of April 30, 2015 and 2014, based upon the level of historical taxable losses, valuation allowances of $50,788,000 and $46,756,000, respectively, were recorded to fully offset deferred tax assets. The valuation allowance increased $4,032,000 and $3,031,000 during the years ended April 30, 2015 and 2014, respectively.

As of April 30, 2015, the Company had net operating loss carryforwards for federal income tax purposes of approximately $109,220,000, which begin to expire in fiscal 2019. The Company also had federal research and development tax credit carryforwards of approximately $2,320,000 as of April 30, 2015, which begin to expire in 2019. The Tax Reform Act of 1986 contains provisions that limit the utilization of net operating loss and tax credit carryforwards if there has been an ownership change, as defined. The Company has determined that such an ownership change, as described in Section 382 of the Internal Revenue Code, occurred in conjunction with the Company's US initial public offering in April 2007. The Company's annual Section 382 limitation is approximately $3,300,000. The Section 382 limitation is cumulative from year to year, and thus, to the extent net operating loss or other credit carryforwards are not utilized up to the amount of the available annual limitation, the limitation is carried forward and added to the following year's available limitation. Such limitation only applies to net operating losses incurred in periods prior to the ownership change. The Company has not performed additional analysis on ownership changes that may have occurred subsequently to further limit the ability to utilize net tax attributes. As of April 30, 2015, the Company had state net operating loss carryforwards of approximately $37,520,000 which begin to expire in 2026, which also may be limited to utilization limitations. As of April 30, 2015, the Company had foreign net operating loss carryforwards of approximately $25,407,000, which begin to expire in 2024. The ability to utilize these carryforwards may also be limited in the event of a significant change to ownership.

OCEAN POWER TECHNOLOGIES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements — (Continued)

During the years ended April 30, 2015 and 2014, the Company sold New Jersey State net operating losses in the amount of $14,004,000 and $15,347,000, respectively, resulting in the recognition of income tax benefits of $1,138,000 and $1,746,000, respectively, recorded in the Company's Statement of Operations.

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. At April 30, 2015 and 2014, the Company had no 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. US federal and state income tax returns were audited through fiscal 2007 and fiscal 2010, respectively and fiscal 2014 is currently under US federal examination. Net operating loss and credit carryforwards since inception remain open to examination by taxing authorities, and will continue to remain open for a period of time after utilization.

Initial grant funding, net of GST, of approximately A$5,087,000 ($4,709,000) received from ARENA was estimated by the Company to be non-taxable in fiscal 2014, the year of receipt, due to claw-back provisions in the grant that apply if certain contractual requirements, including performance criteria, are not satisfied. During fiscal 2015, the Company returned the initial grant funding to ARENA in accordance with the Deed of Variation and Termination of Funding Deed executed between the parties in August 2014.

The Company does not have any interest or penalties accrued related to uncertain tax positions as it does not have any unrecognized tax benefits.

(13) Commitments and Contingencies

(a) Operating Lease Commitments

The Company leases office, laboratory, manufacturing and other space in Pennington, New Jersey under an operating lease that expires on December 31, 2017. Rent expense under operating leases was approximately $295,000 and $299,000 for the years ended April 30, 2015 and 2014, respectively. Future minimum lease payments under this operating lease as of April 30, 2015 are as follows:

Year ending April 30,	
2016	$244,000
2017	244,000
2018	163,000
	$651,000

(b) Litigation

Shareholder Litigation:

