Ocean Power Technologies, Inc.
Form 10-Q
March 14, 2011

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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 January 31, 2011

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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes o 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 February 28, 2011, the number of outstanding shares of common stock of the registrant was 10,411,498.

OCEAN POWER TECHNOLOGIES, INC.
INDEX TO FORM 10-Q
FOR THE THREE AND NINE MONTHS ENDED January 31, 2011

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.

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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, 2010 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

		January 31, 2011 (Unaudited)	April 30, 2010
ASSETS			
Current assets:			
Cash and cash equivalents	$	9,502,624	4,236,597
Marketable securities		25,538,538	32,536,001
Accounts receivable, net		720,699	1,474,600
Unbilled receivables		649,863	448,686
Other current assets		693,291	1,005,885
Total current assets		37,105,015	39,701,769
Property and equipment, net		543,486	710,563
Patents, net		1,132,542	1,036,881
Restricted cash		1,480,136	1,205,288
Marketable securities		16,324,661	28,865,046
Other noncurrent assets		726,010	1,458,646
Total assets	$	57,311,850	72,978,193
LIABILITIES AND STOCKHOLDERS EQUITY			
Current liabilities:			
Accounts payable	$	1,126,407	1,843,378
Accrued expenses		3,306,877	4,092,113
Unearned revenues		752,038	1,101,541
Current portion of long-term debt		114,378	95,386
Total current liabilities		5,299,700	7,132,418
Long-term debt		475,000	250,000
Deferred credits		600,000	600,000
Other noncurrent liabilities			140,685
Total liabilities		6,374,700	8,123,103
Commitments and contingencies (note 9)			
Ocean Power Technologies, Inc. Stockholders equity:			
Preferred stock, $0.001 par value; authorized 5,000,000 shares, none issued or outstanding			
		10,419	10,391

Common stock, $0.001 par value; authorized 105,000,000 shares, issued 10,419,183 and 10,390,563 shares, respectively			
Treasury stock, at cost; 6,673 and 1,072 shares, respectively		(37,302)	(6,443)
Additional paid-in capital		156,680,382	155,726,672
Accumulated deficit		(105,541,701)	(90,413,098)
Accumulated other comprehensive loss		(202,736)	(503,322)
Total Ocean Power Technologies, Inc. stockholders equity		50,909,062	64,814,200
Noncontrolling interest in Ocean Power Technologies (Australasia) Pty Ltd		28,088	40,890
Total equity		50,937,150	64,855,090
Total liabilities and stockholders equity	$	57,311,850	72,978,193

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 January 31,		Nine Months Ended January 31,	
	2011	**2010**	**2011**	**2010**
Revenues	$ 1,523,601	856,482	4,762,415	2,749,294
Cost of revenues	1,453,397	691,090	4,818,623	2,243,465
Gross profit (loss)	70,204	165,392	(56,208)	505,829
Operating expenses:				
Product development costs	2,026,336	3,681,118	9,731,592	8,467,866
Selling, general and administrative costs	1,884,950	2,557,931	6,060,705	6,915,435
Total operating expenses	3,911,286	6,239,049	15,792,297	15,383,301
Operating loss	(3,841,082)	(6,073,657)	(15,848,505)	(14,877,472)
Interest income, net	148,480	231,683	546,829	764,504
Other income		17,668		549,258
Foreign exchange (loss) gain	(38,014)	172,128	(205,824)	674,517
Loss before income taxes	(3,730,616)	(5,652,178)	(15,507,500)	(12,889,193)
Income tax benefit	364,105		364,105	
Net loss	(3,366,511)	(5,652,178)	(15,143,395)	(12,889,193)
Less: Net loss (income) attributable to the noncontrolling interest in Ocean Power Technologies (Australasia) Pty Ltd.	3,693	2,682	14,792	(50,551)
Net loss attributable to Ocean Power Technologies, Inc.	$ (3,362,818)	(5,649,496)	(15,128,603)	(12,939,744)
Basic and diluted net loss per share	$ (0.33)	(0.55)	(1.48)	(1.27)
Weighted average shares used to compute basic and diluted net loss per share	10,248,092	10,213,900	10,242,528	10,211,536

See accompanying notes to consolidated financial statements (unaudited).

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

	Nine Months Ended January 31, 2011	2010
Cash flows from operating activities:		
Net loss	$ (15,143,395)	(12,889,193)
Adjustments to reconcile net loss to net cash used in operating activities:		
Foreign exchange loss (gain)	205,824	(674,517)
Depreciation and amortization	270,209	274,226
Loss on disposals of property, plant and equipment	933	
Treasury note premium amortization	57,752	135,325
Compensation expense related to stock option grants and restricted stock	953,738	872,109
Changes in operating assets and liabilities:		
Accounts receivable	776,316	64,961
Unbilled receivables	(192,577)	76,224
Other current assets	325,440	12,858
Other noncurrent assets	756,172	(191,505)
Accounts payable	(715,927)	423,534
Accrued expenses	(787,537)	(553,942)
Unearned revenues	(351,625)	549,983
Other noncurrent liabilities	(142,586)	133,505
Net cash used in operating activities	(13,987,263)	(11,766,432)
Cash flows from investing activities:		
Purchases of marketable securities	(7,528,436)	(34,048,490)
Maturities of marketable securities	27,011,971	41,838,886
Restricted cash	(250,000)	(250,000)
Purchases of equipment	(67,356)	(199,089)
Payments of patent costs	(190,547)	(119,017)
Net cash provided by investing activities	18,975,632	7,222,290
Cash flows from financing activities:		
Proceeds from long-term debt	250,000	
Repayment of debt	(6,008)	(93,398)
Acquisition of treasury stock	(30,859)	

Net cash provided by (used in) financing activities		213,133	(93,398)
Effect of exchange rate changes on cash and cash equivalents		64,525	837,636
Net increase (decrease) in cash and cash equivalents		5,266,027	(3,799,904)
Cash and cash equivalents, beginning of period		4,236,597	12,267,830
Cash and cash equivalents, end of period	$	9,502,624	8,467,926
Supplemental disclosure of noncash investing and financing activities:			
Capitalized patent costs financed through accounts payable and accrued espenses	$	6,429	13,419
Capitalized purchases of equipment financed through accounts payable and accrued expenses		1,956	6,894

See accompanying notes to consolidated financial statements (unaudited).

Ocean Power Technologies, Inc. and Subsidiaries
Consolidated Statements of Stockholders Equity and
Comprehensive Loss
(Unaudited)

	Common Shares		Treasury Shares		Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total Ocean Power Technologies, Inc, Stockholders Equity	Nonco Int
	Shares	Amount	Shares	Amount					
09	10,210,354	$ 10,210		$	154,568,931	(71,242,791)	(553,323)	82,783,027	
						(12,939,744)		(12,939,744)	5
slation adjustment							292,180	292,180	
loss								(12,647,564)	5
to stock option grants and					872,109			872,109	
d unvested restricted stock	180,209	181			39,806			39,987	
2010	10,390,563	$ 10,391		$	155,480,846	(84,182,535)	(261,143)	71,047,559	5
10	10,390,563	$ 10,391	(1,072)	$ (6,443)	155,726,672	(90,413,098)	(503,322)	64,814,200	4
						(15,128,603)		(15,128,603)	(1
slation adjustment							300,586	300,586	
loss								(14,828,017)	(1
to stock option grants and					953,738			953,738	
d unvested restricted stock	28,620	28			(28)				
y stock			(5,601)	(30,859)				(30,859)	
2011	10,419,183	$ 10,419	(6,673)	$ (37,302)	156,680,382	(105,541,701)	(202,736)	50,909,062	2

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 commercial 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, 2010 filed with the Securities and Exchange Commission (SEC) and elsewhere in this Form 10-Q.

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 noncontrolling 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 January 31, 2011, there was one noncontrolling interest, consisting of 11.8% of the Company s Australian subsidiary, Ocean Power Technologies (Australasia) Pty. Ltd.

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 January 31, 2011, there were no such entities.

The Company has a 10% investment in Iberdrola Energias Renovables, S.A. (Iberdrola Energias). Revenues from Iberdrola Energias for the nine months ended January 31, 2011 and 2010 were $(240,000) and $181,000, respectively. Additionally, accounts receivable from Iberdrola Energias aggregated $313,000 and $556,000 as of January 31, 2011 and April 30, 2010, respectively. See Note 2 (a) and Note 9.

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 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. The current economic environment has increased the degree of uncertainty inherent in those estimates and assumptions.

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

(2) Summary of Significant Accounting Policies

(a) Revenue Recognition

The Company primarily recognizes revenue 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. Accruals related to losses on contracts in the amount of approximately $785,000 are included in accrued expenses in the accompanying consolidated balance sheets as of January 31, 2011 and April 30, 2010. Modifications to contract provisions, such as those currently being discussed in connection with the Company s Spain construction agreement (see Note 9), as well as modifications in contract loss estimates, may require changes in accruals established for anticipated contract losses. During the nine months ended January 31, 2011, the Company s revenue was reduced by approximately $240,000 due to a change in estimated revenue to be recognized in connection with the Spain construction agreement.

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.

(b) Cash and Cash Equivalents

Cash equivalents consist of investments in short-term financial instruments with initial maturities of three months or less from the date of purchase. Cash and cash equivalents include the following: $4,471,000 and $1,590,000 of certificates of deposit with an initial term of less than three months at January 31, 2011 and April 30, 2010, respectively and $3,238,000 and $192,000 invested in money market funds as of January 31, 2011 and April 30, 2010, respectively.

(c) Restricted Cash and Credit Facility

The Company had $1,480,136 and $1,205,288 of restricted cash as of January 31, 2011 and April 30, 2010, respectively. The cash is restricted under the terms of two 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 that are expected to be issued by Barclays Bank on behalf of Ocean Power Technologies Ltd., one of the Company s wholly-owned subsidiaries, under a 800,000 credit facility established by Barclays Bank for Ocean Power Technologies Ltd. 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. As of January 31, 2011 there were 266,000 in letters of credit outstanding under this agreement. The credit facility does not have an expiration date, but is cancelable at the discretion of the bank. As of January 31, 2011, approximately 720,000 is included in restricted cash.

The other 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. Under this agreement, the Company is required to assign to the NJBPU a certificate of deposit in an amount equal to the outstanding grant balance. The Company has assigned certificates of deposit in the amount of $500,000 to the NJBPU, which are outstanding as of January 31, 2011. See Note 6.

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

(d) Other Income

Other income consists of transactions that the Company considers to be outside the normal scope of its operations and operating activities. The Company recognized other income of $17,668 and $549,258 during the three and nine months ended January 31, 2010, respectively, primarily in connection with the settlement of a claim that it had against a supplier that provided engineering services to the Company.

(e) 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. Such certificates of deposit and cash accounts had a balance of approximately $6,806,000 and $4,131,000 as of January 31, 2011 and April 30, 2010, respectively. These amounts are included in cash, cash equivalents, restricted cash and marketable securities on the accompanying balance sheets. Such positions may result in realized and unrealized foreign exchange gains or losses from exchange rate fluctuations, which are included in foreign exchange (loss) gain in the accompanying consolidated statements of operations. Foreign exchange (loss) gain was $(38,014) and $172,128 for the three months ended January 31, 2011 and 2010, respectively, and $(205,824) and $674,517 for the nine months ended January 31, 2011 and 2010, respectively.

(f) 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 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. The Company reviewed its long-lived assets for impairment and determined there was no impairment for the nine months ended January 31, 2011.

(g) 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.

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:

	Three months ended January 31,		Nine months ended January 31,	
Customer	**2011**	**2010**	**2011**	**2010**
US Navy	33%	79%	53%	82%
US Department of Energy	39%	10%	31%	2%
South West of England Regional Development Authority	22%		13%	
	94%	89%	97%	84%

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 collateral from its customers.

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

(h) 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 due to 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 1,691,900 for the three and nine months ended January 31, 2011 and 1,703,796 for the three and nine months ended January 31, 2010, were excluded from the computations as the effect would be anti-dilutive due to the Company s losses.

