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

**Form 10-Q**

(Mark One)

- 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

- 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**

*(State or Other Jurisdiction of Incorporation or Organization)*

**22-2535818**

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

**1590 REED ROAD, PENNINGTON, NJ 08534**

*(Address of Principal Executive Offices, Including Zip Code)*

**(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  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company   
(Do not check if a smaller reporting company)

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

As of February 28, 2011, the number of outstanding shares of common stock of the registrant was 10,411,498.

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FOR THE THREE AND NINE MONTHS ENDED January 31, 2011

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PowerBuoy® is a registered trademark of Ocean Power Technologies, Inc. and the Ocean Power Technologies logo is a trademark of Ocean Power Technologies, Inc. All other trademarks appearing in this 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,” “anticipate” and similar expressions may identify forward-looking statements, but the absence of these words does not necessarily mean that a statement is not forward-looking.

Any or all of our forward-looking statements in this 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.

PART I — FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

Ocean Power Technologies, Inc. and Subsidiaries

Consolidated Balance Sheets

	<u>January 31, 2011</u> (Unaudited)	<u>April 30, 2010</u>
<b>ASSETS</b>		
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	<u>\$ 57,311,850</u>	<u>72,978,193</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
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	<u>6,374,700</u>	<u>8,123,103</u>
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	—	—
Common stock, \$0.001 par value; authorized 105,000,000 shares, issued 10,419,183 and 10,390,563 shares, respectively	10,419	10,391
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	<u>\$ 57,311,850</u>	<u>72,978,193</u>

See accompanying notes to consolidated financial statements (unaudited).

## 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	<u>1,453,397</u>	<u>691,090</u>	<u>4,818,623</u>	<u>2,243,465</u>
Gross profit (loss)	<u>70,204</u>	<u>165,392</u>	<u>(56,208)</u>	<u>505,829</u>
Operating expenses:				
Product development costs	2,026,336	3,681,118	9,731,592	8,467,866
Selling, general and administrative costs	<u>1,884,950</u>	<u>2,557,931</u>	<u>6,060,705</u>	<u>6,915,435</u>
Total operating expenses	<u>3,911,286</u>	<u>6,239,049</u>	<u>15,792,297</u>	<u>15,383,301</u>
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	<u>(38,014)</u>	<u>172,128</u>	<u>(205,824)</u>	<u>674,517</u>
Loss before income taxes	(3,730,616)	(5,652,178)	(15,507,500)	(12,889,193)
Income tax benefit	<u>364,105</u>	<u>—</u>	<u>364,105</u>	<u>—</u>
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.	<u>3,693</u>	<u>2,682</u>	<u>14,792</u>	<u>(50,551)</u>
Net loss attributable to Ocean Power Technologies, Inc.	\$ <u>(3,362,818)</u>	<u>(5,649,496)</u>	<u>(15,128,603)</u>	<u>(12,939,744)</u>
Basic and diluted net loss per share	\$ <u>(0.33)</u>	<u>(0.55)</u>	<u>(1.48)</u>	<u>(1.27)</u>
Weighted average shares used to compute basic and diluted net loss per share	<u>10,248,092</u>	<u>10,213,900</u>	<u>10,242,528</u>	<u>10,211,536</u>

See accompanying notes to consolidated financial statements (unaudited).

## Ocean Power Technologies, Inc. and Subsidiaries

Consolidated Statements of Cash Flows  
(Unaudited)

