

**Ocean Power Technologies, Inc.**

**Ticker: NASDAQ – OPTT**

**Fiscal 2013 Second Quarter Conference Call**

**Date: December 14, 2012 – 10:00 am Eastern Time**

**Operator:**

Good morning ladies and gentlemen and welcome to the Ocean Power Technologies' Fiscal 2013 Second Quarter conference call. At this time, all participants are in a listen-only mode. Following management's prepared remarks we'll hold a Question and Answer session.

To ask a question, please press star followed by 1 on your touch-tone phone. If anyone has difficulty hearing the conference, please press star zero for operator assistance.

As a reminder, this conference is being recorded and webcast. I would now like to turn the conference over to Mr. Chris Witty of the Company's Investor Relations firm, Darrow Associates. Please go ahead sir.

**Chris Witty**

Thank you. Welcome to Ocean Power Technologies' Earnings Conference Call for the second quarter ended October 31, 2012. OPT issued its earnings press release earlier today, and the Company will soon file its Quarterly Report on Form 10-Q with the Securities and Exchange Commission. All public filings can be viewed on the SEC website at [sec.gov](http://sec.gov), or you may go to the OPT website, [oceanpowertechnologies.com](http://oceanpowertechnologies.com).

With me on today's call from the Company are Brian Posner, Chief Financial Officer, and Phil Hart, Senior Vice President and head of the Autonomous PowerBuoy business unit. Chuck Dunleavy, OPT's Chief Executive Officer, could not be here today due to business travel in Asia.

## **SLIDE #2: FORWARD-LOOKING STATEMENTS**

Please advance to slide 2 of our presentation.

During the course of this conference call, management may make projections or other forward-looking statements regarding future events or financial performance of the Company within the meaning of the Safe Harbor Provision of the Private Securities Litigation Reform Act of 1995. As indicated in the slide, these forward-looking statements are subject to numerous assumptions made by management regarding future circumstances over which the Company may have little or no control and involve risks and uncertainties, and other factors that may cause actual results to be materially different from any future results expressed or implied by such forward-looking statements.

We refer you to the Company's Form 10-K and other recent filings with the Securities and Exchange Commission for a description of these and other risk factors.

Now let me turn the call over to Brian Posner. Brian?

### **Brian Posner**

Thanks Chris and good morning everyone. I'll briefly review our quarterly and six month results, and then Phil will discuss the latest developments related to our Autonomous PowerBuoy business. Phil and I will be available to answer questions following our prepared remarks.

## **SLIDE #3: SUMMARY OF RECENT DEVELOPMENTS**

Turning to slide 3, let me first provide an update on OPT's recent accomplishments. This past quarter OPT made several important steps to strengthen the Company, to provide more focus on specific growth areas, and to expand our business development opportunities. First, we created a separate Autonomous PowerBuoy business unit and, in tandem, named Phil Hart to lead this new group. As he'll discuss more in a moment, this organizational change highlights the importance of the potential markets for the Company's non-grid-connected PowerBuoys and the associated opportunity for Ocean Power Technologies.

Furthermore, this quarter we hired Dr. Mike Mekhiche as our new Vice President of Engineering. Mike joins OPT from BAE Systems, where he most recently held the position of Director of Programs. Mike will oversee all our engineering activity and the development of the next generation PowerBuoy systems, in conjunction with the Company's technology partners around the globe. In addition, we added Terry Cryan to our Board of Directors. Mr. Cryan is the co-founder and a managing director at Concert Energy Partners, a New York based private equity investment firm. Mr. Cryan brings strong experience from the energy and natural resources sectors and has worked first-hand with organizations commercializing new, ground-breaking technology.

We also won a contract from Mitsui Engineering & Shipbuilding for further work towards development of wave energy opportunities in Japan. And we continued our efforts to bring our applications to Australia. I'll talk more about both Japan and Australia in a moment.

Overall, we continue to see a growing level of interest around the globe for our unique wave energy technology and are actively engaged in a number of opportunities that we expect to take shape in calendar year 2013.