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

(3) Marketable Securities

Marketable securities with initial maturities longer than three months but that mature in less than one year from the balance sheet date are classified as current assets and are summarized as follows:

	January 31, 2011	April 30, 2010
Certificates of deposit denominated in AUD	$	519,232
US Treasury obligations	25,538,538	32,016,769
	$ 25,538,538	32,536,001

The Company s marketable securities that mature more than one year from the balance sheet date are classified as noncurrent assets. These marketable securities all mature in less than three years, are all classified as held-to-maturity, are carried at amortized cost and are summarized as follows:

	Amortized cost	Gross unrealized gains	Gross unrealized losses	Market value
January 31, 2011				
US Treasury obligations	$ 12,517,853	162,462		12,680,315
Certificate of deposit	3,806,808			3,806,808
	$ 16,324,661	162,462		16,487,123
April 30, 2010				
US Treasury obligations	$ 25,058,238	158,672		25,216,910
Certificate of deposit	3,806,808			3,806,808
	$ 28,865,046	158,672		29,023,718

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

(4) Balance Sheet Detail

		January 31, 2011	April 30, 2010
Property and Equipment			
Property and Equipment	$	1,846,910	1,767,078
Accumulated depreciation and amortization		(1,303,424)	(1,056,515)
	$	543,486	710,563
Patents			
Patents	$	1,452,799	1,322,335
Accumulated amortization		(320,257)	(285,454)
	$	1,132,542	1,036,881
Accrued Expenses			
Project costs	$	738,333	1,072,635
Contract loss reserves		785,000	785,000
Employee incentive payments		564,752	682,400
Other		209,826	308,514
Payroll-related costs		608,054	865,829
Investment in joint venture		181,152	176,121
Legal and accounting fees		181,880	154,567
Value-added tax		37,880	47,047
	$	3,306,877	4,092,113

(5) Related Party Transactions

In August 1999, the Company entered into a consulting agreement with an individual for marketing services. Currently, this agreement is at a rate of $950 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 $21,000 during each of the three month periods ended January 31, 2011 and 2010, and $63,000 and $51,000 during the nine months ended January 31, 2011 and 2010, respectively. In addition, this individual is also the chief executive officer of a company that provided engineering and technical services to the Company. The Company incurred expenses of approximately $146,000 and $129,000 for such services during the nine months ended January 31, 2011 and 2010, respectively.

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

(6) 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. The award contract was assigned to the New Jersey Economic Development Authority in fiscal 2008. Under the terms of this award, the Company must repay the amount funded, without interest, by January 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. Based upon the terms of the award, the Company has repaid approximately $161,000. As of January 31, 2011, the remaining amount due of $89,000 was included in current portion of long-term debt on the accompanying consolidated balance sheet.

The Company was awarded a recoverable grant totaling $500,000 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. As of January 31, 2011, $25,000 was included in current portion of long-term debt on the accompanying consolidated balance sheet. The terms also required the Company to assign to the NJBPU a certificate of deposit in an amount equal to the outstanding grant balance. The Company received $250,000, representing the first half of the grant, during the year ended April 30, 2010, and the remaining $250,000 was received in June 2010. See Note 2(c).

(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 deferred credits in the accompanying consolidated balance sheets as of January 31, 2011 and April 30, 2010. If the Company does not become entitled under applicable laws to the full amount of emission credits covered by the option by December 31, 2012, 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).

(8) Share-Based Compensation

Costs resulting from all share-based payment transactions are recognized in the consolidated financial statements at their fair values. 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 is being 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 related to all share-based transactions recorded in the consolidated statements of operations was approximately $954,000 and $872,000 for the nine months ended January 31, 2011 and 2010, respectively.

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

(a) Stock Options

Valuation Assumptions for Options Granted During the Nine Months Ended January 31, 2011 and 2010

The fair value of each stock option granted during the nine months ended January 31, 2011 and 2010 were 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.

	Nine Months Ended January 31,	
	2011	**2010**
Risk-free interest rate	2.3%	3.0%
Expected dividend yield	0.0%	0.0%
Expected life	6.4 years	6.4 years
Expected volatility	93.8%	81.7%

The above assumptions were used to determine the weighted average per share fair value of $5.36 and $4.42 for stock options granted during the nine months ended January 31, 2011 and 2010, respectively.

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

	Shares Underlying Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (In Years)
Outstanding April 30, 2010	1,375,453	11.87	
Forfeited	(121,211)	11.16	
Exercised			
Granted	283,705	5.36	
Outstanding January 31, 2011	1,537,947	10.73	5.2
Exercisable January 31, 2011	978,265	12.91	3.3

The total intrinsic value of outstanding and exercisable options as of January 31, 2011 was $13,000. As of January 31, 2011, approximately 560,000 additional options are expected to vest, which have $32,000 intrinsic value and a weighted average remaining contractual term of 8.7 years. There was approximately $753,000 of total recognized compensation cost for the nine months ended January 31, 2011 related to stock options. As of January 31, 2011, there was approximately $2,090,000 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 3.4 years. The Company normally issues new shares to satisfy option exercises under these plans.

(b) Restricted Stock

Compensation expense for non-vested restricted stock was historically recorded based on its market value on the date of grant and recognized over the associated service and performance period. During the nine months ended

January 31, 2011, there were 33,620 shares of non-vested restricted stock granted to employees and non-employee board members with service and/or performance-based vesting requirements.

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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, 2010	157,124	$ 6.35
Granted	33,620	5.32
Forfeited	(5,000)	6.40
Vested	(31,791)	6.14
Issued and unvested at January 31, 2011	153,953	6.17

There was approximately $201,000 of total recognized compensation cost for the nine months ended January 31, 2011 related to restricted stock. As of January 31, 2011, there was approximately $801,000 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 2.2 years.

(c)Treasury Stock

During the three months ended January 31, 2011, 5,601 shares of common stock were purchased by the Company.

(9) 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.

Spain Construction Agreement

The Company is currently engaged with Iberdrola Energias in discussions regarding modifications to its agreement for the first phase of the construction of a wave power project off the coast of Spain. This first phase was due to be completed by December 31, 2009. If no modification is agreed to by the parties, the customer may, subject to certain conditions in the agreement, terminate the agreement and would not be obligated to make any more milestone payments. The agreement also provides that the customer may seek reimbursement for direct damages only, limited to amounts specified in the agreement, if the Company is in default of its obligations under the agreement. As of January 31, 2011, the Company does not believe that the outcome of this matter will 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
(Unaudited)

(10) Income Taxes

During the three months ended January 31, 2011, the Company recorded an income tax benefit of $364,105, representing the proceeds from the sale of $4,446,000 of New Jersey net operating loss carryforwards.

Other than as a result of the sale of New Jersey net operating loss carryforwards, the Company did not recognize any consolidated income tax benefit (expense) for the three and nine month periods ended January 31, 2011 and 2010. The Company has recorded a valuation allowance to reduce its net deferred tax asset to an amount that is more likely than not to be realized in future years. Accordingly, the benefit of the net operating loss that would have been recognized was offset by changes in the valuation allowance.

During the nine months ended January 31, 2011, the Company had no material changes in uncertain tax positions.

(11) Operating Segments and Geographic Information

The Company views its business as one segment, which is the development and sale of its PowerBuoy product for wave energy applications. 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:

	North America	Europe	Australia	Total
Three months ended January 31, 2011				
Revenues from external customers	$ 1,194,094	329,208	299	1,523,601
Operating loss	(3,422,876)	(374,869)	(43,337)	(3,841,082)
Three months ended January 31, 2010				
Revenues from external customers	807,091	46,857	2,534	856,482
Operating loss	(5,831,992)	(193,985)	(47,680)	(6,073,657)
Nine months ended January 31, 2011				
Revenues from external customers	4,224,222	528,860	9,333	4,762,415
Operating loss	(14,477,206)	(1,215,246)	(156,053)	(15,848,505)
Nine months ended January 31, 2010				
Revenues from external customers	2,324,319	346,209	78,766	2,749,294
Operating loss	(14,081,449)	(655,730)	(140,293)	(14,877,472)
January 31, 2011				
Long-lived assets	351,205	192,281		543,486
Total assets	49,707,581	6,744,156	860,113	57,311,850
April 30, 2010				
Long-lived assets	448,022	262,541		710,563
Total assets	$ 67,424,387	4,684,104	869,702	72,978,193

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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 2011 refers to the year ending April 30, 2011).

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 convert the mechanical energy created by the rising and falling of ocean waves into electricity. We currently offer two PowerBuoy products, which consist of our utility PowerBuoy system and our autonomous PowerBuoy system. We also offer our customers operations and maintenance services for our PowerBuoy systems, which are expected to provide a source of recurring revenues. In addition, we market our undersea substation pod and undersea power connection infrastructure services to other companies in the marine energy sector.

We market our utility PowerBuoy system, which is designed to supply electricity to a local or regional power grid, to utilities and other electrical power producers seeking to add electricity generated by wave energy to their existing electricity supply. We market our autonomous PowerBuoy system, which is designed to generate power for use independent of the power grid, to customers that require electricity in remote locations. We believe there are a variety of potential applications for our autonomous PowerBuoy system, including sonar and radar surveillance, tsunami warning, oceanographic data collection, offshore platforms and offshore aquaculture.

We were incorporated in New Jersey in April 1984, began commercial operations in 1994, and were re-incorporated in Delaware in 2007. We currently have three wholly-owned subsidiaries, which include Ocean Power Technologies Ltd., Reedsport OPT Wave Park LLC, and Oregon Wave Energy Partners I, LLC, and we own approximately 88% of the ordinary shares of Ocean Power Technologies (Australasia) Pty Ltd.

The development of our technology has been funded by capital we raised and by development engineering contracts we received starting in fiscal 1995. In fiscal 1996, we received the first of several research contracts with the US Navy to study the feasibility of wave energy. As a result of those research contracts, we entered into our first development and construction contract with the US Navy in fiscal 2002 under a still on-going project for the development and testing of our wave power systems at the US Marine Corps Base in Oahu, Hawaii. We generated our first revenue relating to our autonomous PowerBuoy system from contracts with Lockheed Martin Corporation, or Lockheed Martin, in fiscal 2003, and we entered into our first development and construction contract with Lockheed Martin in fiscal 2004 for the development and construction of a prototype demonstration autonomous PowerBuoy system.

As of January 31, 2011, our backlog was $5.8 million, a decrease of $1.7 million from October 31, 2010.

For the three months ended January 31, 2011, we generated revenues of $1.5 million and incurred a net loss attributable to Ocean Power Technologies, Inc. of $3.4 million, compared to revenues of $0.9 million and a net loss attributable to Ocean Power Technologies, Inc. of $5.6 million for the three months ended January 31, 2010. For the nine months ended January 31, 2011, we generated revenues of $4.8 million and incurred a net loss attributable to Ocean Power Technologies, Inc. of $15.1 million, compared to revenues of $2.7 million and a net loss attributable to Ocean Power Technologies, Inc. of $12.9 million for the nine months ended January 31, 2010. As of January 31, 2011, our accumulated deficit was $105.5 million. We have not been profitable since inception, and we do not know whether or when we will become profitable because of the significant uncertainties with respect to our ability to successfully commercialize our PowerBuoy systems in the emerging renewable energy market. Since fiscal 2002, the US Navy has accounted for a significant portion of our revenues. We expect that, over time, revenues derived from utilities and other non-government commercial customers will increase more rapidly than sales to government customers and may, over time, represent the majority of our revenues.

The marine energy industry, including wave, tidal and ocean current energy technologies, is expected to benefit from various legislative initiatives that have been undertaken or are planned by state and federal agencies. For example, the US production tax credit was expanded to include marine energy, as part of the Energy Improvement and Extension Act of 2008, signed into law in October 2008. Production tax credit provisions, that were previously in place, served only to benefit other renewable energy sources such as wind and solar. This legislation enables owners of wave power projects in the US to receive federal production tax credits, which, by their prospective effect of lowering income taxes for our customers based on energy produced, should improve the comparative economics of wave power as a renewable energy source.

