

**Ocean Power Technologies, Inc.**

**Ticker: NASDAQ – OPTT**

**Third Quarter Fiscal 2012 Conference Call**

**Date: March 9, 2012 – 10:00 am Eastern Time**

**Operator:**

Good day ladies and gentlemen and welcome to the Ocean Power Technologies Fiscal Year 2012 Third Quarter conference call. At this time, all participants are in a listen-only mode. Following management's prepared remarks, we will 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 third quarter ended January 31<sup>st</sup>, 2012. 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](http://sec.gov), or you may go to the OPT website, [oceanpowertechnologies.com](http://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 everyone for being with us today. Brian and I will be available to answer questions following our prepared remarks.

Turning to slide 3 let me briefly provide an update on recent accomplishments. We were very pleased with the results of the ocean operations of our Littoral Expeditionary Autonomous PowerBuoy, or LEAP unit, developed for the US Navy. The Autonomous PowerBuoy performed much better than the project specifications. At the same time, we have marked progress on advancing the PowerBuoy's energy conversion capability as part of the WavePort project in Spain, and have taken steps to expedite development of our planned 19MW project in Australia. With those projects, the PB150 project in Reedsport, Oregon, and our ongoing business development efforts, we remain clearly focused on getting more PowerBuoys in the water.

Our intellectual property position continues to strengthen, as we optimize our PowerBuoy technology. Since our fiscal year began on May 1st, 2011, we have been granted four patents and applied for three new patents covering a broad range of applications – from a new wave energy power take-off system to improved buoy mooring and anchoring, electrical efficiency innovation, and patents on our undersea substation, or “pod”. In total, we now have 64 patents issued and pending -- quite impressive for a company of our size, and serves as witness to the creativity and technical innovation of our employees.

Our operating loss for the fiscal third quarter and nine months declined, as compared to the comparable prior-year periods. This primarily reflects a greater than 30% decrease in product development costs for both the quarter and the nine-month periods. In addition, our net cash used in operations decreased for the nine-month period versus a year ago.

We ended the quarter with a backlog of nearly \$8.0 million and cash on hand of approximately \$38.0 million. We believe we are well positioned for continued success with a number of exciting initiatives.

Now let me go into more detail on some of our latest developments.

#### **SLIDE #4: LEAP POWERBUOY OUTPERFORMS**

Please turn to slide 4. Early last month we reported operating data which we accumulated and analyzed in connection with the ocean deployment of our LEAP autonomous PowerBuoy off New Jersey. This buoy, which is significantly smaller and more compact than our utility PowerBuoys, exceeded the project specification for payload power delivery during ocean operations last fall. The buoy was designed by OPT to provide persistent energy for the Navy’s radar and communications payload, which called for continuous power of 150 watts. The actual results showed that the PowerBuoy supplied constant power in excess of 400 watts throughout the entire deployment period and produced peak sustained electrical power of 1,500 watts. Such performance more than supported the 150 watt payload 24 hours a day, 7 days a week, for the duration of the ocean operations. In fact, the onboard power management and

storage system allowed the payload to be operational even during extended periods of zero wave activity. The PowerBuoy operated on a fully autonomous basis, implementing the requisite power management and self-protection functions without the need for human intervention. This all was maintained even as the autonomous PowerBuoy withstood Hurricane Irene, which hit the New Jersey coastline on August 27, 2011 and had waves of up to 53 feet.

These results demonstrate strong performance under our contract with the US Navy, for their maritime security mission. More broadly, the fact that we can offer the unique ability to supply persistent levels of power in deep ocean -- during extended no-wave periods -- represents an entirely new offering to satisfy offshore power needs, for a multitude of applications. We are currently in active dialogue for other potential commercial use of the autonomous PowerBuoy by the oil and gas industry as well as by oceanographic data gathering initiatives, and desalination companies, all of which could replace diesel generators that are costly, dirty, and require frequent maintenance. We are placing more resources into developing these attractive end markets for our autonomous PowerBuoy.

#### **SLIDE #5: WAVEPORT PROJECT – SPAIN**

Now let me give you an update on activity in connection with our project in Spain, as shown on slide 5. In the third quarter we continued work under the €2.2 million WavePort project to deploy a PowerBuoy with an advanced energy conversion system that includes a new wave assessment and prediction model. Ocean Power Technologies is working with a consortium of European companies and institutions that include the University of Exeter, DeGima, the Wave Energy Centre, and Fugro-Oceanor. We have begun designing a new wave prediction model with the University of Exeter while, concurrently, teaming with DeGima to build a PB40 buoy structure to operate with the advanced wave-by-wave electronic “tuning” capability. When complete, the new system will assess the characteristics of each incoming wave before it reaches the PowerBuoy, allowing more time for the electronic tuning to react. It is expected that this will boost the output of the PowerBuoy and reduce the cost of energy produced.

