

Ocean Power Technologies, Inc.

Ticker: NASDAQ – OPTT

Second Quarter Fiscal 2012 Conference Call

Date: December 9, 2011 – 10:00 am Eastern Time

Operator:

Good day ladies and gentlemen and welcome to the Ocean Power Technologies' Fiscal Year 2012 Second Quarter conference call. At this time, all participants are in a listen-only mode. Following management's prepared remarks we'll hold a Question and Answer session.

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

As a reminder, this conference is being recorded and webcast. I would now like to turn the conference over to the Chief Financial Officer of Ocean Power Technologies, Mr. Brian Posner.

Brian Posner

Thank you. Welcome to Ocean Power Technologies' Earnings Conference Call for the second quarter ended October 31, 2011. OPT issued its earnings press release earlier today, and this coming Monday we will file the Company's Quarterly Report on Form 10-Q with the Securities and Exchange Commission. All public filings can be viewed on the SEC website at sec.gov, or you may go to the OPT website, oceanpowertechnologies.com.

With me on today's call is Chuck Dunleavy, our Chief Executive Officer.

SLIDE #2: FORWARD-LOOKING STATEMENTS

Please advance to slide 2 of our presentation.

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

We refer you to the Company's Form 10-K and other recent filings with the Securities and Exchange Commission for a description of these and other risk factors. I'll now turn the call over to Chuck Dunleavy, OPT's CEO.

Dunleavy

SLIDE #3: SUMMARY OF RECENT DEVELOPMENTS

Thank you, Brian, and thanks to everyone for being with us today. Brian and I will be available to answer questions following our prepared statements.

First, turning to slide 3, let me briefly review our major accomplishments of recent months... It's been a very active period. We deployed our unique, autonomous PowerBuoy for the Navy's Littoral Expeditionary Autonomous PowerBuoy, or LEAP program, off the coast of New Jersey in August. Having performed very well, including surviving Hurricane Irene, the LEAP PowerBuoy represents an exciting stage in the development and delivery of our autonomous PowerBuoys.

The ocean trials of our PB150 PowerBuoy in Scotland came to a successful conclusion in October as planned. As previously discussed on our conference calls, we were very pleased with the performance of the PB150 and are now speaking with various potential customers and government entities who may wish to utilize the PowerBuoy for commercial applications in the future.

Most recently, we announced an important collaboration with Lockheed Martin, plus significant progress in Spain, as I will review further momentarily.

OPT will shortly retrieve its PB40 PowerBuoy device which has been deployed at the test site off the US Marine Corps base at Oahu, Hawaii, following the successful completion of its demonstration project. During its two-year period of deployment, the buoy became the first ever wave energy device to be connected to the US grid, survived tsunami wave conditions, and achieved over 5.5 million cycles in operation. In addition, the system features our new direct drive power take-off system, which is a major technology upgrade from our previous hydraulic power take-off system. The US Navy remains a valued OPT partner and we are in discussions regarding the next stage of prospective commercial-scale wave power stations in Hawaii.

We ended the quarter with a backlog of nearly \$9.0 million as compared to \$7.0 million at July 31, 2011 and also with cash on hand of approximately \$40.0 million. We are very optimistic about the future of Ocean Power Technologies and what 2012 will bring.

Now let me go into more detail on our major initiatives.

SLIDE #4: LEAP POWERBUOY DEMONSTRATION COMPLETE

Turning to slide 4, I'm happy to say that our LEAP autonomous PowerBuoy performed well during its ocean demonstration -- providing persistent power in all wave conditions, withstanding the 50-foot high waves of Hurricane Irene. The LEAP PowerBuoy was taken out of the water several weeks ago at the completion of its ocean trials as provided under our contract with the US Navy.

We are very encouraged by the potential market for our autonomous PowerBuoy product. As a reminder, the autonomous PowerBuoy operates totally independently and can generate power in all wave conditions, using OPT's proprietary power management system. This includes persistent power generation in the ranges needed for sophisticated vessel detection and tracking systems for maritime surveillance along coasts. Systems currently being used for remote power at sea often utilize diesel generators, which require frequent maintenance and fuel replenishment, and can be very noisy.

The autonomous PowerBuoy is also appropriate for oil and gas platforms, offshore fish farming, and desalination. Consider the number of oil and gas platforms worldwide that could benefit from a clean, quiet and persistent source of power right from the waves where they operate. Given its smaller size and variety of applications, the autonomous PowerBuoy is seeing increasing interest and we are marketing it aggressively. We believe there is a bright future for such buoys across a multitude of markets.

SLIDE #5: OREGON UPDATE

Turning to slide 5, I would now like to provide an update on our project in Reedsport, Oregon, and the latest on our collaboration with Lockheed Martin. This agreement with Lockheed is an important step for the commercialization of our PowerBuoys. Working on the Reedsport project, Lockheed will provide their expertise in the areas of design for manufacturing and systems integration to enhance our proprietary technology. We are committed to improving power conversion efficiency, reliability, manufacturability, and lowering the costs of marine operations and maintenance. Lockheed's expertise in large scale manufacturing and supply chain management will greatly assist us in reaching these goals in a timely manner, thus making our applications more attractive to our potential partners and customers. We have worked with Lockheed very well in the past and expect this latest agreement will further cement the strong relationship between our two companies.