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Further, it is expected that the US federal and state governments will continue to increase their investments in the renewable energy sector under various economic stimulus measures. The American Recovery and Reinvestment Act of 2009 provides significant grants, tax incentives and policy initiatives to stimulate investment and innovation in the cleantech sector. The US Department of Energy (DOE) has also accepted proposals to be funded under government programs to further investment in marine energy technologies. We have devoted additional resources to develop proposals seeking government funding to support existing projects and technology enhancements. Consequently, while our selling, general and administrative costs related to such efforts may increase over the next year, we believe that these governmental initiatives may result in additional revenues for us over the next several years. Given the uncertainties surrounding the scope and size of these government programs, there can be no assurances as to whether we will be successful in obtaining significant additional government funding or as to the terms and conditions of any such funding.

The recent global economic downturn may have a negative effect on our business, financial condition and results of operations because the utility companies with which we contract or propose to contract may decrease their investment in new power generation equipment in response to the downturn. However, the various legislative initiatives described above may diminish the effect of any decrease in such capital expenditures by these utility companies insofar as they may relate to renewable energy generation equipment. As discussed above, the timing, scope and size of these new government programs for renewable energy is uncertain, and there can be no assurances that we or our customers will be successful in obtaining any additional government funding. In addition, we do not believe the recent global economic downturn will have a material negative impact on our sources of supply, as our products incorporate what are substantially non-custom, standard parts found in many regions of the world.

According to the International Energy Agency, $3.4 trillion is expected to be spent for new renewable energy generation equipment in the period from 2007 to 2030. This equates to annual global expenditures of approximately $150 billion. We plan to take advantage of these global drivers of demand for renewable energy, as we continue to refine and expand our proprietary technology.

Financial Operations Overview

The following describes certain line items in our consolidated statements of operations and some of the factors that affect our operating results.

Revenues

Generally, we recognize revenue using the percentage-of-completion method based on the ratio of costs incurred to total estimated costs at completion. In certain circumstances, revenue under contracts that have specified milestones or other performance criteria may be recognized only when our customer acknowledges that such criteria have been satisfied. In addition, recognition of revenue (and the related costs) may be deferred for fixed-price contracts until contract completion if we are unable to reasonably estimate the total costs of the project prior to completion. Because we have a small number of contracts, revisions to the percentage of completion determination or delays in meeting performance criteria or in completing projects may have a significant effect on our revenue for the periods involved. Upon anticipating a loss on a contract, we recognize the full amount of the anticipated loss in the current period.

Generally our contracts are either cost plus or fixed price contracts. Under cost plus contracts, we bill the customer for actual expenses incurred plus an agreed upon fee. Revenue is typically recorded using percentage-of-completion based on the maximum awarded contract amount. In certain cases, we may choose to incur costs in excess of the maximum awarded contract amount resulting in a loss on the contract. Currently, we have two types of fixed price contracts, firm fixed price and cost sharing. Under firm fixed price contracts, we receive an agreed upon amount for providing products and services that are specified in the contract. Revenue is typically recorded using percentage-of-completion based on the contract amount. Depending on whether actual costs are more or less than the agreed upon amount, there is a profit or loss on the project. 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. We fund the remainder of the costs as part of our product development efforts. Revenue is typically recorded using percentage-of-completion based on the amount agreed upon with the customer. An amount corresponding to the revenue is recorded in cost of revenues resulting in gross profit on these contracts of zero. Our share of the costs is recorded as product development expense.

The US Navy has been our largest customer since fiscal 2002. The US Navy accounted for approximately 33% and 53% of our revenues for the three and nine months ended January 31, 2011, respectively, and approximately 79% and 82% of our revenues for the three and nine months ended January 31, 2010, respectively. We anticipate that, if our commercialization efforts are successful, the relative contribution of the US Navy to our revenue may decline in the future.

The following table provides information regarding the breakdown of our revenues by customer for the nine months ended January 31, 2011 and 2010:

	Three months ended January 31, ($ millions)		Nine months ended January 31, ($ millions)	
Customer	**2011**	**2010**	**2011**	**2010**
US Navy	$ 0.5	$ 0.7	$ 2.5	$ 2.2
US Department of Energy	0.6	0.1	1.5	0.1
South West of England Regional Development Authority	0.3		0.6	
Iberdrola			(0.2)	0.2
Scottish Government			0.2	0.2
Other	0.1	0.1	0.2	
	$ 1.5	$ 0.9	$ 4.8	$ 2.7

During the nine months ended January 31, 2011, the Company reduced revenue by approximately $0.2 million due to a change in estimated revenue to be recognized in connection with the Spain construction agreement.

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We currently focus our sales and marketing efforts on North America, the west coast of Europe, Australia and Japan. The following table provides information regarding the breakdown of our revenues by geographical location of our customers for the nine months ended January 31, 2011 and 2010:

	Nine months ended January 31,	
	2011	2010
United States	89%	84%
Europe	11%	13%
Australia		3%
	100%	100%

Cost of revenues

Our cost of revenues consists primarily of incurred material, labor and manufacturing overhead expenses, such as engineering expense, equipment depreciation and maintenance and facility related expenses, and includes the cost of PowerBuoy parts and services supplied by third-party suppliers. Cost of revenues also includes PowerBuoy system delivery and deployment expenses and anticipated losses at completion on certain contracts.

We operated at a gross profit of $0.1 million and a gross loss of $0.1 million for the three and nine months ended January 31, 2011, respectively, and a gross profit of $0.2 million and $0.5 million for the three and nine months ended January 31, 2010, respectively. Our ability to generate a gross profit will depend on the nature of future contracts, our success at increasing sales of our PowerBuoy systems and on our ability to manage costs incurred on fixed price commercial contracts.

Product development costs

Our product development costs consist of salaries and other personnel-related costs and the costs of products, materials and outside services used in our product development and unfunded research activities. Our product development costs primarily relate to our efforts to increase the output of our utility PowerBuoy system, primarily the 150kW PowerBuoy system, and to our research and development of new products, product applications and complementary technologies. We expense all of our product development costs as incurred, except for external patent costs, which we capitalize and amortize over a 17-year period commencing with the issuance date of each patent. Patents are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the patent may not be recoverable.

Selling, general and administrative costs

Our selling, general and administrative costs consist primarily of professional fees, salaries and other personnel-related costs for employees and consultants engaged in sales and marketing and support of our PowerBuoy systems and costs for executive, accounting and administrative personnel, professional fees and other general corporate expenses.

Interest income

Interest income consists of interest received on cash and cash equivalents, investments in commercial bank-issued certificates of deposit and US Treasury bills and notes. Total cash, cash equivalents, restricted cash, and marketable securities were $52.8 million as of January 31, 2011, compared to $71.3 million as of January 31, 2010. Interest income in the nine months ended January 31, 2011 decreased compared to the nine months ended January 31, 2010 due to a decline in interest rates and a decline in cash, cash equivalents and marketable securities.

We anticipate that our interest income reported in fiscal 2011 will continue to be lower than the comparable periods of the prior fiscal year as a result of the decrease in invested cash.

Other income

Other income consists of transactions that we consider to be outside the normal scope of our operations and operating activities. In the nine months ended January 31, 2010, we recognized other income of $0.5 million in connection with the settlement of a claim which we had against a supplier that provided engineering services to us.

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Foreign exchange gain (loss)

We transact business in various countries and have exposure to fluctuations in foreign currency exchange rates. Foreign exchange gains and losses arise in the translation of foreign-denominated assets and liabilities, which may result in realized and unrealized gains or losses from exchange rate fluctuations. Since we conduct our business in US dollars and our functional currency is the US dollar, our main foreign exchange exposure, if any, results from changes in the exchange rate between the US dollar and the British pound sterling, the Euro and the Australian dollar.

We invest in certificates of deposit and maintain cash accounts that are denominated in British pounds, Euros and Australian dollars. These foreign-denominated certificates of deposit and cash accounts had a balance of $6.8 million as of January 31, 2011 and $5.6 million as of January 31, 2010, compared to our total cash, cash equivalents, restricted cash, and marketable security balances of $52.8 million as of January 31, 2011 and $71.3 million as of January 31, 2010. These foreign currency balances are translated at each month end to our functional currency, the US dollar, and any resulting gain or loss is recognized in our results of operations.

In addition, a portion of our operations is conducted through our subsidiaries in countries other than the United States, specifically Ocean Power Technologies Ltd. in the United Kingdom, the functional currency of which is the British pound sterling, and Ocean Power Technologies (Australasia) Pty Ltd. in Australia, the functional currency of which is the Australian dollar. Both of these subsidiaries have foreign exchange exposure that results from changes in the exchange rate between their functional currency and other foreign currencies in which they conduct business. All of our international revenues for the three and nine months ended January 31, 2011 and 2010 were recorded in Euros, British pounds sterling or Australian dollars.

We currently do not hedge our exchange rate exposure. However, we assess the anticipated foreign currency working capital requirements and capital asset acquisitions of our foreign operations and attempt to maintain a portion of our cash, cash equivalents and marketable securities denominated in foreign currencies sufficient to satisfy these anticipated requirements. We also assess the need and cost to utilize financial instruments to hedge currency exposures on an ongoing basis and may hedge against exchange rate exposure in the future.

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Results of Operations

Three Months Ended January 31, 2011 Compared to Three Months Ended January 31, 2010

The following table contains selected statement of operations information, which serves as the basis of the discussion of our results of operations for the three months ended January 31, 2011 and 2010:

	Three Months Ended January 31, 2011		Three Months Ended January 31, 2010		% Change 2011 Period to 2010 Period
	Amount	As a % of Revenues (1)	Amount	As a % of Revenues (1)	
Revenues	$ 1,523,601	100%	$ 856,482	100%	78%
Cost of revenues	1,453,397	95	691,090	81	110
Gross profit	70,204	5	165,392	19	(58)
Operating expenses:					
Product development costs	2,026,336	133	3,681,118	430	(45)
Selling, general and administrative costs	1,884,950	124	2,557,931	299	(26)
Total operating expenses	3,911,286	257	6,239,049	728	(37)
Operating loss	(3,841,082)	(252)	(6,073,657)	(709)	(37)
Interest income, net	148,480	10	231,683	27	(36)
Other income			17,668	2	
Foreign exchange (loss) gain	(38,014)	(2)	172,128	20	(122)
Loss before income taxes	(3,730,616)	(245)	(5,652,178)	(660)	
Income tax benefit	364,105	24			
Net loss	(3,366,511)	(221)	(5,652,178)	(660)	40
Less: Net loss attributable to the noncontrolling interest in Ocean Power Technologies (Australasia) Pty Ltd	3,693		2,682		(38)

Net loss attributable to Ocean Power Technologies, Inc	$ (3,362,818)	(221)%	$ (5,649,496)	(660)%	40%

(1) Certain subtotals may not add due to rounding.

Revenues

Revenues increased by $0.6 million in the three months ended January 31, 2011, or 78%, to $1.5 million, as compared to $0.9 million in the three months ended January 31, 2010. The change in revenues was attributable to the following factors:

Revenues relating to our utility PowerBuoy system increased by $0.7 million due primarily to an increase in billable work on our PB500 PowerBuoy development project and the 150kW PowerBuoy project off the coast of Reedsport, Oregon. This was partially offset by a decrease in revenue related to our Hawaii project for the US Navy.

Revenues relating to our autonomous PowerBuoy system decreased by $0.1 million as a result of a decrease in billable work on the US Navy s Deep Water Active Detection System or DWADS, as this project neared completion.

Cost of revenues

Cost of revenues increased by $0.8 million, or 110%, to $1.5 million in the three months ended January 31, 2011, as compared to $0.7 million in the three months ended January 31, 2010. This increase in the cost of revenues reflected the increased activity related to our PB500 PowerBuoy development project and the 150kW PowerBuoy project off the coast of Reedsport, Oregon. This was partially offset by a lower level of activity on our Hawaii project for the US Navy.

