Ocean Power Technologies, Inc.
Form 10-Q
September 09, 2008

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-Q

(Mark One)

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

For the Quarterly Period Ended July 31, 2008

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: 001-33417

OCEAN POWER TECHNOLOGIES, INC.

(Exact Name of Registrant as Specified in Its Charter)

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

1590 REED ROAD, PENNINGTON, NJ 08534

(Address of Principal Executive Offices, Including Zip Code)

(609) 730-0400

(Registrant s Telephone Number, Including Area Code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes 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 the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer 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 Exchange Act). Yes o No þ

As of August 29, 2008, the number of outstanding shares of common stock of the registrant was 10,210,354.

OCEAN POWER TECHNOLOGIES, INC.
INDEX TO FORM 10-Q
FOR THE THREE MONTHS ENDED JULY 31, 2008

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

Special Note Regarding Forward-Looking Statements

We have made statements in this Quarterly Report on Form 10-Q that are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements convey our current expectations or forecasts of future events. Forward-looking statements include statements regarding our future financial position, business strategy, budgets, projected costs, plans and objectives of management for future operations. The words may, continue, estimate, intend, plan, will, believe, project, expect, anticipa expressions may identify forward-looking statements, but the absence of these words does not necessarily mean that a statement is not forward-looking.

Any or all of our forward-looking statements in this report may turn out to be inaccurate. We have based these forward-looking statements largely on our current expectations and projections about future events and financial trends that we believe may affect our financial condition, results of operations, business strategy and financial needs.

They may be affected by inaccurate assumptions we might make or unknown risks and uncertainties, including the risks, uncertainties and assumptions described in Item 1A Risk Factors of our Annual Report on Form 10-K for the year ended April 30, 2008 and elsewhere in this report. In light of these risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this report may not occur as contemplated and actual results could differ materially from those anticipated or implied by the forward-looking statements.

You should not unduly rely on these forward-looking statements, which speak only as of the date of this filing. Unless required by law, we undertake no obligation to publicly update or revise any forward-looking statements to reflect new information or future events or otherwise.

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PART I FINANCIAL INFORMATION

Item 1. ***FINANCIAL STATEMENTS***

Ocean Power Technologies, Inc. and Subsidiaries
Consolidated Balance Sheets

	April 30, 2008	July 31, 2008 (Unaudited)
ASSETS		
Current assets:		
Cash and cash equivalents	$ 88,836,304	73,644,649
Short-term investments		22,814,188
Accounts receivable	1,728,637	495,597
Unbilled receivables	577,452	1,402,162
Other current assets	1,375,249	1,835,115
Total current assets	92,517,642	100,191,711
Property and equipment, net	628,454	842,323
Patents, net of accumulated amortization of $204,585 and $213,459, respectively	717,288	755,055
Restricted cash	1,123,848	1,121,976
Long-term investments	12,233,437	
Other noncurrent assets	330,296	329,927
Total assets	$ 107,550,965	103,240,992
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 1,457,575	1,961,196
Accrued expenses	4,490,008	3,352,823
Unearned revenues	699,752	511,828
Total current liabilities	6,647,335	5,825,847
Long-term debt	188,784	126,491
Deferred rent	16,237	17,590
Deferred credits	600,000	600,000
Total liabilities	7,452,356	6,569,928
Commitments and contingencies (note 11)		

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 and outstanding 10,210,354 shares	10,210	10,210
Additional paid-in capital	153,057,265	153,517,711
Accumulated deficit	(52,927,641)	(56,820,805)
Accumulated other comprehensive loss	(41,225)	(36,052)
Total stockholders equity	100,098,609	96,671,064
Total liabilities and stockholders equity	$ 107,550,965	103,240,992

See accompanying notes to consolidated financial statements (unaudited).