With regard to our progress with the Oregon project, land testing of the power take-off and control system is now in process. OPT is working on a rigorous land testing program and we expect the buoy to be deployed in mid-2012. The PowerBuoy's direct drive power take-off device will be more durable, involve less maintenance, and provide better long-term efficiency than the previous hydraulic power take-off design.

It is our expectation that this first PowerBuoy in Oregon will lead to the second phase of the Reedsport project, in which we plan to build and deploy nine additional PB150s and then connect all ten buoys to the Oregon power grid using an undersea substation pod, with a total power output of 1.5 MW. The development of the complete wave power station is subject to the receipt of final licensing from the US Federal Energy Regulatory Commission and additional project funding, which we are currently pursuing.

SLIDE #6: WAVEPORT PROJECT – SPAIN

Now let me give you an update on developments in Europe, as shown on slide 6. We recently announced that we would begin work under the European Union's WavePort project, under the auspices of the EU's Seventh Framework Programme for research and innovation. We were awarded in 2010 a grant worth approximately \$3.0 million, as part of a total \$6.2 million award given to a consortium of firms, including OPT, to deliver a PowerBuoy wave energy device. More specifically, OPT will be responsible for the design, supply and deployment of the PowerBuoy and related systems. In addition, we will work to advance the energy conversion system of our PowerBuoy through the development of a new wave assessment model. This model will be able to assess the characteristics of each incoming wave before it reaches the buoy – thereby providing more time for OPT's proprietary electronic tuning capability to react. Such technology is expected to significantly boost the power output and reduce the cost per megawatt hour of energy produced. Our belief is that this will enable more energy to be delivered per ton of steel used for fabrication than many competing renewable energy systems.

This new technology will then be showcased in a PB40 PowerBuoy to be installed at an existing mooring site off Santoña, Spain on the north coast. This site was previously developed by OPT under a contract with Iberdrola and other partners. The WavePort PowerBuoy will draw on the experience gained through the development and grid connection of our PB40 in Hawaii as well as the successful in-ocean operation of our PB150 deployed off Scotland.

While we are not yet providing a precise timeline with regard to when the WavePort PowerBuoy will be in the water, we do expect the grant to expedite the development of this next-generation energy conversion system in 2012.

SLIDE #7: JAPAN & AUSTRALIA

Turning to slide 7, I'd like to give an update on our overseas initiatives in Japan and Australia.

Starting with Japan, we are seeing an increase in business development activity and are working hand in hand with our partner there, Mitsui Engineering & Shipbuilding. We have already conducted engineering in connection with initiatives to develop a new mooring system for our PowerBuoys, customized for wave power stations off Japan, and have also performed tests at Mitsui's wave tank facilities. Our relationship with Mitsui is expected to provide the basis for the development of a commercial-scale OPT wave power station in Japan, which would be conducted in stages. These phases would commence with site development and planning work, progress to a technology demonstration, and proceed to a power station with an initial capacity of several megawatts, scalable to 10MW or more. The Japanese government remains very interested in our technology given the impact of this year's earthquake and tsunami, and we are optimistic that we will be able to report progress here in 2012.

With regard to Australia, it is important to note that the Australian Government passed a new Carbon Tax Law in November. The initial carbon price is set at \$23 per ton. Revenue from this tax will fund \$10 billion for investment in renewable energy, low pollution and energy efficiency technologies; another \$3.2 billion to fund R&D, demonstration and commercialization of renewable energy; and \$200 million to support business development of clean technologies. We believe this development will provide added momentum to the special purpose company, Victorian Wave Partners, or VWP, formed by Leighton Contractors. VWP was awarded a 66.0 million Australian dollar grant by the Commonwealth Government for the purpose of building a 19 megawatt wave power station, using OPT PowerBuoys. This project is expected to be off the coast of Victoria – providing enough energy to power up to 10,000 homes. We continue to explore strategic alternatives that could expedite commercialization and also project financing.

I will now turn the call over to Brian Posner, who will discuss our financial performance in detail.

Posner

SLIDE #8: FINANCIAL SUMMARY – OPERATING RESULTS

Thank you, Chuck.

As noted on slide 8, OPT reported revenues of \$1.5 million for the second quarter of fiscal 2012, as compared to revenues of \$1.9 million for the three months ended October 31, 2010. This decrease primarily reflects lower revenues related to the Company's PB150 PowerBuoy being prepared for deployment off Reedsport, Oregon and reduced revenues for the US Navy's LEAP and DWADS programs compared to the second quarter of fiscal 2011, as these programs neared completion.