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We operated at a gross profit of $0.1 million and $0.2 million in the three months ended January 31, 2011 and 2010, respectively. Certain of our projects in the three months ended January 31, 2011 and 2010 were under cost sharing contracts. Under cost sharing contracts, we receive a fixed amount agreed upon with the customer that is only intended to fund a portion of the costs on a specific project. We fund the remainder of the costs as part of our product development efforts. Revenue is typically recorded using percentage-of-completion applied to the contractual amount agreed upon with the customer. An equal amount corresponding to the revenue is recorded in cost of revenues resulting in gross profit on these contracts of zero. Our share of the costs is considered to be product development expense. Our ability to generate a gross profit will depend on the nature of future contracts, our success at increasing sales of our PowerBuoy systems and on our ability to manage costs incurred on fixed price commercial contracts.

Product development costs

Product development costs decreased by $1.7 million, or 45%, to $2.0 million in the three months ended January 31, 2011, as compared to $3.7 million in the three months ended January 31, 2010. Product development costs were primarily attributable to our efforts to increase the power output and reliability of our utility PowerBuoy system, especially the 150kW PowerBuoy system. The decrease in product development costs is primarily related to a decrease in spending related to our 150kW PowerBuoy project off the coast of Scotland, as the construction phase of the project neared completion. It is our intent to fund the majority of our research and development expenses over the next several years with sources of external funding. If we are unable to obtain external funding, we may curtail our research and development expenses or we may decide to self-fund significant research and development expenses, in which case our product development costs may continue to increase. During the three months ended January 31, 2011, the majority of funding for our PB500 PowerBuoy development project was from external sources.

Selling, general and administrative costs

Selling, general and administrative costs decreased $0.7 million, or 26%, to $1.9 million for the three months ended January 31, 2011, as compared to $2.6 million for the three months ended January 31, 2010. The decrease was primarily attributable to a decrease in compensation and recruiting fees.

Interest income

Interest income decreased approximately $0.1 million, or 36%, to $0.1 million for the three months ended January 31, 2011, due to a decrease in cash, cash equivalents and marketable securities and average yield. The average yield was approximately 1.07% during the three months ended January 31, 2011 and 1.25% during the three months ended January 31, 2010.

Foreign exchange (loss) gain

Foreign exchange loss was $38,000 for the three months ended January 31, 2011, compared to a foreign exchange gain of $0.2 million for the three months ended January 31, 2010. The difference was primarily attributable to the relative change in value of the British pound sterling, Euro and Australian dollar compared to the US dollar during the two periods.

Income tax benefit

During the three months ended January 31, 2011, we sold New Jersey net operating tax loss carryforwards resulting in an income tax benefit of $0.4 million.

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Nine Months Ended January 31, 2011 Compared to Nine Months Ended January 31, 2010

The following table contains selected statement of operations information, which serves as the basis of the discussion of our results of operations for the nine months ended January 31, 2011 and 2010:

	Nine Months Ended January 31, 2011		Nine Months Ended January 31, 2010		% Change
	Amount	As a % of Revenues (1)	Amount	As a % of Revenues (1)	2011 Period to 2010 Period
Revenues	$ 4,762,415	100%	$ 2,749,294	100%	73%
Cost of revenues	4,818,623	101	2,243,465	82	115
Gross (loss) profit	(56,208)	(1)	505,829	18	(111)
Operating expenses:					
Product development costs	9,731,592	204	8,467,866	308	15
Selling, general and administrative costs	6,060,705	127	6,915,435	252	(12)
Total operating expenses	15,792,297	332	15,383,301	560	3
Operating loss	(15,848,505)	(333)	(14,877,472)	(541)	7
Interest income, net	546,829	11	764,504	28	(28)
Other income			549,258	20	
Foreign exchange (loss) gain	(205,824)	(4)	674,517	25	(131)
Loss before income taxes	(15,507,500)	(326)	(12,889,193)	(469)	
Income tax benefit	364,105	8			
Net loss	(15,143,395)	(318)	(12,889,193)	(469)	(17)
Less: Net loss (income) attributable to the noncontrolling interest in Ocean Power Technologies (Australasia) Pty Ltd	14,792		(50,551)	(2)	129

Net loss attributable to Ocean Power Technologies, Inc	$ (15,128,603)	(318)%	$ (12,939,744)	(471)%	(17)%

(1) Certain subtotals may not add due to rounding.

Revenues

Revenues increased by $2.1 million in the nine months ended January 31, 2011, or 73%, to $4.8 million, as compared to $2.7 million in the nine months ended January 31, 2010. The change in revenues was attributable to the following factors:

- Revenues relating to our autonomous PowerBuoy system increased by $1.2 million as a result of an increase in billable work on our project to provide our PowerBuoy technology to the US Navy s Littoral Expeditionary Autonomous PowerBuoy or LEAP program. This was partially offset by a decrease in billable work on the US Navy s DWADS project.

- Revenues relating to our utility PowerBuoy system increased by $0.9 million due primarily to an increase in billable work on our PB500 PowerBuoy development project and our 150kW PowerBuoy project off the coast of Reedsport, Oregon. This was partially offset by a decrease in revenue related to our Hawaii project for the US Navy and our wave power project off the coast of Spain, as these projects neared completion. Also, during the nine months ended January 31, 2011, there was a reduction in revenue of approximately $0.2 million due to a change in estimated revenue to be recognized in connection with the Spain construction agreement.

Cost of revenues

Cost of revenues increased by $2.6 million, or 115%, to $4.8 million in the nine months ended January 31, 2011, as compared to $2.2 million in the nine months ended January 31, 2010. This increase in the cost of revenue reflected the increased activity related to the LEAP program, the 150kW PowerBuoy project off the coast of Reedsport, Oregon, and our PB500 PowerBuoy development project. This was partially offset by a lower level of activity on our Hawaii project for the US Navy and our wave power project off the coast of Spain. During the nine months ended January 31, 2010, there was a reduction in cost of revenues resulting from the reversal of $0.4 million in the provision for loss reserves related to our project off the coast of Spain as the reserve was no longer considered necessary as of January 31, 2010.

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We operated at a gross loss of $56,000 in the nine months ended January 31, 2011 and a gross profit of $0.5 million in the nine months ended January 31, 2010. Certain of our projects in the nine months ended January 31, 2011 and 2010 were under cost sharing contracts. Under cost sharing contracts, we receive a fixed amount agreed upon with the customer that is only intended to fund a portion of the costs on a specific project. We fund the remainder of the costs as part of our product development efforts. Revenue is typically recorded using percentage-of-completion applied to the contractual amount agreed upon with the customer. An equal amount corresponding to the revenue is recorded in cost of revenues resulting in gross profit on these contracts of zero. Our share of the costs is considered to be product development expense. During the nine months ended January 31, 2011, we reduced revenue by approximately $0.2 million due to a change in estimated revenue to be recognized in connection with the Spain construction agreement, and there was no corresponding reduction in cost of revenues. During the nine months ended January 31, 2010, there was a reduction in cost of revenues resulting from the reversal of $0.4 million in the provision for loss reserves related to our project off the coast of Spain as the reserve was no longer considered necessary. Our ability to generate a gross profit will depend on the nature of future contracts, our success at increasing sales of our PowerBuoy systems and on our ability to manage costs incurred on fixed price commercial contracts.

Product development costs

Product development costs increased by $1.2 million, or 15%, to $9.7 million in the nine months ended January 31, 2011, as compared to $8.5 million in the nine months ended January 31, 2010. Product development costs were primarily attributable to our efforts to increase the power output and reliability of our utility PowerBuoy system, especially the 150kW PowerBuoy system. It is our intent to fund the majority of our research and development expenses over the next several years with sources of external funding. If we are unable to obtain external funding, we may curtail our research and development expenses or we may decide to self-fund significant research and development expenses, in which case our product development costs may continue to increase.

Selling, general and administrative costs

Selling, general and administrative costs decreased $0.8 million, or 12%, to $6.1 million for the nine months ended January 31, 2011, as compared to $6.9 million for the nine months ended January 31, 2010. The decrease was primarily attributable to a decrease in compensation and recruiting expenses.

Interest income

Interest income decreased approximately $0.3 million, or 28%, to $0.5 million for the nine months ended January 31, 2011, compared to $0.8 million for the nine months ended January 31, 2010, primarily due to a decrease in cash, cash equivalents and marketable securities. The average yield was approximately 1.28% during the nine months ended January 31, 2011 and 1.30% during the nine months ended January 31, 2010.

Other income

We recognized no other income for the nine months ended January 31, 2011, compared to $0.5 million for the nine months ended January 31, 2010. During the nine months ended January 31, 2010, we settled a claim which we had against a supplier of engineering services, which resulted in a settlement in our favor.

Foreign exchange (loss) gain

Foreign exchange loss was $0.2 million for the nine months ended January 31, 2011, compared to a foreign exchange gain of $0.7 million for the nine months ended January 31, 2010. The difference was primarily attributable to the relative change in value of the British pound sterling, Euro and Australian dollar compared to the US dollar during the two periods.

Income tax benefit

During the nine months ended January 31, 2011, we sold New Jersey net operating tax loss carryforwards resulting in an income tax benefit of $0.4 million.

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Liquidity and Capital Resources

Since our inception, the cash flows from customer revenues have not been sufficient to fund our operations and provide the capital resources for the planned growth of our business. For the three years ended April 30, 2010, our revenues were $13.9 million, our net losses were $52.1 million and our net cash used in operating activities was $46.1 million.

	Nine Months Ended January 31, 2011	2010
Net loss	$ (15,143,395)	$ (12,889,193)
Adjustments for noncash operating items	1,488,456	607,143
Net cash operating loss	(13,654,939)	(12,282,050)
Net change in operating assets and liabilities	(332,324)	515,618
Net cash used in operating activities	$ (13,987,263)	$ (11,766,432)
Net cash provided by investing activities	$ 18,975,632	$ 7,222,290
Net cash provided by (used in) by financing activities	$ 213,133	$ (93,398)
Effect of exchange rates on cash and cash equivalents	$ 64,525	$ 837,636

Net cash used in operating activities

Net cash used in operating activities was $14.0 million and $11.8 million for the nine months ended January 31, 2011 and 2010, respectively. The change was the result of an increase in net loss of $2.2 million and in cash used by operating assets and liabilities of $0.8 million, offset by increases in non-cash charges of $0.9 million.

The change in non-cash charges was primarily due to a change in foreign exchange gains (losses) of $0.9 million resulting from the relative change in the value of the British pound sterling against the US dollar.

Net cash provided by investing activities

Net cash provided by investing activities was $19.0 million and $7.2 million for the nine months ended January 31, 2011 and 2010, respectively. The change was primarily the result of a net decrease in purchases of securities during the nine months ended January 31, 2011.

Net cash provided by (used in) financing activities

Net cash provided by financing activities was $0.2 million in the nine months ended January 31, 2011 and net cash used in financing activities was $0.1 million in the nine months ended January 31, 2010. During the nine months ended January 31, 2011, we received a $0.25 million loan under the New Jersey Board of Public Utilities Renewable Energy Business Venture Assistance Program.

Effect of exchange rates on cash and cash equivalents

The effect of exchange rates on cash and cash equivalents was a gain of $0.1 million in the nine months ended January 31, 2011 and a gain of $0.9 million in the nine months ended January 31, 2010. The change was primarily the result of gains or losses on consolidation of foreign subsidiaries and foreign denominated cash and cash equivalents.

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Liquidity and Capital Resources Outlook

We expect to devote substantial resources to continue our development efforts for our PowerBuoy systems and to expand our sales, marketing and manufacturing programs associated with the commercialization of the PowerBuoy system. Our future capital requirements will depend on a number of factors, including:

- the cost of development efforts for our PowerBuoy systems;
- the success of our commercial relationships with major customers;
- the cost of manufacturing activities;
- the cost of commercialization activities, including demonstration projects, product marketing and sales;
- our ability to establish and maintain additional commercial relationships;
- the implementation of our expansion plans, including the hiring of new employees;
- potential acquisitions of other products or technologies; and
- the costs involved in preparing, filing, prosecuting, maintaining and enforcing patent claims and other patent-related costs.

We expect the rate of cash used in the fourth quarter of fiscal 2011 to be consistent with the first three quarters. We expect the rate of cash outflows to decrease in fiscal 2012, reflecting completion of significant milestones associated with the construction of our two PB150 systems for Oregon and Scotland.

