

Ocean Power Technologies, Inc.

Ticker: NASDAQ – OPTT

Fiscal Year 2010 Audio Webcast

Date: July 13, 2010

**Operator:**

Good day everyone and welcome to Ocean Power Technologies' fiscal year 2010 audio webcast. Today's conference is being recorded and webcast. At this time, for opening remarks, I would like to turn the call over to the Chief Financial Officer of Ocean Power Technologies, Mr. Brian Posner.

**Brian Posner:**

Thank you. Good morning and welcome to Ocean Power Technologies' Audio Webcast for the fiscal year ended April 30, 2010. Today we issued our year-end earnings press release and tomorrow we will be filing our annual report on Form 10-K with the Securities and Exchange Commission. Our public filings can be viewed on the SEC website at [www.sec.gov](http://www.sec.gov), or you may go to our website, [www.oceanpowertechnologies.com](http://www.oceanpowertechnologies.com).

I will be joined on today's webcast by Charles Dunleavy, our Chief Executive Officer.

**SLIDE #2 FORWARD-LOOKING STATEMENTS**

**Brian Posner:**

Please advance to slide 2.

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 Charles Dunleavy.

### **SLIDE #3 SUMMARY**

#### **Charles Dunleavy:**

Thank you, Brian. And thanks to everyone who has joined us for today's webcast. We are delighted to bring Brian on board as our new Chief Financial Officer. Brian joins OPT with over 25 years of experience in both public and private companies, encompassing NASDAQ-listed companies as well as early-stage businesses. In addition, he served on the audit staff of PriceWaterhouseCoopers where he had a diverse group of clients in the manufacturing, banking and natural resources sectors.

Moving to slide #3. Fiscal 2010 was a pivotal year as OPT continued to step up its commercial activities worldwide, resulting in several key milestones during the period. The company now has more projects in more territories than ever before in its history, underscoring its position as a world leader in harnessing wave power.

We successfully deployed and continue to operate a PowerBuoy off the coast of Hawaii, while also completing ocean trials of our unique Undersea Substation Pod in Spain. Substantial progress was also made on the delivery of our next generation PB150 PowerBuoys. Construction of the first of these is nearly complete and is scheduled for in-ocean testing in Scotland the second half of this calendar year. Manufacture of the second buoy, for Reedsport, Oregon, is well under way.

The company's management team was strengthened, and serves to broaden our capability for commercial execution of our business strategy.

OPT's technology was recognized with significant new funding awards in Australia, the European Union and the US. We also continued to strengthen our relationships with partners, governments and customers at various levels. In the US these included the US Navy, the Department of Energy, and the State of Oregon. In the UK, we further advanced our commitment to projects in Cornwall, south west England, as well as in Scotland. In Japan we

entered into a major partnership with three companies including Mitsui Engineering and Shipbuilding to develop Japan's first utility scale wave power project.

The Company's financial performance improved with annual revenues increasing by 26% and cash burn decreasing by nearly 20%.

Let me now take you through the highlights in more detail.

#### **SLIDE #4: BUILDING MOMENTUM WITH DEPLOYMENTS**

**Charles Dunleavy:**

Turning to Slide #4.

Much of this year's operational activity was focused on executing our strategy and demonstrating the potential of our technology in ocean conditions.

OPT successfully deployed a PowerBuoy at the Marine Corps base on the island of Oahu, Hawaii. The buoy, which was deployed in December 2009, withstood severe wave conditions and has now achieved over 2 million cycles. It is designed for the specific needs for the US Navy which has many naval and marine bases worldwide that currently rely heavily on fossil fuels and could therefore benefit from wave power as a sustainable, clean energy alternative.

The PowerBuoy is producing power in-line with expectations and testing protocols. The success of the Hawaii buoy, which is now entering its eighth month of on-station operations, led to an additional 380,000 dollars of funding for the project. We are very grateful for the support which we have received from the US Navy over several years as we have developed our technology.