	<b>Nine Months Ended January 31,</b>	
	<b>2011</b>	<b>2010</b>
<b>Cash flows from operating activities:</b>		
Net loss	\$ (15,143,395)	(12,889,193)
<b>Adjustments to reconcile net loss to net cash used in operating activities:</b>		
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
<b>Changes in operating assets and liabilities:</b>		
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	<u>(13,987,263)</u>	<u>(11,766,432)</u>
<b>Cash flows from investing activities:</b>		
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	<u>18,975,632</u>	<u>7,222,290</u>
<b>Cash flows from financing activities:</b>		
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	<u>213,133</u>	<u>(93,398)</u>
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	<u>4,236,597</u>	<u>12,267,830</u>
Cash and cash equivalents, end of period	<u>\$ 9,502,624</u>	<u>8,467,926</u>
<b>Supplemental disclosure of noncash investing and financing activities:</b>		
Capitalized patent costs financed through accounts payable and accrued expenses	\$ 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	Noncontrolling Interest	Total Equity
	Shares	Amount	Shares	Amount						
Balance, April 30, 2009	10,210,354	\$10,210	—	\$ —	154,568,931	(71,242,791)	(553,323)	82,783,027	—	82,783,027
Net loss	—	—	—	—	—	(12,939,744)	—	(12,939,744)	50,551	(12,889,193)
Foreign currency translation adjustment	—	—	—	—	—	—	292,180	292,180	1,699	293,879
Total comprehensive loss								(12,647,564)	52,250	(12,595,314)
Compensation related to stock option grants and restricted stock	—	—	—	—	872,109	—	—	872,109	—	872,109
Issuance of vested and unvested restricted stock	180,209	181	—	—	39,806	—	—	39,987	—	39,987
Balance, January 31, 2010	<u>10,390,563</u>	<u>\$10,391</u>	<u>—</u>	<u>\$ —</u>	<u>155,480,846</u>	<u>(84,182,535)</u>	<u>(261,143)</u>	<u>71,047,559</u>	<u>52,250</u>	<u>71,099,809</u>
Balance, April 30, 2010	10,390,563	\$10,391	(1,072)	\$ (6,443)	155,726,672	(90,413,098)	(503,322)	64,814,200	40,890	64,855,090
Net loss	—	—	—	—	—	(15,128,603)	—	(15,128,603)	(14,792)	(15,143,395)
Foreign currency translation adjustment	—	—	—	—	—	—	300,586	300,586	1,990	302,576
Total comprehensive loss								(14,828,017)	(12,802)	(14,840,819)
Compensation related to stock option grants and restricted stock	—	—	—	—	953,738	—	—	953,738	—	953,738
Issuance of vested and unvested restricted stock	28,620	28	—	—	(28)	—	—	—	—	—
Acquisition of treasury stock	—	—	(5,601)	(30,859)	—	—	—	(30,859)	—	(30,859)
Balance, January 31, 2011	<u>10,419,183</u>	<u>\$10,419</u>	<u>(6,673)</u>	<u>\$(37,302)</u>	<u>156,680,382</u>	<u>(105,541,701)</u>	<u>(202,736)</u>	<u>50,909,062</u>	<u>28,088</u>	<u>50,937,150</u>

See accompanying notes to consolidated financial statements (unaudited).



**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.

**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.

**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:

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

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.

**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.

**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:

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

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:

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

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

**(4) Balance Sheet Detail**

	<u>January 31, 2011</u>	<u>April 30, 2010</u>
<b>Property and Equipment</b>		
Property and Equipment	\$ 1,846,910	1,767,078
Accumulated depreciation and amortization	<u>(1,303,424)</u>	<u>(1,056,515)</u>
	<u>\$ 543,486</u>	<u>710,563</u>
<b>Patents</b>		
Patents	\$ 1,452,799	1,322,335
Accumulated amortization	<u>(320,257)</u>	<u>(285,454)</u>
	<u>\$ 1,132,542</u>	<u>1,036,881</u>
<b>Accrued Expenses</b>		
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	<u>37,880</u>	<u>47,047</u>
	<u>\$ 3,306,877</u>	<u>4,092,113</u>

**(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.

**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.

	<b>Nine Months Ended January 31,</b>	
	<b>2011</b>	<b>2010</b>
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:

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

	<u>Number of Shares</u>	<u>Weighted Average Price per Share</u>
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	<u>153,953</u>	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.

**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:

	<u>North America</u>	<u>Europe</u>	<u>Australia</u>	<u>Total</u>
<b>Three months ended January 31, 2011</b>				
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)
<b>Three months ended January 31, 2010</b>				
Revenues from external customers	807,091	46,857	2,534	856,482
Operating loss	(5,831,992)	(193,985)	(47,680)	(6,073,657)
<b>Nine months ended January 31, 2011</b>				
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)
<b>Nine months ended January 31, 2010</b>				
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)
<b>January 31, 2011</b>				
Long-lived assets	351,205	192,281	—	543,486
Total assets	49,707,581	6,744,156	860,113	57,311,850
<b>April 30, 2010</b>				
Long-lived assets	448,022	262,541	—	710,563
Total assets	\$ 67,424,387	4,684,104	869,702	72,978,193

**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.

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:

Customer	Three months ended January 31,		Nine months ended January 31,	
	(\$ millions)		(\$ millions)	
	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	—
	<u>\$ 1.5</u>	<u>\$ 0.9</u>	<u>\$ 4.8</u>	<u>\$ 2.7</u>

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:

	<b>Nine months ended January 31,</b>	
	<b>2011</b>	<b>2010</b>
United States	89%	84%
Europe	11%	13%
Australia	—	3%
	<u>100%</u>	<u>100%</u>

### *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.

*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.