We believe that our current cash, cash equivalents and investments will be sufficient to meet our anticipated cash needs for working capital and capital expenditures at least through fiscal 2012. If existing resources are insufficient to satisfy our liquidity requirements or if we acquire or license rights to additional product technologies, we may seek to sell additional equity or debt securities or obtain a credit facility. 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. If we are unable to obtain required financing, we may be required to reduce the scope of our planned product development and marketing efforts, which could harm our financial condition and operating results.

Off-Balance Sheet Arrangements

Since inception, we have not engaged in any off-balance sheet financing activities.

Item 3. *QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK*

We generally place our investments in money market funds, Treasury notes, Treasury bills and certificates of deposit with maturities of less than one year. We actively manage our portfolio of cash equivalents and marketable securities, but in order to ensure liquidity, we will only invest in instruments with high credit quality where a secondary market exists. We have not held and do not hold any derivatives related to our interest rate exposure. Due to the average maturity and conservative nature of our investment portfolio, a change in interest rates would not have a material effect on the value of the portfolio. We do not have market risk exposure on our long-term debt because it consists of an interest-free loan from the New Jersey Board of Public Utilities.

We estimate that if the average yield on our cash, cash equivalents and marketable securities had decreased by 100 basis points, during the nine months ended January 31, 2011, our interest income for the period would have decreased by approximately $0.4 million. This estimate assumes that the decrease occurred on the first day of the fiscal period and reduced the yield of each investment by 100 basis points. The impact on our future interest income of future changes in investment yields will depend largely on the gross amount of our cash, cash equivalents and marketable securities.

We transact business in various countries and have exposure to fluctuations in foreign currency exchange rates. Foreign exchange gains and losses arise in the translation of foreign-denominated assets and liabilities, which may result in realized and unrealized gains or losses from exchange rate fluctuations. Since we conduct our business in US dollars and our functional currency is the US dollar, our main foreign exchange exposure, if any, results from changes in the exchange rate between the US dollar and the British pound sterling, the Euro and the Australian dollar.

We maintain cash accounts that are denominated in British pounds sterling, Euros and Australian dollars. These foreign-denominated cash accounts had a balance of $6.8 million as of January 31, 2011 compared to our total cash, cash equivalents, marketable securities and restricted cash account balances of $52.8 million as of January 31, 2011. These foreign currency balances are translated at each month end to our functional currency, the US dollar, and any resulting gain or loss is recognized in our results of operations. If foreign currency exchange rates had fluctuated by 10% as of January 31, 2011, the impact on our foreign exchange gains and losses would have been $0.7 million.

In addition, a portion of our operations is conducted through our subsidiaries in countries other than the United States, specifically Ocean Power Technologies Ltd. in the United Kingdom, the functional currency of which is the British pound sterling, and Ocean Power Technologies (Australasia) Pty Ltd. in Australia, the functional currency of which is the Australian dollar. Both of these subsidiaries have foreign exchange exposure that results from changes in the exchange rate between their functional currency and other foreign currencies in which they conduct business. All of our international revenues for the nine months ended January 31, 2011 were recorded in Euros, British pounds sterling or Australian dollars.

We currently do not hedge exchange rate exposure. However, we assess the anticipated foreign currency working capital requirements and capital asset acquisitions of our foreign operations and attempt to maintain a portion of our cash, cash equivalents and certificates of deposit denominated in foreign currencies sufficient to satisfy these anticipated requirements. We also assess the need and cost to utilize financial instruments to hedge currency exposures on an ongoing basis and may hedge against exchange rate exposure in the future.

We have limited potential exposure to fluctuations in prices of commodities used in the production of our buoys, such as steel. Currently, we believe our exposure is minimal since we contract for the components of our buoys on a project-by-project basis and do not yet produce in large unit volumes. We do not use long-term supply agreements nor do we use derivative instruments to hedge any potential exposure.

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Item 4. ***CONTROLS AND PROCEDURES***

Evaluation of Disclosure Controls and Procedures

Disclosure controls and procedures are our controls and other procedures that are designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934 (the Exchange Act) is recorded, processed, summarized and reported within the time periods specified in the SEC s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

As of the end of the period covered by this report, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Exchange Act Rule 13a-15(b). Based upon that evaluation, as of January 31, 2011, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective.

Changes in Internal Control over Financial Reporting

No change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) occurred during the fiscal quarter ended January 31, 2011 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II OTHER INFORMATION

Item 1. ***LEGAL PROCEEDINGS***

We are subject to legal proceedings, claims and litigation arising in the ordinary course of business. While the outcome of these matters is currently not determinable, we do not expect that the ultimate costs to resolve these matters will have a material adverse effect on our financial position, results of operations or cash flows.

Item 1A. ***RISK FACTORS***

The discussion of our business and operations should be read together with the risk factors contained in Item 1A of our Annual Report on Form 10-K for the year ended April 30, 2010. These risk factors describe various risks and uncertainties to which we are or may become subject. These risks and uncertainties have the potential to affect our business, financial condition, results of operations, cash flows, strategies or prospects in a material and adverse manner. There have been no material changes in our risk factors from those disclosed in our Annual Report on Form 10-K filed with the SEC on July 14, 2010.

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Item 2. ***UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS***

Use of Proceeds

On April 30, 2007, we sold 5,000,000 shares of our common stock in our initial public offering in the United States at a price of $20.00 per share, pursuant to a registration statement on Form S-1 (File No. 333-138595), which was declared effective by the SEC on April 24, 2007. The managing underwriters in the offering were UBS Securities LLC, Banc of America Securities LLC, and Bear, Stearns & Co., Inc. The underwriting discounts and commissions and offering expenses payable by us aggregated $10.1 million, resulting in net proceeds to us of $89.9 million. None of the underwriting discounts and commissions or offering costs were incurred or paid to directors or officers of ours or their associates or to persons owning ten percent or more of our common stock or to any affiliates of ours.

From the effective date of the registration statement through January 31, 2011, we used $6.6 million to construct demonstration PowerBuoys, $24.8 million to fund the continued development and commercialization of our PowerBuoy system, $5.0 million to expand our sales and marketing capabilities and $0.7 million to fund the expansion of assembly, test and field service facilities. We have invested the balance of the net proceeds from the offering in marketable securities, in accordance with our investment policy. We have not used any of the net proceeds from the offering to make payments, directly or indirectly, to any director or officer of ours, or any of their associates, to any person owning ten percent or more of our common stock or to any affiliate of ours. There has been no material change in our planned use of the balance of the net proceeds from the offering as described in our final prospectus filed with the SEC pursuant to Rule 424(b) under the Securities Act of 1933.

Item 3. ***DEFAULTS UPON SENIOR SECURITIES***

None.

Item 5. ***OTHER INFORMATION***

None.

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Item 6. ***EXHIBITS***

10.1	Form of Restricted Stock Agreement
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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SIGNATURES

Pursuant to the requirements 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.

By: /s/ Charles F. Dunleavy

Charles F. Dunleavy
Chief Executive Officer
(Principal Executive Officer)

Date: March 14, 2011

By: /s/ Brian M. Posner

Brian M. Posner
Chief Financial Officer
(Principal Financial Officer)
Date: March 14, 2011

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EXHIBITS INDEX

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Cash and cash equivalents at end of period	$ 21,700	$ 51,381
Supplemental disclosure of cash flow information:		
Cash paid during the period for interest		

$

335

$

300

Non cash investing and financing activity:

Common stock dividend portion paid in the Trust s common shares

$

$

11,916

Reclassification of real estate properties to real estate held for sale

$

$

8,552

Reclassification of deferred costs to real estate properties	$	396
	$	

See accompanying notes to consolidated financial statements.

BRT REALTY TRUST AND SUBSIDIARIES

Notes to Consolidated Financial Statements

March 31, 2011

Note 1 Organization and Background

BRT Realty Trust is a business trust organized under the laws of the Commonwealth of Massachusetts. Our primary business is to originate and hold for investment senior mortgage loans secured by commercial and multi-family real estate property in the United States. We recently began originating loans to persons purchasing their own mortgage debt or purchasing third party mortgage debt, in each case at a discount to the principal amount thereof. The purchase of third party mortgage debt is generally structured as a repurchase agreement pursuant to which we purchase the mortgage and our counterparty is obligated to repurchase such mortgage within a specified period. The loans we originate generally have relatively high yields and are short-term or bridge loans with a duration ranging from six months to one year. Historically we have loaned money at a floating rate of interest based on a spread over the prime rate. More recently, the majority of the loans we have originated have been fixed rate loans. We receive an origination fee for the loans we originate. We conduct our operations to qualify as a real estate investment trust, or REIT, for Federal income tax purposes.

From time-to-time we originate junior commercial and multi-family mortgage loans, participate as an equity investor in, and mortgage lender to, joint ventures which acquire income producing real estate property, and purchase securities of other REITs.

Note 2 - Basis of Preparation

The accompanying interim unaudited consolidated financial statements as of March 31, 2011 and for the three and six months ended March 31, 2011 and March 31, 2010 reflect all normal recurring adjustments which are, in the opinion of management, necessary for a fair presentation of the results for such interim periods. The results of operations for the three and six months ended March 31, 2011 and March 31, 2010 are not necessarily indicative of the results for the full year. The balance sheet as of September 30, 2010 has been derived from the audited financial statements at that date but does not include all the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements.

Certain items on the consolidated financial statements for the preceding period have been reclassified to conform with the current presentation of the consolidated financial statements.

The consolidated financial statements include the accounts and operations of BRT Realty Trust, its wholly owned subsidiaries, and its majority-owned or controlled real estate entities and its interests in variable interest entities in which it is the primary beneficiary. Material intercompany items and transactions have been eliminated. BRT Realty Trust and its subsidiaries are hereinafter referred to as BRT or the Trust.

With respect to its unconsolidated joint ventures, as (i) the Trust is primarily the managing member but does not exercise substantial operating control over these entities or the Trust is not the managing member and (ii) such entities are not variable interest entities, the Trust has determined that such joint ventures should be accounted for under the equity method of accounting for financial statement purposes.

RBH-TRB Newark Holdings LLC (Newark Joint Venture) was determined to be a Variable Interest Entity (VIE) because the Trust has voting rights that are not proportionate to its economic interests. The Trust was determined to be the primary beneficiary as it has the power to direct the activities that

Note 2 - Basis of Preparation (Continued)

most significantly impact the economic performance and the obligation to absorb losses that could potentially be significant to this VIE. For these reasons, the Trust has consolidated the operations of this VIE in the Trust s consolidated financial statements.

These statements should be read in conjunction with the consolidated financial statements and related notes which are included in BRT s Annual Report on Form 10-K for the year ended September 30, 2010.

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements. Actual results could differ from those estimates.

Note 3 - Equity

Common Share Dividend Distribution

During the quarter ended March 31, 2011, the Trust did not declare a dividend to its shareholders.

Restricted Shares

An aggregate of 850,000 shares have been authorized for issuance under the Trust s equity incentive plans, of which 231,885 shares remain available for future grants at March 31, 2011. The shares issued vest five years from the date of issuance and under specified circumstances, including a change in control, may vest earlier. Since inception of the plans, 126,410 shares have vested. For accounting purposes, the restricted stock is not included in the outstanding shares shown on the consolidated balance sheet until they vest, but is included in the earnings per share computation. The estimated fair value of restricted stock at the date of grant is being amortized ratably into expense over the applicable vesting period. For the three months ended March 31, 2011 and 2010, the Trust recorded $218,000 and $213,000 of compensation expense respectively, and for the six months ended March 31, 2011 and 2010, recorded $426,000 and $431,000 of compensation expense, respectively, as a result of the amortization of restricted shares. At March 31, 2011, $2,222,000 has been deferred as unearned compensation and will be charged to expense over the remaining weighted average vesting period of approximately 3.35 years.

Per Share Data

Basic earnings (loss) per share attributable to holders of shares of beneficial interest was determined by dividing net income (loss) for the period by the weighted average number of common shares outstanding during each period.