We also successfully completed ocean trials of our Undersea Substation Pod product in Spain. Underwater trials of the USP included pressure testing, running electric power to and from the system, and verification of data communication capabilities. The Pod is based on our proprietary design, and was developed to facilitate the collection, networking and transforming of power and data generated by multiple offshore energy devices. The Pod has been built as an open platform, and can provide connectivity for the PowerBuoy as well as other offshore energy systems developed by other companies.

These operational achievements help to demonstrate the longevity and survivability of OPT's products as well as the capability of our engineering to meet design expectations. They also highlight the strength of our technical base, which is being leveraged to create valuable intellectual property.

## **SLIDE # 5 HAWAII DEPLOYMENT**

### **Charles Dunleavy:**

Slide 5 shows images of the PowerBuoy deployed and in operation off the Marine Corps Base in Oahu.

## **SLIDE #6: ADVANCEMENT OF CORE POWERBUOY TECHNOLOGY**

### **Charles Dunleavy:**

Now turning to slide #6.

Considerable progress was made with the manufacture of our first 150 kW rated PowerBuoy, the PB150, in Scotland. I am pleased to say that this PowerBuoy is nearing completion. We expect to conduct in-ocean testing in the second half of this year. The completion of the PB150 is a major milestone for the company. About 135 feet long, the PowerBuoy is a significant engineering undertaking. The device is the first test system for our PB150 product line and will provide valuable data for the advancement of our core PowerBuoy technology.

We appointed a local engineering firm in Inverness, Scotland, for the fabrication of the PB150's steel structure, which is now complete. The manufacture and testing of the mechanical elements and power take-off system has also been finished and these are currently being integrated into the buoy structure at a dock side facility.

This fiscal year we also commenced construction of our second PB150 PowerBuoy, earmarked for our project in Reedsport, Oregon. It is anticipated that this will be the first of a planned 10-buoy 1.5MW wave power station that is expected to become America's first commercial-scale wave power facility.

With multiple buoys either in the ocean, under construction or in development, we are building considerable momentum to commercialize our technology. Work commenced in fiscal year 2010 for the design of the larger scale PB500 device, aimed at further lowering the per kilowatt cost of wave power and making it more competitive with other renewable energy sources, including offshore wind power.

During the year we received a \$1.5 million award from the US Department of Energy to help fund the design of this next generation PowerBuoy PB500 wave power system. In addition to raising the device output, the technology development effort will focus on increasing the power extraction efficiency and reliability and will utilize an enhanced "Design-for-Manufacture" approach. Due to the tremendous energy in ocean waves, wave power stations with high capacity — such as 10 MegaWatts and above — can be installed in a relatively small area. We estimate that with our 500kW PowerBuoy system, we would be able to construct a wave power station that would occupy approximately one-tenth of the ocean surface occupied by an offshore wind power station of equivalent power capacity.

#### **SLIDE #7 MANUFACTURING OF PB150 – SCOTLAND**

##### **Charles Dunleavy:**

Slide 7 shows key elements of our PB150 under construction in Scotland. These pictures are of the float, on the right-hand side, the spar beneath and the bridge which sits on the float, on the left-hand side.

#### **SLIDE #8 MANUFACTURING OF PB150 – OREGON**

##### **Charles Dunleavy:**

Similarly on slide 8, you can see the manufacturing of our PB150 by Oregon Iron Works for our project in Reedsport, Oregon.

#### **SLIDE #9 OPT: STRONG LEADERSHIP TEAM**

**Charles Dunleavy:**

Turning to Slide #9.

This year has seen a strengthening of our leadership team with several key senior appointments. Effective January 15, 2010, I was appointed to lead the executive team as Chief Executive Officer of OPT. While serving as the Company's Chief Financial Officer, I was heavily involved with the Company's business development initiatives, as well as capital raising. In addition to the appointments of Brian Posner and myself to our respective positions, other key appointments included **Angus Norman** as Chief Executive of Ocean Power Technologies Limited, our UK-based subsidiary. Angus joined OPT from EDF Energy, one of the world's largest utilities, where he held the position of Managing Director of Sustainable Solutions. He has brought extensive leadership experience in the energy and renewable energy generation sector, as well as a nearly 30 year record of acquisition, divestment, and project development in the energy, transport, minerals and infrastructure markets.