**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.



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.

*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 2011 Period to 2010 Period
	Amount	As a % of Revenues (1)	Amount	As a % of Revenues (1)	
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	<u>\$ (15,128,603)</u>	<u>(318)%</u>	<u>\$ (12,939,744)</u>	<u>(471)%</u>	<u>(17)%</u>

(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.

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.

**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.

	<b>Nine Months Ended January 31,</b>	
	<b>2011</b>	<b>2010</b>
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	<u>\$ (13,987,263)</u>	<u>\$ (11,766,432)</u>
Net cash provided by investing activities	<u>\$ 18,975,632</u>	<u>\$ 7,222,290</u>
Net cash provided by (used in) by financing activities	<u>\$ 213,133</u>	<u>\$ (93,398)</u>
Effect of exchange rates on cash and cash equivalents	<u>\$ 64,525</u>	<u>\$ 837,636</u>

**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.

### **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.

**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.

**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.



**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

**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

**EXHIBITS INDEX**

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OCEAN POWER TECHNOLOGIES, INC.

Restricted Stock Agreement and Recipient's Acceptance

Name of Recipient: \_\_\_\_\_

Number of shares of restricted common stock awarded: \_\_\_\_\_

Grant Date: \_\_\_\_\_

Ocean Power Technologies, Inc. (the "Company") has selected you to receive the restricted stock award described above, which is subject to the provisions of the Company's 2006 Stock Incentive Plan, as amended (the "Plan"), and the terms and conditions contained in this Restricted Stock Agreement.

A copy of the Plan is attached hereto, for your information.

Please confirm your acceptance of this restricted stock award and of the terms and conditions of this Agreement by signing a copy of this Agreement where indicated below and forwarding it to: Ocean Power Technologies, Inc., Attention: CFO, 1590 Reed Road, Pennington, NJ 08534.

Ocean Power Technologies, Inc.

By: \_\_\_\_\_  
Signature

Charles F. Dunleavy  
Printed Name

Chief Executive Officer  
Title

Accepted and Agreed: \_\_\_\_\_

Signature of Recipient

Printed Name of Recipient



OCEAN POWER TECHNOLOGIES, INC.

**Restricted Stock Agreement**

The terms and conditions of the award of shares of restricted common stock of the Company (the "Restricted Shares") made to the Recipient, as set forth on the cover page of this Agreement, are as follows:

1. **Issuance of Restricted Shares.**

(a) The Restricted Shares are issued to the Recipient, effective as of the Grant Date (as set forth on the cover page of this Agreement), in consideration of employment or other services rendered or to be rendered by the Recipient to the Company.

(b) The Restricted Shares will initially be issued by the Company in book entry form only, in the name of the Recipient. The Recipient agrees that the Restricted Shares shall be subject to the forfeiture provisions set forth in Section 3 of this Agreement and the restrictions on transfer set forth in Section 4 of this Agreement. Following the vesting of any Restricted Shares pursuant to Section 2 below, the Company shall, if requested by the Recipient, issue and deliver to the Recipient a certificate representing the vested unrestricted shares of common stock of the Company.

2. **Vesting.**

(a) **Vesting Schedule.** Unless otherwise provided in this Agreement or the Plan, the Restricted Shares shall vest in accordance with the following vesting schedule:

(BASED ON THE PASSAGE OF TIME OR THE ATTAINMENT OF PERFORMANCE STANDARDS, AS DETERMINED BY THE BOARD OF DIRECTORS)

Any fractional number of Restricted Shares resulting from the application of the foregoing percentages shall be rounded down to the nearest whole number of Restricted Shares.