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Ocean Power Technologies, Inc. and Subsidiaries
Consolidated Statements of Operations
(Unaudited)

	Three Months Ended July 31, 2007	2008
Revenues	$ 555,704	1,786,628
Cost of revenues	804,992	1,948,146
Gross loss	(249,288)	(161,518)
Operating expenses:		
Product development costs	1,815,734	1,702,949
Selling, general and administrative costs	1,996,602	2,551,816
Total operating expenses	3,812,336	4,254,765
Operating loss	(4,061,624)	(4,416,283)
Interest income	1,444,286	547,592
Foreign exchange gain (loss)	179,494	(24,473)
Net loss	$ (2,437,844)	(3,893,164)
Basic and diluted net loss per share	$ (0.24)	(0.38)
Weighted average shares used to compute basic and diluted net loss per share	10,189,354	10,210,354

See accompanying notes to consolidated financial statements (unaudited).

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Ocean Power Technologies, Inc. and Subsidiaries
Consolidated Statements of Cash Flows
(Unaudited)

	Three Months Ended July 31, 2007	2008
Cash flows from operating activities:		
Net loss	$ (2,437,844)	(3,893,164)
Adjustments to reconcile net loss to net cash used in operating activities:		
Foreign exchange (gain) loss	(179,494)	24,473
Depreciation and amortization	63,909	69,475
Treasury note premium amortization		48,632
Compensation expense related to stock option grants	752,552	460,446
Deferred rent	1,353	1,353
Changes in operating assets and liabilities:		
Accounts receivable	788,136	1,228,508
Unbilled receivables	(276,397)	(822,876)
Other current assets	(715,277)	(459,808)
Other noncurrent assets		(22,398)
Accounts payable	(382,287)	483,097
Accrued expenses	(1,109,675)	(1,132,801)
Unearned revenues	240,954	(187,924)
Net cash used in operating activities	(3,254,070)	(4,202,987)
Cash flows from investing activities:		
Purchases of certificates of deposit	(9,030,855)	(10,629,383)
Maturities of certificates of deposit	7,681,679	
Purchases of equipment	(9,632)	(234,705)
Payments of patent costs	(16,938)	(61,363)
Net cash used in investing activities	(1,375,746)	(10,925,451)
Cash flows from financing activities:		
Common stock issuance costs	(870,116)	
Repayment of long-term debt		(42,801)
Proceeds from exercise of stock options	35,971	
Net cash used in financing activities	(834,145)	(42,801)

Effect of exchange rate changes on cash and cash equivalents	185,923	(20,416)
Net decrease in cash and cash equivalents	(5,278,038)	(15,191,655)
Cash and cash equivalents, beginning of period	107,505,473	88,836,304
Cash and cash equivalents, end of period	$ 102,227,435	73,644,649
Supplemental disclosure of noncash investing and financing activities:		
Capitalized patent costs financed through accounts payable	$	20,326
Capitalized equipment costs financed through accounts payable	$ 45,566	76,628

See accompanying notes to consolidated financial statements (unaudited).

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Ocean Power Technologies, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
(Unaudited)

(1) Background and Basis of Presentation

Ocean Power Technologies, Inc. (the Company) was incorporated on April 19, 1984 in New Jersey, commenced active operations in 1994 and re-incorporated in Delaware in April 2007. The Company develops and is commercializing proprietary systems that generate electricity by harnessing the renewable energy of ocean waves. The Company markets and sells its products in the United States and internationally.

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation have been included. The interim operating results are not necessarily indicative of the results for a full year or for any other interim period. Further information on potential factors that could affect the Company s financial results can be found in the Company s Annual Report on Form 10-K for the year ended April 30, 2008 filed with the Securities and Exchange Commission (SEC) and elsewhere in this Form 10-Q.

(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.

In addition, the Company evaluates its relationships with other entities to identify whether they are variable interest entities as defined by Financial Accounting Standards Board (FASB) Interpretation No. 46(R), *Consolidation of Variable Interest Entities* (FIN 46R), 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 in accordance with FIN 46R.

(b) Use of Estimates

The preparation of 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 and patents; 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.