In June 2010, we announced the appointment of **Michael G. Kelly** as Vice President of Operations. Michael joined OPT with 28 years of experience in the marine industry, spanning design, manufacturing, deployment and field service of large, complex ocean-based systems. This also included his appointment in 1986 as Captain of a cable laying ship, becoming the youngest Master in the history of the US Navy's Military Sealift Command. The scope of his work has included the management of international commercial and technical teams to deliver best-in-class solutions within schedule and budget.

OPT is delighted to welcome our new team members, who with our Chief Technology Officer, Phil Hart, and our Executive Chairman, George Taylor, provide a wealth of expertise garnered from diverse experience in the ocean industry, engineering, energy and renewable power generation, which will prove invaluable as the Company moves to the next stage of its growth.

## **SLIDE #10 OPERATIONAL PROGRESS – UNITED STATES**

**Charles Dunleavy:**

Turning to Slide #10.

I would now like to provide a brief update on some of our ongoing projects in the US.

As mentioned earlier, we continued to advance our contracts with the US Navy – successfully deploying an upgraded 40 kW-rated PowerBuoy in Hawaii, for which we received \$380,000 in further funding for the commissioning and operation of this system.

We are developing an enhanced autonomous device under the US Navy's Deep Water Active Detection System for deep ocean data gathering, and it is scheduled for deployment in the second half of calendar year 2010.

Our Autonomous Power Business has also benefitted from a new 2.4 million dollar contract to develop a device for the US Navy's Littoral Expeditionary Autonomous PowerBuoy – or LEAP program. Our technology is expected to provide off-grid power at sea for coastal surveillance and homeland security. This new contract is expected to be part of a four-year, 10 million dollar program to develop a LEAP-based vessel detection system.

Finally, the construction of our PB150 for Reedsport, Oregon is progressing as noted previously. OPT and its partners have continued to work extensively with interested stakeholder groups at local, county, state and federal agency levels to develop this project, and progress was made in the overall permitting and licensing process. Some time ago, OPT received a Section 10 permit issued by the Army Corps of Engineers for our PowerBuoy. The project remains on schedule with the PB150 construction expected to be completed by the end of 2010, with in-ocean testing to commence in 2011.

OPT also signed a Memorandum of Understanding with the State of Oregon for developing wave power projects within its coastal waters. It is expected that this will be applied first to the development of OPT's Coos Bay project in Oregon. This project is in the process of public and agency review, with the ultimate aim of building a wave power station in phases up to 100 MW.

## **SLIDE #11 OPERATIONAL PROGRESS – EUROPE**

**Charles Dunleavy:**

Slide 11.

We are very excited about the launch of our PB150 off the coast of Scotland for ocean trials later this year. We have a strong team of OPT employees working on the final stages of this project, with the support of local Scottish suppliers.

The successful completion of ocean trials of our Undersea Substation Pod in Spain, pictured on this slide, was part of our contract with Iberdrola for the development of a wave power station approximately 3 miles off the coast of Santoña, Spain.

In addition, under the European Commission's WavePort project, an award of 4.5 million Euros was granted to a consortium of companies – of which OPT was awarded 2.2 million Euros – to work together to deliver an OPT PowerBuoy wave energy device with an innovative wave prediction capability and a “wave-by-wave” tuning system. Completion of the project is conditional upon the receipt of additional funding. We are very excited about this prospective project, as it can demonstrate the flexibility of our technology and its ability to serve as a comprehensive platform for other systems for harnessing wave energy. It is expected that this PowerBuoy system will be deployed at the Santoña, Spain site.