Now let me review our operating results...

#### **SLIDE #4: FINANCIAL SUMMARY – OPERATING RESULTS**

As noted on slide 4, OPT reported revenue of \$1.4 million for the fiscal second quarter as compared to revenue of \$1.5 million for the three months ended October 31, 2011. This small decrease primarily reflects lower revenue tied to the US Navy's LEAP program on a year-over-year basis, since that project was successfully completed in fiscal 2012, as well as lower external funding for the Company's PB500 development projects. This decline was partially offset by an increase in revenue from the recently-awarded follow-on contract with Mitsui Engineering & Shipbuilding and by the Company's project in Oregon.

The net loss for the three months ended October 31, 2012 was \$4.8 million as compared to a net loss of \$3.9 million for the three months ended October 31, 2011. The increase in net loss year-over-year was primarily due to higher product

development costs for ongoing work across a number of applications and by an increase in SG&A expenses tied to heightened business development activity.

For the six months ended October 31, 2012, OPT reported revenue of \$2.3 million as compared to revenue of \$3.4 million for the six months ended October 31, 2011. This decrease again primarily reflects lower contribution from the US Navy's LEAP program on a year-over-year basis and lower external funding on the Company's PB500 development project. The decline was partially offset by an increase in revenue from the Company's WavePort project in Spain, its work in Oregon, and the follow-on contract with Mitsui Engineering & Shipbuilding.

The net loss was \$9.2 million for the six months ended October 31, 2012 compared to \$8.9 million for the same period in the prior year. This increase in net loss was due primarily to higher SG&A costs associated with the Company's increased business development activities, particularly in Australia, and by lower interest income.

#### **SLIDE #5: FINANCIAL SUMMARY – FINANCIAL CONDITION**

Turning to slide 5...

On October 31, 2012, total cash, cash equivalents, restricted cash and investments were \$26.4 million, as compared to \$29.4 million as of July 31, 2012. The net decrease in cash and investments was \$3 million for the three months ended October 31, 2012, compared to \$3.2 million for the three months ended October 31, 2011. Our quarterly cash outflow from operating activities may vary significantly in future periods depending on the success of our business development initiatives and also on prospective expenditures related to our project in Oregon, for which we are looking to raise additional funding.

I'd now like to go over some of our projects in detail.

#### **SLIDE #6: OREGON UPDATE**

Turning to slide 6, I'll begin with our work in Reedsport, Oregon. As noted last quarter, we received approval from the Federal Energy Regulatory Commission for the build-out of a 1.5 megawatt wave power station here, a very exciting development. At that time, testing of the first PowerBuoy had remained on track, ahead of final assembly and

readiness for deployment -- which had been expected by October of this year. However, the onset of unfavorable weather conditions significantly impacted the installation of moorings for the PowerBuoy and brought heavy standby and mobilization costs for the equipment used. The weather also raised concerns for potential damage, safety risk, and increased costs when it came time to move the unit from dry dock to the deployment site. Thus, given these concerns and the resources required for commissioning during the bad weather period, we made the decision to delay deployment until 2013.

We intend to seek additional funding for deployment of this PowerBuoy in view of costs associated with marine operations, the aforementioned weather delays, and other risk contingencies.

#### **SLIDE #7: JAPAN AND AUSTRALIA**

Now turning to slide 7, there are also many important, ongoing activities in Japan and Australia. Starting with Japan, we recently announced a new contract worth 70 million Yen, or just under 900 thousand dollars, from our longstanding partner and customer there, Mitsui Engineering & Shipbuilding. This award will fund additional work to enhance the Company's PowerBuoy technology for Japanese sea conditions. OPT will continue to analyze methods to maximize buoy power capture using advanced power optimization methodologies as well as modeling and wave tank testing. The work is expected to be completed by the end of OPT's fiscal year in April 2013, after which a decision will be made on next steps toward ocean trials of a demonstration PowerBuoy. This would provide the basis for a prospective build-out of a commercial-scale OPT wave power station in Japan. As a side note, the Japanese Ministry of the Environment recently released a new strategy to increase the generating capacity of renewable energy in Japan by *more than six times*. And the Japanese government specifically identified wave energy as a key component of this policy -- setting a goal of 1,500 megawatts from wave and tidal power generation capacity by the year 2030. That's great news for us, and for our partner Mitsui.