(c) Revenue Recognition

The Company recognizes revenue on government and commercial contracts under the percentage-of-completion method. The percentage of completion is determined by relating the costs incurred to date to the estimated total costs. The cumulative effects resulting from revisions of estimated total contract costs and revenues are recorded in the period in which the facts requiring revision become known. Upon anticipating a loss on a contract, the Company recognizes the full amount of the anticipated loss in the current period. During the three months ended July 31, 2008, the Company recorded an additional provision of $231,000 related to anticipated losses on contracts. Reserves related to loss contracts in the amounts of approximately $2,070,000 and $1,331,000 are included in accrued expenses in the accompanying consolidated balance sheets as of April 30, 2008 and July 31, 2008, respectively.

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

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Ocean Power Technologies, Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Continued)
(Unaudited)

(d) Cash Equivalents

Cash equivalents consist of investments in short-term financial instruments with maturities of three months or less from the date of purchase. Cash and cash equivalents include $15,617,000 and $3,053,000 of certificates of deposit with an initial term of less than three months at April 30, 2008 and July 31, 2008, respectively, and $1,251,000 and $6,907,000 invested in a money market fund as of April 30, 2008 and July 31, 2008, respectively. In addition, $70,881,000 and $62,635,000 was invested in short-term Treasury bills as of April 30, 2008 and July 31, 2008, respectively.

(e) Restricted Cash and Credit Facility

As of July 31, 2008, the Company had $1,121,976 in cash restricted under the terms of a security agreement 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 which are expected to be issued by Barclays Bank on behalf of Ocean Power Technologies Ltd., the Company s UK subsidiary, under a 800,000 credit facility established by Barclays Bank for such subsidiary. The credit facility is for the issuance of letters of credit and bank guarantees, and carries a fee of 1% per annum of the amount of any such obligations issued by Barclays Bank. The credit facility does not have an expiration date, and is cancelable at the discretion of the bank.

(f) 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. Depreciation expense was $58,960 and $60,602 for the three months ended July 31, 2007 and 2008, respectively.

(g) Foreign Exchange Gains and Losses

The Company has invested in certain certificates of deposit and has maintained cash accounts that are denominated in British pound sterling, Euros and Australian dollars. Such certificates of deposit and cash accounts had a balance of approximately $9,646,000 and $7,852,000 as of April 30, 2008 and July 31, 2008, respectively. Such positions may result in realized and unrealized foreign exchange gains or losses from exchange rate fluctuations, which are included in foreign exchange gain (loss) in the accompanying consolidated statements of operations.

(h) Patents

External costs related to the filing of patents, including legal and filing fees, are capitalized. Amortization is calculated using the straight-line method over the life of the patents (17 years). Expenses for the development of technology are charged to operations as incurred. Amortization expense was $4,949 and $8,875 for the three months ended July 31, 2007 and 2008, respectively. Amortization expense for the next five fiscal years related to amounts capitalized for patents as of July 31, 2008 is estimated to be approximately $40,000 per year.

(i) Long-Lived Assets

In accordance with Statement of Financial Accounting Standards (SFAS) No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, long-lived assets, such as property and equipment and purchased intangible assets subject to amortization, are 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 the 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 by the amount by which the carrying amount of the asset exceeds the fair value of the asset. Assets to be disposed of would be separately presented in the consolidated balance sheet and reported at the lower of the carrying amount or fair value less costs to sell, and are no longer depreciated. The assets and liabilities of a disposal group classified as held for sale would be presented separately in the appropriate asset and liability sections of the consolidated balance sheet. The Company reviewed its long-lived assets for indicators of impairment in accordance with SFAS No. 144 and determined that no impairment review of its long-lived assets was necessary for the three months ended July 31, 2008.

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Notes to Consolidated Financial Statements (Continued)
(Unaudited)

(j) Concentration of Credit Risk

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

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 the periods indicated:

	Three Months Ended July 31,	
Customer	**2007**	**2008**
US Navy	45%	41%
Iberdrola and Total	24%	50%
Scottish Executive	31%	8%

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

(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, were excluded from the diluted loss per share calculation due to their anti-dilutive effect.