Work also continued at the Wave Hub site in Cornwall, England, where OPT has signed a commitment agreement in support of the 20 megawatt project sponsored by the Southwest England Regional Development Agency, or SWRDA. Backed with UK government funding, SWRDA is responsible for the installation and commissioning of the Wave Hub infrastructure including onshore electrical equipment, and that work is already underway. Final cabling and subsea infrastructure is currently expected by SWRDA to be installed by the end of calendar year 2010.

## **SLIDE #12 OPERATIONAL PROGRESS – INTERNATIONAL**

**Charles Dunleavy:**

Moving on to Slide 12.

Outside the US and Europe, we signed a breakthrough agreement in Japan for the development of the country's first utility-scale wave power station. OPT will work with a consortium of three Japanese companies, including Mitsui Engineering & Shipbuilding Co., and, subject to successful identification of a project site and completion of economic assessments, we plan to build a demonstration plant with up to three OPT PowerBuoys. It is expected that this trial plant will provide the basis for a commercial-scale OPT wave power station with an initial capacity of 10MW or more – enough power for over 5,000 households in Japan.



In November 2009, our Australia-based subsidiary was awarded, in partnership with Leighton Contractors Pty Ltd, a 66 million Australian dollar grant – equivalent to about 60 million US dollars. This award from the Federal Government of Australia is for a proposed 19 MW wave power station off the coast of Victoria, Australia. The grant is conditional on the meeting of certain milestones set forth in a Funding Deed, and obtaining significant additional funding required to enable the completion of the 19 MW power station.

With that, I will hand the presentation over to Brian to discuss fiscal year 2010's financial results.

### **SLIDE #13 FINANCIAL SUMMARY – OPERATING RESULTS**

**Brian Posner:**

Thank you, Chuck.

As you will see on Slide 13, our revenues increased by 26% in fiscal 2010 to 5.1 million dollars, compared to 4 million dollars in fiscal 2009. This growth primarily reflects an increase in revenue from the US Navy under the DWADS and LEAP programs, for which OPT provides its autonomous PowerBuoy technology. In addition, there was an increase in revenue related to OPT's project off the coast of Reedsport, Oregon. The growth in revenue generated by these projects partially mitigated the decline in revenue from OPT's utility-scale project in Spain and the Company's PowerBuoy project with the US Navy at the Marine Corps Base in Hawaii, now in operation.

In fiscal 2010, gross profit grew by 1.6 million dollars to 800,000 dollars, compared to a loss of 800 thousand dollars for the previous year. Cost of revenues decreased by 11%, to 4.3 million dollars in fiscal 2010, as compared to 4.8 million dollars in fiscal 2009. The decrease reflected the lower level of activity on our project off the coast of Spain, offset by increased activity related to our autonomous PowerBuoy projects for the US Navy. Cost of revenue for fiscal 2010, also reflects a reversal of a 400 thousand dollar provision for a loss on a contract recorded in a previous fiscal year. Our future gross margins will be dependent on the nature of future contracts, our success at increasing sales of our PowerBuoy systems and our ability to manage costs incurred on fixed price commercial contracts.

Product development costs increased to 13 million dollars in fiscal 2010, as compared to 8.4 million dollars in fiscal 2009. These costs were primarily due to our efforts to increase the power output and reliability of our utility PowerBuoys, especially the 150kW PowerBuoy system.

Selling, general and administrative costs decreased by 5%, to 9.1 million dollars compared with 9.5 million dollars for the previous year. This decrease was primarily due to a reduction in consulting, legal, accounting and investor relations expenses.

Interest income in fiscal 2010 decreased by 700 thousand dollars to 1 million dollars, compared with 1.7 million dollars in fiscal 2009. This was due to the decline in cash, cash equivalents and marketable securities and lower interest yields.

Other income consisted of 600,000 dollars received from the successful settlement of a claim that the company had against a supplier of engineering services.