In Australia, we continue our work with Lockheed Martin towards developing a planned 19 megawatt wave power station off the coast of Victoria. These past few months we've spent a great deal of time there working out the details for the first Stage of this project

while speaking with financial advisory firms about assistance in negotiating a power purchase agreement and arranging appropriate financing. We have also been in communication with the Commonwealth of Australia concerning their 66 million Australian dollar grant for the project as well as timing and delivery of this groundbreaking, multi-phase wave power station. The Commonwealth agency that is managing this grant, Australian Renewable Energy Agency or ARENA, is scheduled to meet later this month to review the status of this grant.

Now let me turn the call over to Phil Hart to provide an update on OPT's Autonomous PowerBuoy.....Phil?

**Phil Hart**

**SLIDE #8: Autonomous PowerBuoy Activities**

Thanks Brian and good morning everyone. Turning to slide 8, let me start by saying how pleased I am by OPT's move to create a separate business unit solely focused on the Autonomous PowerBuoy. I've been very keen on expanding our presence here and now have a mandate to oversee all markets that can benefit from this unique offering. Over the last few weeks I've been busy building and setting up the team and we have been taking an in depth, rigorous look at the markets and opportunities which we could and should address, with the goal of generating revenue and profit through product sales as soon as possible. We now have a clearer view of how we are going to move forward, in which markets, and with which products. The current fiscal conditions in the USA and Europe will make this a challenging task as we seek to develop the business, but our studies have confirmed the opportunity for the right products at the right price across multiple industries. I do see a potential path to solid growth over the medium term and we have already established a credible pipeline of sales opportunities.

In particular, we are focusing on opportunities within Oil & Gas, Defense and Homeland Security, and Academia. By academia, I mean various oceanographic studies currently being planned or contemplated that measure and analyze the waters of our world -- be it for global warming, weather prediction or other purposes. This builds on our very successful work with Rutgers and the US Navy last year on the LEAP program. It also expands the application and sensor requirements significantly, using the full suite of OPT's autonomous technology.

Within the Oil & Gas market, we are focusing on remote field applications for environmental monitoring near subsea well sites. We have successfully uncovered some new and specific applications where our technology can offer very compelling economics and are actively working with a number of companies to develop those applications. Expanding into this market is challenging, but we are hopeful that once we have a foothold and successfully demonstrated the value-add of our technology, then it will gain wider acceptance and see other applications develop.

Within the Homeland Security market, as previously discussed, Ocean Power Technologies was awarded a Cooperative Research and Development Agreement, or CRADA, which will utilize our APB-350 Autonomous PowerBuoy that was deployed off the coast of New Jersey in 2011 under the LEAP program. We expect this unit to be in the water early next year.

We're excited by the prospect of showcasing this buoy in New Jersey to the Department of Homeland Security, and we have tentative indications that this could lead to similar deployments in other locations, demonstrating the flexible capability of our PowerBuoy and its potential use for advanced vessel detection and ocean surveillance systems.

This concludes our prepared statements for the second quarter review. We will now open the call for questions. Please go ahead, operator.

**Operator:**

I will now open the call for questions.

**[Question Period]**

**Operator:**

There are no further questions in the queue. I'll now turn the call back over to Mr. Posner for any closing remarks.

**Brian Posner**

Thank you all once again for attending today's call. If you have any further questions, please do not hesitate to contact us. Otherwise, we look forward to speaking with you next quarter.

**Operator:**

Thank you everyone. That concludes our call. You may now disconnect.