OPT's contract backlog as of October 31, 2011 was \$8.8 million compared to \$7.1 million as of July 31, 2011. The increase is due primarily to the contribution of a \$3.0 million grant tied to the Company's WavePort project in Spain, as Chuck discussed.

The operating loss for the three months ended October 31, 2011 was \$4 million as compared to an operating loss of \$5.7 million for the three months ended October 31, 2010. The reduction in operating loss year-over-year was due primarily to a decrease in product development costs, principally for the PB150 system.

The net loss was \$3.9 million for the three months ended October 31, 2011 compared to \$5.5 million for the same period in the prior year. This decrease in net loss was due primarily to the decline in operating loss, partially offset by a decrease in interest income and a lower foreign exchange gain. Interest income for the quarter decreased to approximately \$126,000, compared with \$161,000 for the same period last year. This decrease was largely due to the decline in average yield and in the total invested cash and marketable securities.

For the six month period ended October 31, 2011, OPT posted revenues of \$3.4 million as compared to revenue of \$3.2 million for the six months ended October 31, 2010. This increase primarily reflects revenue recorded for the US Navy's LEAP program, the development of the Company's next-generation PowerBuoy, the PB500, and commencement of the WavePort project off the coast of Spain. The revenue increases in these projects were partially offset by decreases in revenue from the Company's PB150 in Oregon and the US Navy's DWADS program.

The operating loss for the six months ended October 31, 2011 was \$9.2 million as compared to an operating loss of \$12 million for the six months ended October 31, 2010. The favorable reduction in operating loss year-over-year was due primarily to a decrease in product development costs, principally for the PB150 system off the coast of Scotland and the Company's Hawaii project with the US Navy as these projects neared completion, an increase in gross profit, and lower SG&A expenses. Gross profit for the prior year's six months ended October 31, 2010 was negatively impacted by a reduction in revenue of \$231,000 due to a change in the Company's estimated revenue recognized in connection with OPT's project off the coast of Spain.

The net loss was \$8.9 million for the six months ended October 31, 2011 compared to \$11.8 million for the same period in the prior year. This decrease in net loss was due primarily to the decline in operating loss and lower foreign exchange losses, partially offset by a decrease in interest income.

Interest income for the first six months of fiscal 2012 decreased to just under \$250,000 from nearly \$400,000 in the prior year period, reflecting the decline in average yield and in the total invested cash and marketable securities.

OPT recognized a foreign exchange gain of \$20,000 for the six months ended October 31, 2011, as compared to a foreign exchange loss of approximately \$170,000 for the same period last year. The difference was due to the relative change in the value of the British pound sterling, Euro and Australian dollar, as compared to the US dollar during the two periods.

SLIDE #9: FINANCIAL SUMMARY – FINANCIAL CONDITION

Turning to slide 9.

On October 31, 2011, total cash, cash equivalents, restricted cash and investments were \$39.9 million. Net cash used in operating activities was \$7.9 million for the six months ended October 31, 2011, compared to \$9.4 million for the same period last year. As previously stated, OPT expects the rate of its cash outflows to decrease in fiscal 2012, reflecting completion of ocean trials for its PB150 off the coast of Scotland. Now I will turn the call back over to Chuck for some closing comments.

Dunleavy

SLIDE #10: NEAR-TERM ACTIVITY AND GOALS

Thanks, Brian. Turning to slide 10.

In the coming months, we expect our momentum to continue on several fronts. First, we expect to complete land testing of the PTO for the PB150 to be deployed off the coast of Oregon. Second, we plan to report progress on the PowerBuoy system for the WavePort project in Spain. Third, we will release data from the LEAP PowerBuoy deployment. Finally, we look to report on favorable results from our ongoing business development efforts.

WRAP-UP

Before opening the call to questions, I want to also mention that we recently announced two new members of our Board of Directors – David Davis and Bruce Peacock. David, the Vice President of PJM Grid Development for the independent power producer NRG Energy, brings strong relationships with regulators, legislators, and other stakeholders within both the renewable and conventional energy sectors, with over 20 years of applicable experience. Bruce, currently the Chief Business Officer of Ophthotech, a biopharmaceutical company, has over 30 years experience at companies with international operations, bringing new products to commercial status in regulatory-driven markets. We welcome to Ocean Power Technologies both of these individuals, who have already played active roles in shaping our strategy for 2012 and beyond.

As always, we thank our investors for their continued interest and support, and we remain excited for OPT's future within the wave energy sector. With an active business development pipeline, strong relationships with industry leaders such as Lockheed Martin and Mitsui Engineering & Shipbuilding, the future looks bright. We remain focused on the fundamentals – commercialization of our PowerBuoy products, new market opportunities, and cash management. We look forward to reporting progress in 2012.

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

Operator:

I will now open the call for questions.

[Question Period]

Operator:

Thank you; that concludes our questioning period.

Mr. Dunleavy, you may proceed with any closing remarks.

Dunleavy

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

Operator:

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