OPT recognized a foreign exchange gain of 500 thousand dollars in fiscal 2010, compared to a foreign exchange loss of 1.3 million dollars in the prior year. The difference was primarily due to the relative change in value of the British pound sterling, Euro and Australian dollar compared to the US dollar during the two periods.

Net loss attributable to OPT was 19.2 million dollars for the fiscal year ended April 30, 2010 compared to 18.3 million dollars in fiscal 2009.

## **SLIDE #14 FINANCIAL SUMMARY – FINANCIAL CONDITION AND CASH BURN**

**Brian Posner:**

Turning to Slide 14.

The Company's balance sheet remains strong. At April 30, 2010, total cash, cash equivalents and investments were 66.8 million dollars. Cash burn for fiscal 2010 was \$15.9 million dollars, compared to \$19.5 million dollars for fiscal 2009. The Company's cash equivalents and investments continue to be highly liquid investments consisting primarily of U.S. Treasury notes, and term deposits with large commercial banks.

Now I'll turn the call back over to Chuck for our view on OPT's future development.

## **SLIDE #15 NEAR-TERM GOALS**

**Charles Dunleavy:**

Thanks Brian.

Turning to Slide #15.

I would now like to look forward and discuss our near term goals and growth strategy as we continue to commercialize our technology.

Over the forthcoming months, OPT expects to achieve milestones on a number of key projects. Firstly, we plan to conduct in-ocean trials of our first PB150 device off the coast of Scotland later this year following completion of the integration of the buoy, which is pictured on slide 15. We will continue to progress with the construction of the second PB150, which will be installed in 2011 off the coast of Reedsport, Oregon.

We also expect to connect the Hawaii PowerBuoy to the grid powering the Marine Corps base at Oahu. This will be the first connection to the grid by our demonstration device, a landmark in the company's development effort for the US Navy.

By the end of calendar year 2010, we also expect to have deployed our enhanced autonomous PowerBuoy for the US Navy's Deep Water Active Detection System programme and to have completed the first stage of our contract under the Navy's LEAP project.

We are confident that these goals will further demonstrate the potential of wave energy and OPT's Power Technology as an economically viable source of clean energy in the overall renewable energy mix.

## **SLIDE #16 GROWTH STRATEGY**

**Charles Dunleavy:**

To conclude with Slide #16. We will continue to focus primarily on selling turn-key power stations and operations and maintenance contracts for those facilities. We also intend to

increase our revenue streams from the utility and autonomous PowerBuoy markets by accelerating the commercialization of our PowerBuoy systems.

The worldwide market for grid connected power generation equipment is estimated to be 150 billion dollars per year, of which we believe the addressable renewable portion is about 50 billion dollars a year.

We expect to continue to benefit from initiatives of governments, organizations and individuals, which are increasingly committed to tackle climate change on a global basis, and to expand the use of renewable energy.

The focus of OPT's engineering and development efforts is to continue making improvements to the 150kW PowerBuoy system and to facilitate our transition to the 500kW PowerBuoy. This includes optimizing the power output and maintainability of the 150kW PowerBuoy system, and exploring design and construction techniques that are expected to enable the larger systems to be built, deployed and maintained at a reduced cost. We also expect to improve our economics by growing production volumes and maximizing customer funding of technology development.

We will continue to build on our existing commercial relationships and establish new ones, as we seek to collaborate with other organizations to build on their, as well as our own, expertise and experience.

The Company is at an exciting stage in its development when the need to reduce reliance on fossil fuels has been brought into sharp focus by recent events unfolding in the Gulf of Mexico. More positively, we see a growing consensus, as well as momentum, at many levels to accelerate the adoption of wave energy in the years ahead. As a result, we look to the future with great confidence, that with our technology, our employees, and our partners, we will make a profound difference in the stewardship we all have for the world's resources.

With that, I would like to thank you for attending today's webcast and for your continued support and interest.

**Operator:**

Thank you everyone. That concludes today's webcast. You may now disconnect.