Diluted earnings (loss) per share attributable to holders of shares of beneficial interest reflects the potential dilution that could occur if securities or other contracts to issue common shares were exercised or converted into common shares or resulted in the issuance of common shares that shared in the earnings of the Trust.

Basic and diluted shares outstanding for the three months ended March 31, 2011 and 2010 were 14,047,924 and 14,090,229, respectively, and for the six months ended March 31, 2011 and 2010 were 14,012,404 and 13,647,654, respectively.

The impact of dilutive securities is not included in the computation of loss per share for the three and six months ended March 31, 2010, as the inclusion of such common share equivalents would be anti-dilutive.

Note 4 - Real Estate Loans and Purchase Money Mortgages

At March 31, 2011, information relating to real estate loans and purchase money mortgages, all of which are first mortgage loans, is summarized as follows (dollars in thousands):

	Earning Interest	Non-Earning Interest	Total Real Estate Loans
Multi-family residential	$ 22,027	$	$ 22,027
Condominium units (existing multi-family)	11,370	8,488	19,858
Office	34,590		34,590
Retail	4,149		4,149
Hotel	12,220		12,220
	84,356	8,488	92,844
Deferred fee income	(1,247)	(42)	(1,289)
Real estate loans, net	83,109	8,446	91,555
Purchase money mortgage loans:			
Multi-family residential	5,340		5,340
Real estate loans and purchase money mortgage loans, net	$ 88,449	$ 8,446	$ 96,895

During the quarter ended March 31, 2011, a non-performing loan with a book value of $25.9 million (before loan loss allowance of $2,985,000), secured by a vacant loft building (with retail) and located in New York City, was sold to an unaffiliated third party for $25.5 million. The Trust recorded a charge off on this loan of $429,000.

A second non-performing loan, with a book value of $580,000 (before loan loss allowance of $180,000) and secured by a vacant multi-family property located in New York City was satisfied in the current quarter. The Trust received proceeds of $401,000 and charged off the remaining balance of $179,000.

At March 31, 2011, the Trust had one non-earning loan outstanding, which was originated in October 2008. The loan has an aggregate outstanding principal balance of $8,488,000, and represents 8.6% of total real estate loans and 4.6% of total assets. This collateral dependent loan, secured by condominium units, is recourse to the borrower. The loan is not impaired and no allowance for loan loss has been established. This loan represents a pari passu interest in a loan with a principal balance of $16,976,000. The borrower filed for protection under Chapter XI of the Federal Bankruptcy Code in December 2009 and has filed a plan of reorganization that the Trust is contesting. The Trust is seeking to enforce judgments against the individual guarantors of this loan.

The Trust recognized cash basis interest of $153,000 and $146,000 on non-earning loans in the three months ended March 31, 2011 and March 31, 2010 and $303,000 and $277,000 in the six months ended March 31, 2011 and 2010, respectively.

Note 4 - Real Estate Loans and Purchase Money Mortgages (Continued)

At March 31, 2011, three separate, unaffiliated borrowers had loans outstanding in excess of 5% of total assets. Information regarding these loans is set forth in the table below (dollars in thousands):

	Gross Loan Balance	# of Loans	% of Gross Loans	% of Assets	State	Status
Office building	$ 22,572	1	22.9%	12.3%	NY	Performing
Hotel	$ 12,220	1	12.5%	6.6%	FL	Performing
Multi-family	$ 11,550	1	11.8%	6.3%	NY	Performing

The Trust s portfolio consists of senior mortgage loans, secured by residential and commercial property, 67% of which are located in New York, 20% in Florida and 13% in 5 other states.

Note 5 - Allowance for Possible Loan Losses

An analysis of the loan loss allowance at March 31, 2011 and March 31, 2010, respectively, is as follows (dollars in thousands):

	Three Months Ended March 31,		Six Months Ended March 31,	
	2011	2010	2011	2010
Balance at beginning of period	$ 3,165	$ 4,820	$ 3,165	$ 1,618
Recovery of previously provided allowance	(2,566)		(2,566)	
Provision for loan loss				3,165
Charge-offs	(608)		(608)	
Recoveries	9		9	37
Balance at end of period		$ 4,820		$ 4,820

A loan evaluated for impairment is deemed to be impaired when based on current information and events, it is probable, in the judgment of management, that the Trust will not be able to collect all amounts due according to the contractual terms of the loan documents. When making this evaluation numerous factors are considered, including, market evaluations of the underlying collateral, estimated operating cash flow from the property during the projected holding period, and estimated sales value computed by applying an estimated capitalization rate to the projected stabilized net operating income of the specific property, less selling costs, discounted at market discount rates. If upon completion of the evaluation, the value of the collateral securing the loan is less than the recorded investment in the loan, an allowance is created with a corresponding charge to expense. The fair values related to the collateral securing our impaired loans are based on discounted cash flow models, which are considered to be Level 3 within the fair value hierarchy. When the Trust acquires title to the property, the loan loss allowance is adjusted by charging off all amounts related to the loan and recording the property at the adjusted carrying value of the loan.

In the quarter ended March 31, 2011, the Trust reversed $2,566,000 of previously provided loan loss allowance. This allowance related primarily to a non-performing loan which was sold during the quarter.

Note 6 - Real Estate Properties

A summary of real estate properties owned is as follows (dollars in thousands):

	September 30, 2010 Balance	Costs Capitalized	Depreciation, Amortization and Paydowns	March 31, 2011 Balance
Shopping centers/Retail	$ 2,957		$ (52)	$ 2,905
Multi-family and coop apartments	2,969	$ 10	(2,668)(a)	311
Commercial (b)	41,945	1,681	(299)	43,327
Land	7,972			7,972
Total real estate properties	$ 55,843	$ 1,691	$ (3,019)	$ 54,515

(a) Includes $2,597,000 which represents the payoff of a mortgage loan which was classified as real estate for accounting purposes.

(b) Represents the real estate assets of RBH-TRB Newark Holdings LLC, a consolidated VIE which owns operating and development properties in Newark, New Jersey. These properties contain a mix of office and retail space, totaling approximately 594,000 square feet. These assets are subject to blanket mortgages aggregating $27,000,000, held by the Trust, which are eliminated in consolidation. Several of the assets are also encumbered by other mortgages having an aggregate principal balance of $10,468,000 at March 31, 2011.

The risks associated with our involvement in this VIE, as described in our Annual Report on Form 10-K for the fiscal year ended September 30, 2010, have not changed in the three or six months ended March 31, 2011.

For the three months ended March 31, 2011 and March 31, 2010, this VIE recorded revenues of $608,000 and $509,000, respectively, and operating expenses of $704,000 and $649,000, respectively, excluding interest expense and depreciation. For the six months ended March 31, 2011 and 2010, this VIE recorded revenues of $1,147,000 and $1,026,000, respectively, and operating expenses of $1,407,000 and $1,274,000, respectively, excluding interest expense and depreciation. The Trust made a capital contribution to this venture of $350,000 during the six months ended March 31, 2011. Since March 31, 2011, the Trust made a capital contribution of $1,915,000 to this venture, representing its proportionate share of capital required to fund the operations of the venture for its next fiscal year.

Note 7 Investment in Unconsolidated Ventures

The Trust is a partner in two unconsolidated ventures, each of which owns and operates one property. The Trust s share of the ventures earnings was $86,000 and $35,000 for the three months ended March 31, 2011 and 2010 and $135,000 and $110,000 for the six months ended March 31, 2011 and 2010, respectively. The Trust s investment in these unconsolidated ventures totaled $815,000 and $775,000 at March 31, 2011 and September 30, 2010, respectively.

Note 8 Available-For-Sale Securities

At March 31, 2011, the Trust s available-for-sale securities which consisted solely of equity securities. These securities had a market value of $4,677,000 and a cost basis of $3,488,000. Unrealized gains totaled $1,225,000 and unrealized losses totaled $36,000.

Unrealized gains and losses are reflected as accumulated other comprehensive income-net unrealized gain on available-for-sale securities in the accompanying consolidated balance sheets.

The Trust s available-for-sale equity securities were determined to be Level 1 financial assets within the valuation hierarchy established by current accounting guidance, and the valuation is based on current market quotes received from financial sources that trade such securities. All of the available-for-sale securities in an unrealized loss position are equity securities and amounts are not considered to be other-than-temporary impairment because the Company expects the value of these securities to recover and plans on holding them until at least such recovery.

During the three months ended March 31, 2011, the Trust sold available-for-sale equity securities for $2,231,000 with a basis of $2,130,000, determined using average cost. Accordingly, the Trust recognized a gain of $101,000 from these sales. In the six months ended March 31, 2011, the Trust sold equity securities for $2,871,000 with a basis of $2,349,000, determined using average cost. Accordingly, the Trust recognized a gain of $522,000 from these sales.

During the three and six months ended March 31, 2011, the Trust sold available-for-sale debt securities for $3,417,000 which had a basis of $2,925,000 determined using specific cost. Accordingly, the Trust recognized a gain of $492,000 from these sales.

During the three and six months ended March 31, 2010, the Trust sold available-for-sale equity securities for $2,425,000. The basis of these securities was $975,000, determined using average cost. Accordingly, the Trust recognized a gain of $1,450,000 from these sales. The Trust also sold an available-for-sale debt security for $1,000,000. The basis of this security was $864,000 and was determined using specific identification. Accordingly, the Trust recognized a gain of $136,000 on this sale.

Note 9 Debt Obligations

Debt obligations consist of the following (dollars in thousands):

	March 31, 2011		September 30, 2010	
Junior subordinated notes	$	37,400	$	40,815
Mortgages payable		12,558		12,557
Total debt obligations	$	49,958	$	53,372

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Note 9 Debt Obligations (Continued)

Junior Subordinated Notes

On March 15, 2011, the Trust restructured its existing junior subordinated notes resulting in the repayment of $5,000,000 of the outstanding notes at par and the reduction of the interest rates on the remaining outstanding notes as set forth in the table below:

Interest period	**Prior Interest Rate**	**New Interest Rate**
March 15, 2011 through July 31, 2012	3.50%	3.00%
August 1, 2012 through April 29, 2016	8.37%	4.90%
April 30, 2016 through April 30, 2036	LIBOR + 2.95%	LIBOR + 2.00%

At March 31, 2011 the outstanding balance of the subordinated notes was $37,400,000.

The Trust accounted for the restructuring of this debt as an extinguishment of debt. For the three and six months ended March 31, 2011, the Trust recognized a loss on the extinguishment of the debt of $2,138,000, which represented the unamortized principal of $1,308,000 and unamortized costs of $830,000. The Trust also incurred third party costs of $512,000 which were deferred and will be amortized over the remaining life of the notes.

Interest expense for the three and six months ended March 31, 2011 was $483,000 and $1,004,000, respectively. For the three and six months ended March 31, 2010, interest expense was $515,000 and $1,029,000 respectively. Amortization of the deferred costs was $7,000 and $15,000 for the three and six months ended March 31, 2011, respectively. For the three and six months ended March 31, 2010, amortization of these costs was $8,000 and $16,000, respectively.

Mortgages Payable

The Trust has five first mortgages and one second mortgage outstanding with an aggregate principal balance at March 31, 2011 of $12,558,000. One of these mortgages, with an outstanding balance at March 31, 2011 of $2,090,000, is secured by a long term leasehold position on a shopping center owned by a consolidated joint venture. The remaining five mortgages, with outstanding balances at March 31, 2011 of $10,468,000, are secured by individual parcels of two land assemblages in Newark, NJ owned by another consolidated joint venture. The Trust has guaranteed $493,000 of one of the mortgage obligations at March 31, 2011, based on the current outstanding balance. The guarantee will increase to $2,154,000 if the full amount of the $8,600,000 loan is drawn and outstanding.

Interest expense relating to the mortgages payable for the three and six months ended March 31, 2011 was $287,000 and $577,000 respectively. For the three and six months ended March 31, 2010, interest expense was $198,000 and $393,000, respectively.

During the three and six months ended March 31, 2011, the Trust capitalized interest expense of $234,000 and $397,000, respectively. This interest is being capitalized in connection with the development of a portion of our Newark Joint Venture s properties.