(b) **Acceleration of Vesting.** Notwithstanding the foregoing vesting schedule, all unvested Restricted Shares shall vest effective immediately prior to or upon (i) a Change in Control Event, (ii) the death or Disability (as defined below) of the Recipient, or (iii) upon circumstances described in any employment offer letter or agreement with Recipient, and 50% of all unvested Restricted Shares shall vest effective immediately upon Qualifying Retirement (as defined below) of the Recipient.

(c) Definitions. For purposes of this Agreement:

(i) “Disability” means: (A) if the Recipient’s employment or other service with the Company is subject to the terms of an employment or other service agreement between the Recipient and the Company, which employment or other service agreement includes a definition of “Disability”, the term “Disability” as used in this Agreement shall have the meaning set forth in such employment or other service agreement during the period that such employment or other service agreement remains in effect; (B) in the absence of such an agreement, the term “Disability” as used in the Company’s long-term disability plan, if any; or (C) if neither clause (A) nor clause (B) is applicable, a physical or mental infirmity which impairs the Recipient’s ability to substantially perform his or her duties for a period of 90 consecutive days.

(ii) A “Qualifying Retirement” means retirement by the Recipient after satisfaction of the conditions in either clause (A) or clause (B): (A) the Recipient has both (1) attained the age of 55 and (2) completed at least ten years of employment with the Company; or (B) the sum of the Recipient’s age plus the number of years he or she has been employed by the Company equals or exceeds 75 years.

(iii) A “Change in Control Event” shall mean:

(A) the acquisition by an individual, entity or group (within the meaning of Section 13(d)(3) or 14(d)(2) of the Securities Exchange Act of 1934 (the “Exchange Act”)) (a “Person”) of beneficial ownership of any capital stock of the Company if, after such acquisition, such Person beneficially owns (within the meaning of Rule 13d-3 under the Exchange Act) 50% or more of either (x) the then-outstanding shares of common stock of the Company (the “Outstanding Company Common Stock”) or (y) the combined voting power of the then-outstanding securities of the Company entitled to vote generally in the election of directors (the “Outstanding Company Voting Securities”); *provided, however*, that for purposes of this subsection (A), the following acquisitions shall not constitute a Change in Control Event: (1) any acquisition directly from the Company or (2) any acquisition by any corporation pursuant to a Business Combination (as defined below), in each case which complies with clauses (x) and (y) of subsection (C) of this definition; or

- (B) such time as the Continuing Directors (as defined below) do not constitute a majority of the Board of Directors of the Company (the "Board") (or, if applicable, the Board of Directors of a successor corporation to the Company), where the term "Continuing Director" means at any date a member of the Board (x) who was a member of the Board on the date of the initial adoption of the Plan by the Board or (y) who was nominated or elected subsequent to such date by at least a majority of the directors who were Continuing Directors at the time of such nomination or election or whose election to the Board was recommended or endorsed by at least a majority of the directors who were Continuing Directors at the time of such nomination or election; *provided, however*, that there shall be excluded from this clause (y) any individual whose initial assumption of office occurred as a result of an actual or threatened election contest with respect to the election or removal of directors or other actual or threatened solicitation of proxies or consents, by or on behalf of a person other than the Board; or
- (C) the consummation of a merger, consolidation, reorganization, recapitalization or share exchange involving the Company or a sale or other disposition of all or substantially all of the assets of the Company (a "Business Combination"), unless, immediately following such Business Combination, each of the following two conditions is satisfied: (x) all or substantially all of the individuals and entities who were the beneficial owners of the Outstanding Company Common Stock and Outstanding Company Voting Securities immediately prior to such Business Combination beneficially own, directly or indirectly, more than 50% of the then-outstanding shares of common stock and the combined voting power of the then-outstanding securities entitled to vote generally in the election of directors, respectively, of the resulting or acquiring corporation in such Business Combination (which shall include, without limitation, a corporation which as a result of such transaction owns the Company or substantially all of the Company's assets either directly or through one or more subsidiaries) (such resulting or acquiring corporation is referred to herein as the "Acquiring Corporation") in substantially the same proportions as their ownership of the Outstanding Company Common Stock and Outstanding Company Voting Securities, respectively, immediately prior to such Business Combination and (y) no Person (excluding any employee benefit plan (or related trust) maintained or sponsored by the Company or by the Acquiring Corporation) beneficially owns, directly or indirectly, 50% or more of the then-outstanding shares of common stock of the Acquiring Corporation, or of the combined voting power of the then-outstanding securities of such corporation entitled to vote generally in the election of directors (except to the extent that such ownership existed prior to the Business Combination); or
- (D) the liquidation or dissolution of the Company.