The PowerBuoy being developed for the project will be installed at an existing mooring site off Santoña, Spain.

## **SLIDE #6: AUSTRALIA & JAPAN**

Turning to slide 6, I would like to give an update on our current activities in Australia and Japan. These two nations have shown strong interest in our products, and we are now conducting business development initiatives focused on converting that interest to orders for PowerBuoys.

In Australia, we have started site development and permitting activities -- the first steps towards the planned construction of a 19 megawatt wave power station there. We are looking at locations off the coast of Victoria where a system of such magnitude could provide enough energy to power up to 10,000 homes. We also continue to explore strategic alternatives to secure additional project financing, such that we can leverage the 66 Million Australian dollar grant awarded by the Commonwealth Government towards this innovative, utility scale application.

In Japan we are making steady progress under our breakthrough agreement with Mitsui Engineering and Shipbuilding, toward development of Japan's first utility-scale wave power station, 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. We continue to see increasing interest in ocean energy in Japan since the tragic events last year at Fukushima, and we expect to be able to report on developments in 2012.

## **SLIDE #7: OREGON UPDATE**

Turning to slide 7, I'd like to comment briefly on our project in Reedsport, Oregon, where we plan to build and deploy up to ten PB150s and then connect them to the grid using one of our undersea substation pods -- for a total power output of 1.5 megawatts. With the steel structure complete on the first PB150 PowerBuoy for this project, we are

continuing the rigorous land testing of the power take-off and control system at our facility in New Jersey. This buoy's direct drive power take-off system is expected to be more durable, involve less maintenance, and provide better long-term efficiency than the previous hydraulic-based power take-off design.

We plan to deploy this PB150 in 2012. We're making steady progress and are pleased to have Lockheed Martin as a partner on this project. As we announced last quarter, Lockheed will provide design for manufacturing and systems-integration expertise to enhance our technology as we move towards larger-scale commercialization of the PB150. We believe this expertise will help OPT decrease unit costs of the PowerBuoy, paving the way for new customers.

## **SLIDE #8: MARINE ENERGY INFRASTRUCTURE**

Before handing the call over to Brian, I want to provide some information on another part of our business which we have recently begun to market – marine energy infrastructure products and services, which are highlighted on slide 8. While OPT is known for its cutting edge PowerBuoy technology serving utility and autonomous applications, we also can utilize our expertise to further develop marine energy infrastructure and management services that can be sold independently of our PowerBuoys. We have fifteen years of experience, across three continents, deploying, and operating wave energy devices, installing power cables and subsea power aggregation equipment. Our marine infrastructure staff has some of the best qualifications within the marine energy industry.

Our proprietary undersea substation pod aggregates energy generated by multiple PowerBuoys and other offshore energy devices, and is connected to undersea transmission cables for delivery to the shore-based grid. It purposely has been designed by OPT as a universal platform and we hope to sell it to a broad variety of marine energy developers. In fact, we have had inquiries from two of our competitors.

OPT can design the balance of plant needed for marine energy projects no matter what energy production technology is being employed. We can manage the supply chain, logistics, grid connection, and maintenance operations to ensure successful deployment

and operation. OPT has secured permits for such work in the US, Australia and Europe, and we see this as a growth area not dependent on any one marine energy technology, including our own. It's another area of business development opportunity for OPT, as we pursue multiple paths to profitability, complementing our utility and autonomous PowerBuoys.

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

## **Posner**

### **SLIDE #9: FINANCIAL SUMMARY – OPERATING RESULTS**

Thank you, Chuck.

As noted on slide 9, OPT reported revenues of \$0.9 million for the fiscal third quarter as compared to revenues of \$1.5 million for the three months ended January 31<sup>st</sup>, 2011. This decrease primarily reflects lower revenues related to the Company's PB150 being prepared for deployment off Reedsport, Oregon, as well as lower revenue tied to the Navy's LEAP program on a year-over-year basis, as that project was successfully completed this quarter. These revenue declines were partially offset by an increase in revenue from the Company's WavePort project off the coast of Spain.