Note 10 Comprehensive Income (Loss)

Comprehensive income (loss) for the three and six month s was as follows (dollars in thousands):

	Three Months Ended March 31,		Six Months Ended March 31,	
	2011	2010	2011	2010
Net income (loss)	$ 1,322	$ (1,727)	$ 641	$ (4,615)
Other comprehensive (loss) income Unrealized (loss) gain on available-for-sale securities	(354)	330	(405)	(1,269)
Less: net loss attributable to non-controlling interests	525	370	698	737
Comprehensive income (loss) attributable to common shareholders	$ 1,493	$ (1,027)	$ 934	$ (5,147)

Note 11 -Segment Reporting

Management has determined that it operates in two reportable segments: (i) a loan and investment segment which includes the origination and servicing of our loan portfolio and investments; and (ii) a real estate segment which includes the operation and disposition of our real estate assets.

Note 11 -Segment Reporting (Continued)

The following table summarizes our segment reporting for the three and six months ended March 31, 2011 (dollars in thousands):

	Three Months Ended March 31, 2011			Six Months Ended March 31, 2011		
	Loan and Investment	Real Estate	Total	Loan and Investment	Real Estate	Total
Revenues	$ 4,738	$ 959	$ 5,697	$ 6,336	$ 1,813	$ 8,149
Interest on borrowed funds	331	211	542	690	509	1,199
Other expenses	1,435	1,452	2,887	2,742	2,903	5,645
Amortization and depreciation		184	184		372	372
Total expenses	1,766	1,847	3,613	3,432	3,784	7,216
Total revenues less total expenses	2,972	(888)	2,084	2,904	(1,971)	933
Equity in earnings of unconsolidated ventures		86	86		135	135
Gain on sale of available-for-sale securities	593		593	1,014		1,014
Loss on extinguishment of debt	(1,448)	(690)	(2,138)	(1,448)	(690)	(2,138)
Income (loss) from continuing operations	2,117	(1,492)	625	2,470	(2,526)	(56)
Discontinued operations:						
Gain on sale of real estate assets		697	697		697	697
Net income (loss)	2,117	(795)	1,322	2,470	(1,829)	641
Less net loss attributable to non-controlling interests		525	525		698	698
Net income (loss) attributable to common shareholders	$ 2,117	$ (270)	$ 1,847	$ 2,470	$ (1,131)	$ 1,339
Segment assets	$ 124,690	$ 59,398	$ 184,088	$ 124,690	$ 59,398	$ 184,088

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Note 11 -Segment Reporting (Continued)

The following table summarizes our segment reporting for the three and six months ended March 31, 2010 (dollars in thousands):

	Three Months Ended March 31, 2010			Six Months Ended March 31, 2010		
	Loan and Investment	Real Estate	Total	Loan and Investment	Real Estate	Total
Revenues	$ 1,165	$ 862	$ 2,027	$ 2,169	$ 1,739	$ 3,908
Interest expense	345	337	682	685	753	1,438
Provision for loan loss				3,165		3,165
Other expenses	1,326	1,458	2,784	2,405	2,846	5,251
Amortization and depreciation		209	209		353	353
Total expenses	1,671	2,004	3,675	6,255	3,952	10,207
Total revenues less total expenses	(506)	(1,142)	(1,648)	(4,086)	(2,213)	(6,299)
Equity in earnings of unconsolidated ventures		35	35	28	82	110
Gain on sale of available-for-sale securities				1,586		1,586
Loss from continuing operations	(506)	(1,107)	(1,613)	(2,472)	(2,131)	(4,603)
Discontinued operations:						
Loss from operations		(136)	(136)		(542)	(542)
Impairment charges					(745)	(745)
Gain on sale of real estate assets		22	22		1,275	1,275
Discontinued operations		(114)	(114)		(12)	(12)
Net loss	(506)	(1,221)	(1,727)	(2,472)	(2,143)	(4,615)
Less net loss attributable to non-controlling interests		370	370		737	737
Net loss attributable to common shareholders	$ (506)	$ (851)	$ (1,357)	$ (2,472)	$ (1,406)	$ (3,878)
Segment assets	$ 122,382	$ 63,395	$ 185,777	$ 122,382	$ 63,395	$ 185,777

Note 12 Fair Value of Financial Instruments

Financial Instruments Not Measured at Fair Value

The following methods and assumptions were used to estimate the fair value of each class of financial instruments that are not recorded at fair value on the consolidated balance sheets:

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Note 12 Fair Value of Financial Instruments (Continued)

Cash and cash equivalents, accounts receivable (included in other assets), accounts payable and accrued liabilities: The carrying amounts reported in the consolidated balance sheet for these instruments approximate their fair value due to the short term nature of these accounts.

Real estate loans: The earning mortgage loans of the Trust which have variable rate provisions, based upon a margin over prime rate, have an estimated fair value which is equal to their carrying value assuming market rate of interest between 12% and 13%. The earning mortgage loans of the Trust which have fixed rate provisions have an estimated fair value of $397,000 greater than their carrying value assuming market rates of interest between 8% and 11% which we believe reflect institutional lender yield requirements. For mortgage loans which are impaired, the Trust has valued such loans based upon the estimated fair value of the underlying collateral.

At March 31, 2011, the estimated fair value of the Trust s junior subordinated notes is equal to the carrying value based on the retirement of identical notes on March 15, 2011.

At March 31, 2011, the estimated fair value of the Trust s mortgages payable is less than their carrying value by approximately $37,000 assuming market interest rates between 6% and 17%. Market rates were determined using current financing transactions provided by third party institutions.

Considerable judgment is necessary to interpret market data and develop estimated fair value. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value assumptions.

Financial Instruments Measured at Fair Value

The Trust s fair value measurements are based on the assumptions that market participants would use in pricing the asset or liability. As a basis for considering market participant assumptions in fair value measurements, there is a fair value hierarchy that distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity and the reporting entity s own assumptions about market participant assumptions. Level 1 assets/liabilities are valued based on quoted prices for identical instruments in active markets, Level 2 assets/liabilities are valued based on quoted prices in active markets for similar instruments, on quoted prices in less active or inactive markets, or on other observable market inputs and Level 3 assets/liabilities are valued based significantly on unobservable market inputs. The Trust does not currently own any financial instruments, measured at fair value, that are classified as Level 2 or Level 3.

At March 31, 2011 information regarding the Trust s financial assets measured at fair value are as follows (dollars in thousands):

	Carrying and Fair Value	Maturity Date	Fair Value Measurements Using Fair Value Hierarchy Level 1	Level 2
Available-for-sale securities:				

Corporate equity securities	$ 4,674	$ 4,674

Note 13 New Accounting Pronouncements

In June 2009, the FASB issued updated guidance to amend various components of the guidance regarding sale accounting related to financial assets, including the recognition of assets obtained and liabilities assumed as a result of a transfer, and considerations of effective control by a transferor over transferred assets. In addition, this guidance removes the exemption for qualifying special purpose entities from the previous guidance. This guidance is effective for the first annual reporting period that begins after November 15, 2009, with early adoption prohibited. The Trust adopted this guidance on October 1, 2010 and the adoption did not have a material impact on the consolidated financial statements.

In June 2009, the FASB issued updated guidance, which amends guidance for determining whether an entity is a variable interest entity, or VIE, and requires the performance of a qualitative rather than a quantitative analysis to determine the primary beneficiary of a VIE. Under this guidance, an entity would be required to consolidate a VIE if it has (i) the power to direct the activities that most significantly impact the entity s economic performance and (ii) the obligation to absorb losses of the VIE or the right to receive benefits from the VIE that could be significant to the VIE. This guidance is effective for the first annual reporting period that begins after November 15, 2009, with early adoption prohibited. The Trust adopted this guidance on October 1, 2010 and the adoption did not have a material impact on the consolidated financial statements.

In July 2010, the FASB issued updated guidance on disclosures about the credit quality of financing receivables and the allowance for credit losses which will require a greater level of information disclosed about the credit quality of loans and allowance for loan losses, as well as additional information related to credit quality indicators, past due information, and information related to loans modified in a troubled debt restructuring. This guidance became effective for public entities for interim and annual reporting periods ending on or after December 15, 2010. The adoption of this guidance did not have material impact on the consolidated financial statements.

Note 14 Subsequent Events

Subsequent events have been evaluated and any significant events, relative to our consolidated financial statements as of March 31, 2011 that warrant additional disclosure, have been included in the notes to the consolidated financial statements.

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

Forward-Looking Statements

With the exception of historical information, this report on Form 10-Q contains certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended. We intend such forward-looking statements to be covered by the safe harbor provision for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995 and include this statement for purposes of complying with these safe harbor provisions. Forward-looking statements, which are based on certain assumptions and describe our future plans, strategies and expectations, are generally identifiable by use of the words may , will , believe , expect , intend , anticipate , estimate or similar expressions or variations thereof. Forward-looking statements involve known and unknown risks, uncertainties and other factors which are, in some cases, beyond our control and which could materially affect actual results, performance or achievements. Investors are cautioned not to place undue reliance on any forward-looking statements and are urged to read Item 1A. Risk Factors in our Annual Report on Form 10-K for the year ended September 30, 2010.

Overview

We are a real estate investment trust, also known as a REIT. Our primary business is to originate and hold for investment senior mortgage loans secured by commercial and multi-family real estate property in the United States. We recently began originating loans to persons purchasing their own mortgage debt or purchasing third party mortgage debt, in each case at a discount to the principal amount thereof. The purchase of third party mortgage debt is generally structured as a repurchase agreement pursuant to which we purchase the mortgage and our counterparty is obligated to repurchase such mortgage within a specified period. Our primary source of revenue has generally been interest income, which is the interest our borrowers pay on our loans and, to a lesser extent, loan fee income generated on the origination and extension of loans, rental revenue from real properties and investment income.

Due to the credit crisis and the economic recession, our business focus, from late 2008 through a significant portion of 2010, shifted emphasis from the origination of loans to servicing our loan portfolio, workout activities, including pursuing foreclosure actions, acquiring the underlying properties in foreclosure proceedings, supervising the operations of real estate assets and selling real estate assets acquired in foreclosure proceedings. As we have resolved a substantial portion of the problems in our loan portfolio in the second half of fiscal 2010, we shifted our emphasis back to our primary lending business.

The following highlights our results of operations for the six months ended March 31, 2011 and our financial condition at March 31, 2011:

- we originated $88.9 million of mortgage loans in the first six months of fiscal 2011 compared to $10.5 million in the first six months of fiscal 2010;

- we have cash and cash equivalents and available-for-sale securities totaling $26.4 million;

- our performing loan portfolio increased 388% from $17.3 million at September 30, 2010 to $84.4 at March 31, 2011;

- total revenues for the current six months increased $4.2 million or 109% from the corresponding prior year period; and

- we restructured our junior subordinated notes by repaying at par $5.0 million of the principal amount outstanding and obtaining an interest rate reduction. This will reduce our interest costs by approximately $181,000 for the remainder of the current fiscal year and by approximately $588,000 and $1,716,000 in fiscal 2012 and 2013, respectively.

We are pursuing lending opportunities and during the six months ended March 31, 2011 experienced an increase in short term bridge lending originations. However, there is no assurance that the recent level of increased activity will continue.

<u>Results of Operations</u>   Three months ended March 31, 2011 compared to the three months ended March 31, 2010

Revenues

The following table sets forth a comparison of our revenues for the three months ended March 31, 2011 and 2010:

[redacted]							
Interest on real estate loans	$	1,654	$	714	$	940	132%
Interest on purchase money mortgage loans		92		335		(243)	(72.3)%
Loan fee income		275		13		262	193%
Rental revenue from real estate properties		959		862		97	11.4%
Recovery of previously provided allowance		2,566				2,566	N/A
Other, primarily investment income		151		103		48	47.1%
Total revenues	$	5,697	$	2,027	$	3,670	54.5%

Interest on real estate loans. The increase is primarily due to a $34.9 million increase in the average balance of earning loans outstanding, attributable to additional loan originations which we believe is the result of improving economic conditions. The weighted average interest rate on the performing portfolio increased from 12.56% to 12.77%. Partially offsetting this increase was a decline in interest income of approximately $176,000 due to a decline in the amount of cash basis income received on non-performing and previously paid off loans.