The Company and its former Chief Executive Officer Charles Dunleavy are defendants in consolidated securities class action lawsuits pending in the United States District Court for the District of New Jersey captioned In Re: *Ocean Power Technologies, Inc. Securities Litigation,* Civil Action No. 14-3799 (FLW) (LHG). The consolidated actions are *Roby v. Ocean Power Technologies, Inc., et al.,* Case No. 3:14-cv-03799-FLW-LHG; *Chew, et al. v. Ocean Power Technologies, Inc. et. al.,* Case No 3:14-cv-03815; *Konstantinidis v. Ocean Power Technologies, Inc., et al.,* Case No. 3:14-cv-04015*; and Turner v. Ocean Power Technologies, Inc., et al.,* Case No. 3:14-cv-04592. On March 17, 2015, the court entered an order appointing Five More Special Situation Fund Ltd. as the lead plaintiff. On May 18, 2015, the lead plaintiff filed an amended class action complaint. The amended class action complaint alleges claims for violations of sections 12(a) (2) and 15 of the Securities Act of 1933 and for violations of §10(b) and §20(a) of the Securities Exchange Act of 1934 arising out of public statements relating to a 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 "VWP Project"). The amended complaint seeks unspecified monetary damages and other relief. The case is still in its preliminary stage and defendants have not yet responded to the amended complaint.

On July 10, 2014, the Company received a demand letter ("Demand Letter") from an attorney claiming to represent a shareholder demanding that the Company's Board of Directors establish an independent committee to investigate and remedy alleged breaches of fiduciary duties by the Board of Directors and management relating to the VWP Project. The Company is continuing to evaluate the Demand Letter but also invited the attorney to participate in the Section 220 Demand process discussed below. On February 6, 2015, the Company produced documents to the attorney pursuant to a confidentiality agreement in connection with the Section 220 Demand

process.

OCEAN POWER TECHNOLOGIES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements — (Continued)

The Company also received a letter, dated August 19, 2014, (the "Section 220 Demand") from another attorney claiming to represent a shareholder demanding, pursuant to 8 Del. C. §220, to inspect certain books and records of the Company relating to the VWP Project and the termination of Charles Dunleavy as the Company's Chief Executive Officer. The Company has received two additional Section 220 Demands relating to the same subject matter from attorneys claiming to represent two different shareholders. The Company has responded in writing to the three Section 220 Demands and on February 6, 2015 produced documents to each of the attorneys pursuant to confidentiality agreements.

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 VWP and ARENA referred to above. The derivative complaint seeks unspecified monetary damages and other relief. On May 18, 2015, the plaintiff and all the defendants agreed to stay the derivative lawsuit pending action in the consolidated class action securities litigation discussed above (namely, a court order denying any motions to dismiss the commencement of discovery, a joint request to lift the stay, or further order of the court.)

Employment Litigation:

On June 10, 2014, the Company announced that it had terminated Charles Dunleavy as 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 toll his alleged employment claims pending resolution of the shareholder litigation.

(c) Regulatory Matters:

SEC Subpoena

On February 4, 2015, the Company received a subpoena from the Securities and Exchange Commission "SEC" requesting information related to the VWP Project. The Company has provided information to the SEC in response to that subpoena, and continues to cooperate with the SEC.

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 $250,000 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 €278,828 ($307,492) at the request of the Spanish tax authorities. This is a customary request during the inquiry period. In November 2014 and March 2015 the Company received partial refunds of the amount under dispute and continues to expect that this matter will be resolved in the Company's favor.

OCEAN POWER TECHNOLOGIES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements — (Continued)

(14) 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.

Geographic information is as follows:

	Year Ended April 30, 2015			
	North America	**Europe**	**Asia and Australia**	**Total**
Revenues from external customers	$4,105,424	$—	$—	$4,105,424
Operating loss	(12,294,263)	(1,126,109)	(866,188)	(14,286,560)
Long-lived assets	262,985	913	—	263,898
Total assets	$17,899,273	$597,796	$373,817	$18,870,886

	Year Ended April 30, 2014			
	North America	**Europe**	**Asia and Australia**	**Total**
Revenues from external customers	$1,317,823	$181,069	$—	$1,498,892
Operating loss	(10,102,605)	(1,180,334)	(1,867,370)	(13,150,309)
Long-lived assets	305,314	12,024	175	317,513
Total assets	$31,313,240	$1,003,205	$5,768,390	$38,084,835