The operating loss for the three months ended January 31<sup>st</sup>, 2012 was \$3.2 million as compared to an operating loss of \$3.8 million for the three months ended January 31<sup>st</sup>, 2011. The reduction in operating loss year-over-year was due primarily to a decrease in product development costs, principally for the PB150 system that underwent successful ocean trials off the coast of Scotland in calendar year 2011, partially offset by costs related to the PB150 PowerBuoy in Reedsport, Oregon.

The net loss was \$2.2 million for the three months ended January 31<sup>st</sup>, 2012 compared to \$3.4 million for the same period in the prior year. This decrease in net loss was due primarily to the decline in operating loss and a higher recorded income tax benefit due to the sale of New Jersey net operating tax losses, partially offset by a decrease in interest income and a higher foreign exchange loss.

Interest income for the quarter decreased to approximately \$95,000, compared with \$148,000 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 nine months ended January 31<sup>st</sup>, 2012, OPT reported revenues of \$4.3 million as compared to revenues of \$4.8 million for the nine months ended January 31<sup>st</sup>, 2011. This decrease primarily reflects lower revenues associated with the US Navy's Deep Water Active Detection System project, and declines in revenue tied to the Company's LEAP program as well as the PB150 being prepared for deployment off Reedsport, Oregon. The year-to-date revenue decline was partially offset by increased work on the Company's WavePort project in Spain and by the funded development of the PB500 PowerBuoy.

The operating loss for the nine months ended January 31<sup>st</sup>, 2012 was \$12.4 million as compared to an operating loss of \$15.8 million for the nine months ended January 31<sup>st</sup>, 2011. The 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 during fiscal year 2012. Please note that gross profit for the nine months ended January 31<sup>st</sup>, 2011 was negatively impacted by a reduction in revenues of \$240,000 due to a change in the Company's estimated revenue recognized in connection with a project off the coast of Spain.

The net loss was \$11.1 million for the nine months ended January 31<sup>st</sup>, 2012 compared to \$15.1 million for the same period in the prior year. This significant decrease in net loss was due primarily to the decline in operating loss and lower foreign exchange losses, as well as a higher recorded income tax benefit, partially offset by a decrease in interest income.

Interest income for the first nine months of fiscal 2012 decreased to \$342,000 from \$547,000 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 loss of \$93,000 for the nine months ended January 31<sup>st</sup>, 2012, as compared to a foreign exchange loss of over \$200,000 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 #10: FINANCIAL SUMMARY – FINANCIAL CONDITION**

Turning to slide 10.

On January 31<sup>st</sup>, 2012, total cash, cash equivalents, restricted cash and marketable securities were \$37.8 million. Net cash used in operating activities was \$9.7 million for the nine months ended January 31<sup>st</sup>, 2012, compared to \$14.0 million for the same period last year. OPT received approximately \$1.1 million and \$0.4 million in connection with the sale of New Jersey net operating tax losses during the nine months ended January 31<sup>st</sup>, 2012 and 2011, respectively. As previously stated, OPT expects its cash outflows to decrease in fiscal 2012 as compared to the prior fiscal year, reflecting the completion of ocean trials of the PB150 off the coast of Scotland.

Now I will turn the call back over to Chuck for some closing comments.

## **Dunleavy**

## **SLIDE #11: NEAR-TERM ACTIVITY AND GOALS**

Thanks, Brian. Turning to slide 11, let me summarize our expected activity and goals over the coming months.

As I mentioned earlier, we're on track to deploy our first Oregon PB150 during 2012, which will be an important milestone and provide further momentum to our plans to build out a 1.5 megawatt power station in Reedsport. Second, we will continue to report on progress with regard to the design of an advanced energy conversion capability under the WavePort project in Spain. And we also expect to provide further updates on our business development initiatives in North America, Australia, Japan and Europe.

## **WRAP-UP**

Before opening the call to questions, I also want to note that we recently announced the promotion of Tim Stiven to Managing Director of Ocean Power Technologies Limited, our UK-based subsidiary. Succeeding Angus Norman, who will serve on the Company's Board of Advisors, Tim will take on this leading role in overseeing the expansion of our operations in the UK and Europe. We are very proud of Tim's past accomplishments and look forward to seeing him excel in this new position.

Thanks again to our investors for their interest in our progress, as we believe the Company is well positioned for an increasingly active period ahead. We have the right team in place, the right partners, and the right technology to make a significant impact in the ocean-based alternative energy industry, where we see growing demand.

This concludes our prepared statement for the third 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.