Interest on purchase money mortgages. The decrease is attributable to a reduction in the average balance of purchase money mortgages outstanding as two loans, with an aggregate principal balance of $11.6 million, that were paid off in the fourth quarter of fiscal 2010.

Loan fee income. The increase is due to the amortization of loan fees received on loans originated in the last quarter of fiscal 2010 and the current six month period.

Rental revenue from real estate properties. This increase is primarily due to increased pass through real estate tax billings to tenants at our Newark Joint Venture s properties.

Recovery of previously provided allowances. This increase is due to the reversal of the previously provided loan loss allowance allocated to a non-performing loan that was sold in the current quarter.

Other, primarily investment income. The increase is attributable to additional dividend income relating to the acquisition of equity securities of publicly traded real estate investment trusts during the prior fiscal year.

Expenses

The following table sets forth a comparison of our expenses for the three months ended March 31, 2011 and 2010:

	Three Months Ended March 31,			
(Dollars in thousands)	**2011**	**2010**	**Variance**	**% Change**
Interest on borrowed funds	$ 542	$ 722	$ (180)	(24.9)%
Advisor s fees, related party	241	204	37	18.7%
Foreclosure related professional fees	167	148	19	12.9%
General and administrative	1,629	1,588	41	2.6%
Operating expenses relating to real estate properties	850	844	6	.4%
Amortization and depreciation	184	169	15	9.1%
Total expenses	$ 3,613	$ 3,675	$ (62)	(1.7)%

Interest on borrowed funds. The decrease is primarily attributable to the capitalization of interest paid in the current period related to one of the Newark, NJ assemblage sites that is currently under development. The Trust also saw a decline of $33,000 due to a restructuring of its junior subordinated notes in the March 31, 2011 quarter.

Advisor s fees, related party. The fee is calculated based on invested assets and increased because of the growth in our loan portfolio due to increased originations in the first six months of fiscal 2011.

General and administrative. This increase is attributable to an increase of $117,000 in payroll and payroll related costs, reflecting higher salaries, commissions, pension and medical expense, partially offset by declines in travel related and public company expenses.

Gain on sale of available-for-sale securities

During the three months ended March 31, 2011, we sold available-for-sale debt and equity securities with a cost basis of $5,056,000 for $ 5,639,000, recognizing a gain of $593,000. There were no security sales in the quarter ended March 31, 2010.

Loss on extinguishment of debt

In the quarter ended March 31, 2011, we restructured our outstanding junior subordinated notes. Pursuant to the restructuring, we repaid $5.0 million of the notes at par and reduced the interest rate on the remaining outstanding notes through the April 2036 maturity date. For accounting purposes this restructuring was treated as an extinguishment of debt, and accordingly, we recognized a loss of $2,138,000 which represented the unaccreted principal balance of the notes and the related unamortized costs.

Discontinued operations

In the second quarter of fiscal 2011, we had income from discontinued operations of $697,000 which resulted from the sale of a cooperative apartment in New York and the payoff of a loan; the loan was classified as real estate for accounting purposes. In the prior year s second fiscal quarter, discontinued operations were primarily the result of the operation of a property in Fort Wayne Indiana.

Results of Operations **Six months ended March 31, 2011 compared to the six months ended March 31, 2010**

Revenues

The following table sets forth a comparison of our revenues for the six months ended March 31, 2011 and 2010:

	Six Months Ended March 31,			
(Dollars in thousands):	**2011**	**2010**	**Variance**	**% Change**
Interest on real estate loans	$ 2,716	$ 1,159	$ 1,557	134.3%
Interest on purchase money mortgage loans	186	685	(499)	(72.9)%
Loan fee income	518	115	403	349%
Rental revenue from real estate properties	1,813	1,739	74	4.3%
Recovery of previously provided allowance	2,566		2,566	N/A
Other, primarily investment income	350	210	140	66.6%
Total revenues	$ 8,149	$ 3,908	$ 4,241	109%

Interest on real estate loans. The increase is primarily due to a $28.4 million increase in the average balance of earning loans outstanding, attributable to additional loan originations which we believe is the result of improving economic conditions. Partially offsetting this increase was a decrease in interest income of approximately $60,000 due to the decrease from 13.82% to 12.35% in the weighted average interest rate earned on the performing loan portfolio and a decrease of interest income of $158,000 due to a decline in the amount of cash basis income received on non performing and previously paid off loans.

Interest on purchase money mortgages. The decrease is attributable to a reduction in the average balance of purchase money mortgages outstanding as two loans, with an aggregate principal balance of $11.6 million, were paid off in the fourth quarter of fiscal 2010.

Loan fee income. The increase is due to the amortization of loan fees received on loans originated in the last quarter of fiscal 2010 and the current six month period.

Rental revenue from real estate properties. This increase is primarily due to increased pass through real estate tax billings to the tenants at some of our Newark Joint Venture s properties.

Recovery of previously providing allowance. This increase is due to the reversal of the previously provided loan loss allowance allocated to a non-performing loan that was sold in the quarter ended March 31, 2011.

Other, primarily investment income. The increase is attributable to additional dividend income from the purchase of equity securities of publicly traded real estate investment trusts during the prior fiscal year.

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Expenses

The following table sets forth a comparison of our expenses for the six months ended March 31, 2011 and 2010:

	Six Months Ended March 31,			
(Dollars in thousands)	**2011**	**2010**	**Variance**	**% Change**
Interest on borrowed funds	$ 1,199	$ 1,438	$ (239)	(16.7)%
Advisor s fees, related party	462	397	65	16.5%
Provision for loan loss		3,165	(3,165)	N/A
Foreclosure related professional fees	357	169	188	111.2%
General and administrative	3,060	3,016	44	1.4%
Operating expenses relating to real estate properties	1,766	1,669	97	5.8%
Amortization and depreciation	372	353	19	5.5%
Total expenses	$ 7,216	$ 10,207	$ (2,991)	(29.3)%

Interest on borrowed funds. The decrease is attributable to the capitalization of $213,000 of interest in the current period related to one of the Newark, NJ assemblage sites that is currently under development. The Trust also saw a decline of $33,000 due to the restructuring of its junior subordinated notes in the March 31, 2011 quarter.

Advisor s fees, related party. The fee is calculated based on invested assets and increased because of the increase in our loan portfolio due to increased originations in the first half of fiscal 2011.

Provision for loan losses. In first quarter fiscal 2010, we recorded loan loss provisions of approximately $3.17 million against two loans with an aggregate outstanding balance of $26.7 million. In the first six months of fiscal 2011 no loan loss provision was recorded.

Foreclosure related professional fees. Fees increased due to extensive legal activity required in the first half of fiscal 2011 in connection with a bankruptcy proceeding involving a non-performing loan.

General and administrative. This increase is attributable to an increase of $257,000 in payroll related costs reflecting higher salaries, commissions, pension and medical expenses, partially offset by declines in travel related and public company expenses.

Gain on sale of available-for-sale securities

In the first half of fiscal 2011, we sold available-for-sale securities and recognized a gain of $1,014,000. These securities had a cost basis of $5,275,000. In the first quarter of fiscal 2010, we sold available-for- sale securities and recognized a gain of approximately $1.59 million. These securities had a cost basis of $1.84 million.

Loss on extinguishment of debt

In the quarter ended March 31, 2011, we restructured our outstanding junior subordinated notes. Pursuant to the restructuring, we repaid $5.0 million of the notes at par and reduced the interest rate on the remaining outstanding notes through the April 2036 maturity date. For accounting purposes this restructuring was treated as an extinguishment of debt, and accordingly, we recognized a loss of

$2,138,000 which represented the unaccreted principal balance of the notes and the related unamortized costs.

Discontinued operations

In the six months ended March 31, 2011 we had income from discontinued operations of $697,000 due to the sale of a cooperative apartment unit in New York and the payoff of a loan, which was classified as real estate for accounting purposes. In the prior year s second fiscal quarter, discontinued operations represented the loss from operations of two multi-family garden apartment properties, and a hotel property, an impairment charge of $745,000 which related to a multi-family garden apartment property and gains from the sale of four properties.

Liquidity and Capital Resources

Liquidity is a measurement of our ability to meet cash requirements, including to fund loan originations, pay operating expenses, repay borrowings, and other general business needs. Apart from our cash on hand, our principal sources of liquidity have historically been a revolving credit facility and cash flow from operating activities. Our current sources of liquidity consist primarily of cash on hand and marketable securities. From October 1, 2010 through March 31, 2011, we originated $88.9 million in mortgage loans, had loan repayments and sales of $47.7 million, sold real estate and securities for $9.6 million and repaid $5.0 million of our junior subordinated notes. As a result, at March 31, 2011, our total available liquidity was approximately $26.4 million, including approximately $21.7 million of cash and cash equivalents.

We believe we have sufficient capital to meet our operating expenses in fiscal 2011, including real estate operating expenses related to real estate acquired by us in foreclosure proceedings, and to fund capital contributions required by the Newark Joint Venture. We also have funds available to engage in our primary lending business; however, because we have experienced an increase in demand for bridge loans, our ability to originate loans is limited by our available liquidity.

The Newark Joint Venture may borrow up to $8.6 million (of which $2.0 million had been borrowed at March 31, 2011) to fund specified development activities with respect to the Teachers Village project. While it is currently seeking up to $125 million in financing from public and private sources to fund the further development and construction of this project, no assurance can be given that the Newark Joint Venture will obtain the necessary financing on acceptable terms or if that such financing is obtained, that such project will be profitable for us.

Cash Distribution Policy

The Board of Trustees reviews the dividend policy regularly. The Trust will report a tax loss for the year ended December 31, 2010 and has net operating loss carry forwards from prior years to offset future income. It is highly unlikely that we will pay, or be required to pay, any dividend in 2011 and for several years thereafter in order for the Trust to retain its REIT status.

Item 3. Quantitative and Qualitative Disclosures About Market Risks

Our primary component of market risk is the interest rate sensitivity of our loan portfolio. Our interest income and our interest expense is subject to changes in interest rates. We seek to minimize these risks by originating loans that are indexed to the prime rate, with a stated minimum interest rate. At March 31, 2011, approximately 22% of our loan portfolio was variable rate based primarily on the prime rate. Accordingly, changes in the prime interest rate or LIBOR would have an effect on our net interest income. When determining interest rate sensitivity, we assume that any change in interest rates is immediate and that the interest rate sensitive assets and liabilities existing at the beginning of the period remain constant over the period being measured. We assessed the market risk for our variable rate mortgage receivables and believe that a one percent increase in interest rates would have a positive annual effect of approximately $115,000 on income before taxes and a one percent decline in interest rates would have no annual effect on income before taxes. In addition, we originate loans with short maturities and maintain a strong capital position. At March 31, 2011, our loan portfolio was primarily secured by properties located in the New York metropolitan area, and we are therefore subject to risks associated with the New York economy.

Item 4. Controls and Procedures

Based on their evaluation as of the end of the period covered by this report, our Chief Executive Officer, Senior Vice President-Finance and Chief Financial Officer concluded that our disclosure controls and procedures (as defined in Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934, as amended (the   Exchange Act)) are effective.

There were no changes in our internal control over financial reporting (as defined in Rule 13a-15(f) promulgated under the Exchange Act) during the six months ended March 31, 2011 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Item 6. Exhibits

Exhibit No.	**Title of Exhibits**
31.1	Certification of President and Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Senior Vice President Finance pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.3	Certification of Vice President and Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of President and Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of Senior Vice President Finance pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.3	Certification of Vice President and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

SIGNATURES

Pursuant to the requirements 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.

BRT REALTY TRUST

(Registrant)

May 9, 2011 Date	/s/ Jeffrey A. Gould Jeffrey A. Gould, President and Chief Executive Officer
May 9, 2011 Date	/s/ George Zweier George Zweier, Vice President and Chief Financial Officer (principal financial officer)