In computing diluted net loss per share, options to purchase 1,525,071 shares of common stock for the three months ended July 31, 2007 and 1,667,663 shares of common stock for the three months ended July 31, 2008 were excluded from the computations.

(l) Stock-Based Compensation

On May 1, 2006, the Company adopted the provisions of SFAS No. 123 (revised 2004), *Share-Based Payment* (SFAS No. 123R), which requires that the costs resulting from all share-based payment transactions be recognized in the consolidated financial statements at their fair values. The Company adopted SFAS No. 123R using the modified prospective application method under which the provisions of SFAS No. 123R apply to new awards and to awards modified, repurchased, or canceled after the adoption date. Additionally, compensation cost for the portion of the awards for which the requisite service had not been rendered that were outstanding as of May 1, 2006 will be recognized in the consolidated statements of operations over the remaining service period after such date based on the award s original estimated fair value. The aggregate share-based compensation expense recorded in the consolidated statements of operations under SFAS No. 123R was approximately $753,000 and $460,000 for the three months ended July 31, 2007 and 2008, respectively.

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Ocean Power Technologies, Inc. and Subsidiaries
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Valuation Assumptions for Options Granted During the Three Months Ended July 31, 2007 and 2008

The fair value of each stock option granted during the three months ended July 31, 2007 and 2008 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 SEC s Staff Accounting Bulletin No. 107, *Share-Based Payment.* Expected volatility was based on historical volatility for a peer group of companies for a period equal to the stock option s expected life, calculated on a daily basis.

	2007	2008
Risk-free interest rate	5.1%	3.7%
Expected dividend yield	0.0%	0.0%
Expected life	6.1 years	6.3 years
Expected volatility	77.8%	79.4%

The above assumptions were used to determine the weighted average per share fair value of $11.48 and $6.81 for stock options granted during the three months ended July 31, 2007 and 2008, respectively.

(m) Accounting for 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.

(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.

(o) Recent Accounting Pronouncements

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements,* which establishes a framework for reporting fair value and expands disclosures about fair value measurements. SFAS No. 157 as issued is effective for fiscal years beginning after November 15, 2007. On February 12, 2008, FASB Staff Position No. FAS 157-2, *Effective Date of FASB Statement No. 157* (FSP SFAS 157-2) was issued, which delays the effective date to fiscal years beginning after November 15, 2008 for certain nonfinancial assets and liabilities. The Company adopted SFAS No. 157 on May 1, 2008, except for the items covered by FSP SFAS 157-2.

SFAS No. 157 establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value as follows:

Level 1: Observable inputs, such as quoted prices in active markets for identical assets or liabilities;

Level 2: Inputs, other than the quoted prices in active markets, that are observable either directly or indirectly; and

Level 3: Unobservable inputs in which there is little or no market data, which require the reporting entity to develop its own assumptions.

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In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities.* SFAS No. 159 allows companies to elect to measure certain assets and liabilities at fair value and is effective for fiscal years beginning after November 15, 2007. The adoption of SFAS No. 159 did not have any impact on the Company s consolidated financial statements.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), *Business Combinations* (SFAS No. 141R), which establishes the principles and requirements for how an acquirer recognizes the assets acquired, the liabilities assumed, and any noncontrolling interest in the acquirer at the acquisition date, measured at their fair values as of that date, with limited exceptions. This statement applies to business combinations for which the acquisition date is after the beginning of the first annual reporting period beginning after December 15, 2008. Earlier adoption is not permitted. The Company will adopt SFAS No. 141R upon its effective date as appropriate for any future business combinations.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements.* SFAS No. 160 establishes accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. It clarifies that a noncontrolling interest in a subsidiary is an ownership interest in the consolidated entity that should be recorded as a component of equity in the consolidated financial statements. This statement also requires that consolidated net income shall be adjusted to include the net income attributed to the noncontrolling interest. Disclosure on the face of the statement of operations of the amounts of consolidated net income attributable to the parent and to the noncontrolling interest is required. SFAS No. 160 is effective for fiscal years beginning after December 15, 2008. Earlier adoption is not permitted. The Company is currently evaluating the impact of SFAS No. 160.