### 3. Forfeiture of Unvested Restricted Shares Upon Employment Termination.

In the event that the Recipient ceases to be employed by or provide services to the Company for any reason or no reason, with or without cause (except as provided in Section 2(b) above), all of the Restricted Shares that are unvested as of the time of such employment termination shall be forfeited immediately and automatically to the Company, without the payment of any consideration to the Recipient, effective as of such termination of employment or service relationship. The Recipient shall have no further rights with respect to any Restricted Shares that are so forfeited. If the Recipient is employed by or provides services to a subsidiary of the Company, any references in this Agreement to employment or service relationship with the Company shall instead be deemed to refer to employment or service relationship with such subsidiary.

### 4. Restrictions on Transfer.

The Recipient shall not sell, assign, transfer, pledge, hypothecate or otherwise dispose of, by operation of law or otherwise (collectively "transfer") any Restricted Shares, or any interest therein, until such Restricted Shares have vested, except that the Recipient may transfer such Restricted Shares: (a) to or for the benefit of any spouse, children, parents, uncles, aunts, siblings, grandchildren and any other relatives approved by the Compensation Committee (collectively, "Approved Relatives") or to a trust established solely for the benefit of the Recipient and/or Approved Relatives, provided that such Restricted Shares shall remain subject to this Agreement (including without limitation the forfeiture provisions set forth in Section 3 and the restrictions on transfer set forth in this Section 4) and such permitted transferee shall, as a condition to such transfer, deliver to the Company a written instrument confirming that such transferee shall be bound by all of the terms and conditions of this Agreement; or (b) as part of the sale of all or substantially all of the shares of capital stock of the Company (including pursuant to a merger or consolidation). The Company shall not be required (i) to transfer on its books any of the Restricted Shares which have been transferred in violation of any of the provisions of this Agreement or (ii) to treat as owner of such Restricted Shares or to pay dividends to any transferee to whom such Restricted Shares have been transferred in violation of any of the provisions of this Agreement.

### 5. Restrictive Legends.

All certificates, if any, representing Restricted Shares that are not vested shall have affixed thereto a legend in substantially the following form, in addition to any other legends that may be required under applicable law, and the book entry account, if any, reflecting the issuance of the Restricted Shares in the name of the Recipient shall bear a legend or other notation upon substantially the following terms:

"These shares of stock are subject to forfeiture provisions and restrictions on transfer set forth in a certain Restricted Stock Agreement between the corporation and the registered owner of these shares (or his or her predecessor in interest), and such Agreement is available for inspection without charge at the office of the Secretary of the corporation."



## 6. Rights as a Shareholder.

Except as otherwise provided in this Agreement, for so long as the Recipient is the registered owner of the Restricted Shares, the Recipient shall have all rights as a shareholder with respect to the Restricted Shares, whether vested or unvested, including, without limitation, any rights to receive dividends and distributions with respect to the Restricted Shares and to vote the Restricted Shares and act in respect of the Restricted Shares at any meeting of shareholders. Notwithstanding the foregoing, any dividends, whether in cash, stock or property, declared and paid by the Company with respect to unvested Restricted Shares ("Accrued Dividends") shall be paid to the Recipient, without interest, only if and when such Restricted Shares vest.

## 7. Provisions of the Plan.

This Agreement is subject to the provisions of the Plan, a copy of which is furnished to the Recipient with this Agreement.

## 8. Tax Matters.

(a) Acknowledgments; Section 83(b) Election. The Recipient acknowledges that he or she is responsible for obtaining the advice of the Recipient's own tax advisors with respect to the acquisition of the Restricted Shares and the Recipient is relying solely on such advisors and not on any statements or representations of the Company or any of its agents with respect to the tax consequences relating to the Restricted Shares. The Recipient understands that the Recipient (and not the Company) shall be responsible for the Recipient's tax liability that may arise in connection with the acquisition, vesting and/or disposition of the Restricted Shares. The Recipient acknowledges that he or she has been informed of the availability of making an election under Section 83(b) of the Internal Revenue Code, as amended, with respect to the issuance of the Restricted Shares. Following the execution of this Agreement, the Recipient has thirty (30) days following such execution to file the 83(b) election with the Internal Revenue Service. A copy of such notification should be delivered to the Company in writing. The recipient shall also notify the Company in writing if the Recipient has not filed a Section 83(b) election.