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities an amendment of FASB Statement No. 133*, which enhances the disclosure requirements for derivative instruments and hedging activities. Entities are required to provide enhanced disclosures about (a) the location and amounts of derivative instruments in an entity s financial statements, (b) how derivative instruments and related hedged items are accounted for under SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, and its related interpretations, and (c) how derivative instruments and related hedged items affect an entity s financial position, financial performance and cash flows. The guidance in SFAS No. 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. This statement encourages, but does not require, comparative disclosures for earlier periods at initial adoption. The Company is currently evaluating the impact of SFAS No. 161.

In May 2008, the FASB issued SFAS No. 162, *The Hierarchy of Generally Accepted Accounting Principles*. SFAS No. 162 identifies the sources of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements of nongovernmental entities that are presented in conformity with generally accepted accounting principles in the United States. This statement is effective 60 days following the SEC s approval of the Public Company Accounting Oversight Board amendments to AU Section 411, The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles. The Company is currently evaluating the impact of SFAS No. 162.

(3) Accrued Expenses

Included in accrued expenses at April 30, 2008 and July 31, 2008 were contract loss reserves of approximately $2,070,000 and $1,331,000, respectively, and accrued employee incentive payments of approximately $572,000 and $41,000, respectively. Accrued expenses at April 30, 2008 and July 31, 2008 also included legal and accounting fees of approximately $556,000 and $283,000, respectively, and accrued employee vacation of $143,000 and $167,000, respectively.

Ocean Power Technologies, Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Continued)
(Unaudited)

(4) Related-Party Transactions

In August 1999, the Company entered into a consulting agreement with an individual for marketing services, which currently provides for a rate of $800 per day of services provided. The individual became a member of the board of directors in June 2006. Under this consulting agreement, the Company expensed approximately $16,000 and $10,000 during the three months ended July 31, 2007 and 2008, respectively.

Also see note 7 for an additional related-party transaction.

(5) Debt

During the year ended April 30, 2000, the Company received an award of $250,000 from the State of New Jersey Commission on Science and Technology for the development of a wave power system that was deployed off the coast of New Jersey. Under the terms of this award, the Company must repay the amount funded, without interest, by July 15, 2012. The amounts to be repaid each year are determined as a percentage of revenues (as defined in the loan agreement) the Company receives that year from its customer contracts that meet criteria specified in the loan agreement, with any remaining amount due on July 15, 2012. Based upon the terms of the award, the Company has repaid approximately $61,000 and was required to repay an additional approximately $63,000 as of July 31, 2008. The total repayment amount of approximately $124,000 has reduced the Company s long-term debt balance. The current payment required was included in accrued expenses in the accompanying consolidated balance sheet as of July 31, 2008.

(6) Income Taxes

The Company adopted the provisions of FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (FIN 48), on May 1, 2007. During the three months ended July 31, 2008, the Company had no changes in uncertain tax positions. At July 31, 2008, the Company did not have any unrecognized tax benefits as a result of uncertain tax positions. The Company has net operating loss carryforwards that originated in years dating back to the tax year ended April 30, 1994. The tax years April 30, 1994 through April 30, 2008 remain open to examination by the major taxing jurisdictions to which the Company is subject.

(7) Deferred Credits

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. This amount has been recorded as a deferred credit in the accompanying consolidated balance sheets as of April 30, 2008 and July 31, 2008. If, by December 31, 2012, the Company does not become entitled under applicable laws to the full amount of emission credits covered by the option, the Company is 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. If the Company receives emission credits under applicable laws and fails to sell to the investor the credits up to the full amount of emission credits covered by the option, the investor is 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). The Company has not received or sold any emission credits as of July 31, 2008.

(8) Common Stock

On April 30, 2007, the Company completed an initial public offering in the United States on The NASDAQ Global Market by issuing 5,000,000 shares of its common stock for a purchase price of $20.00 per share, resulting in net proceeds to the Company of approximately $89,900,000.

(9) Preferred Stock

In September 2003, the Company s stockholders authorized 5,000,000 shares of undesignated preferred stock with a par value of $0.001 per share. At April 30, 2008 and July 31, 2008, no shares of preferred stock had been issued.

(10) Stock Options

Prior to August 2001, the Company maintained qualified and nonqualified stock option plans. The Company had reserved 490,307 shares of common stock for issuance under these plans. There are no options available for future grant under these plans as of July 31, 2008.

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Ocean Power Technologies, Inc. and Subsidiaries
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(Unaudited)

In August 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 July 31, 2008, the Company had issued or reserved 658,327 shares for issuance under the 2001 Stock Plan. After the effectiveness of the 2006 Stock Incentive Plan, no further options or other awards have been or will be granted under the 2001 Stock Plan.

On April 24, 2007, the Company s 2006 Stock Incentive Plan became effective. A total of 803,215 shares are authorized for issuance under the 2006 Stock Incentive Plan. As of July 31, 2008, the Company had issued options for 541,546 shares of common stock and had reserved an additional 261,669 shares of common stock available 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. Members of the board of directors who are not full-time employees receive, as part of their annual compensation, a choice of either (a) an option to purchase 2,000 shares of common stock that is fully vested at the time of grant, or (b) shares of common stock worth $10,000, which vests 50% at the time of grant and 50% one year later. 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 all of the Company s employees, except to 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.

Transactions under these option plans during the three months ended July 31, 2008 are as follows:

	Shares Under Option	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (In Years)
Outstanding April 30, 2008	1,445,302	$ 14.61	
Forfeited	(500)	14.02	
Expired	(20,560)	16.75	
Exercised			
Granted	243,421	9.52	
Outstanding July 31, 2008	1,667,663	13.84	5.7
Exercisable July 31, 2008	1,117,396	14.57	4.2

The total intrinsic value of outstanding and exercisable options as of July 31, 2008 was approximately $482,000. As of July 31, 2008, approximately 487,000 additional options were expected to vest, which had zero intrinsic value and a weighted average remaining contractual term of 8.8 years. As of July 31, 2008, there was approximately $4,081,000 of total unrecognized compensation cost related to non-vested stock options granted under the plans. This cost is expected to be recognized over a remaining weighted average period of 3.3 years. The Company normally issues new shares of common stock to satisfy option exercises under these plans.

(11) Commitments and Contingencies

Litigation

The Company is involved from time to time in certain legal actions arising in the ordinary course of business. Management believes that the outcome of such actions will not have a material adverse effect on the Company s financial position or results of operations.

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Ocean Power Technologies, Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Continued)
(Unaudited)

(12) 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, one operating subsidiary in the UK and one operating subsidiary in Australia, which are categorized below as North America, Europe and Australia, respectively. Revenues are generally attributed to the operating unit that bills the customers.

Geographic information is as follows:

	Three Months Ended July 31, 2007			
	North America	Europe	Australia	Total
Revenues from external customers	$ 246,702	309,002		555,704
Operating loss	(3,166,591)	(822,493)	(72,540)	(4,061,624)
Long-lived assets	261,638	122,045	1,655	385,338
Total assets	114,387,842	1,583,413	34,307	116,005,562

	Three Months Ended July 31, 2008			
	North America	Europe	Australia	Total
Revenues from external customers	$ 748,299	1,038,329		1,786,628
Operating loss	(3,652,555)	(682,658)	(81,070)	(4,416,283)
Long-lived assets	504,906	336,656	761	842,323
Total assets	99,497,929	3,569,041	174,022	103,240,992

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Item 2. ***MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS***

The following discussion and analysis should be read in conjunction with the accompanying unaudited consolidated financial statements and related notes included in this Quarterly Report on Form 10-Q. References to a fiscal year in this Form 10-Q refer to the year ended April 30 of that year (e.g., fiscal 2009 refers to the year ending April 30, 2009).

Overview

We develop and are commercializing proprietary systems that generate electricity by harnessing the renewable energy of ocean waves. Our PowerBuoy systems use proprietary technologies to conve