(b) Withholding. The Recipient acknowledges and agrees that the Company has the right to deduct from payments of any kind otherwise due to the Recipient any federal, state, local or other taxes of any kind required by law to be withheld with respect to the vesting of the Restricted Shares. Two weeks prior to each date on which Restricted Shares vest, the Company shall deliver written notice to the Recipient of the estimated amount of withholding taxes due with respect to the vesting of the Restricted Shares that vest on such date; provided, however, that the total tax withholding cannot exceed the Company's minimum statutory withholding obligations (based on minimum statutory withholding rates for federal and state tax purposes, including payroll taxes, that are applicable to such supplemental taxable income). The Recipient may satisfy such tax withholding obligations by making a cash payment to the Company on the date of vesting of the Restricted Shares, in the amount of the Company's withholding obligation in connection with the vesting of such Restricted Shares. The Recipient may, at the option of the Recipient and if the Compensation Committee so approves in advance of the applicable vesting date, satisfy such tax withholding obligations by transferring to the Company, on each date on which Restricted Shares vest under this Agreement, such number of Restricted Shares that vest on such date as have a fair market value (calculated using the last reported sale price of the common stock of the Company on the NASDAQ National Market on the trading date immediately prior to such vesting date) equal to the amount of the Company's tax withholding obligation in connection with the vesting of such Restricted Shares. To effect such delivery of Restricted Shares, the Recipient shall deliver a written notice to the Company stating that a specified number of Restricted Shares registered to the Recipient in book entry form are thereby transferred to the Company.

9. Miscellaneous.

(a) Authority of Compensation Committee. In making any decisions or taking any actions with respect to the matters covered by this Agreement, the Compensation Committee of the Company's Board of Directors shall have all of the authority and discretion, and shall be subject to all of the protections, provided for in the Plan. All decisions and actions by the Compensation Committee, as approved by the Board of Directors, with respect to this Agreement shall be made in the Compensation Committee's discretion and shall be final and binding on the Recipient.

(b) No Right to Continued Employment. The Recipient acknowledges and agrees that, notwithstanding the fact that the vesting of the Restricted Shares is contingent upon his or her continued employment by, or service to, the Company, this Agreement does not constitute an express or implied promise of continued employment or service or confer upon the Recipient any rights with respect to continued employment by, or service to, the Company.

(c) Governing Law. This Agreement shall be construed, interpreted and enforced in accordance with the internal laws of the State of Delaware without regard to any applicable conflicts of laws provisions.

(d) Recipient's Acknowledgments. The Recipient acknowledges that he or she has read this Agreement, has received and read the Plan, and understands the terms and conditions of this Agreement and the Plan.

## CERTIFICATION PURSUANT TO SECTION 302 OF SARBANES-OXLEY ACT

I, Charles F. Dunleavy, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Ocean Power Technologies, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or other persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Charles F. Dunleavy

Charles F. Dunleavy  
Chief Executive Officer

Date: March 14, 2011

## CERTIFICATION PURSUANT TO SECTION 302 OF SARBANES-OXLEY ACT

I, Brian M. Posner, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Ocean Power Technologies, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or other persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Brian M. Posner

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Brian M. Posner  
*Chief Financial Officer*

Date: March 14, 2011

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report on Form 10-Q of Ocean Power Technologies, Inc. (the "Company") for the period ended January 31, 2011, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, Charles F. Dunleavy, Chief Executive Officer of the Company, hereby certifies, pursuant to 18 U.S.C. Section 1350, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Charles F. Dunleavy

Charles F. Dunleavy  
*Chief Executive Officer*

Date: March 14, 2011

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report on Form 10-Q of Ocean Power Technologies, Inc. (the "Company") for the period ended January 31, 2011, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, Brian M. Posner, Chief Financial Officer of the Company, hereby certifies, pursuant to 18 U.S.C. Section 1350, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Brian M. Posner

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Brian M. Posner  
*Chief Financial Officer*

Date: March 14, 2011