Ocean Power Technologies, Inc.
Form S-1/A
April 10, 2007

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As filed with the Securities and Exchange Commission on April 10, 2007
Registration No. 333-138595

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

AMENDMENT NO. 4
TO
Form S-1
REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

OCEAN POWER TECHNOLOGIES, INC.
(Exact Name of Registrant as Specified in Its Charter)

New Jersey	**3629**	**22-2535818**
(State or Other Jurisdiction of Incorporation or Organization)	*(Primary Standard Industrial Classification Code No.)*	*(I.R.S. Employer Identification No.)*

1590 Reed Road
Pennington, NJ 08534
(609) 730-0400
(Address, including zip code, and telephone number, including area code, of registrant s principal executive offices)

Dr. George W. Taylor
Chief Executive Officer
Ocean Power Technologies, Inc.
1590 Reed Road
Pennington, NJ 08534

(609) 730-0400
(Name, address, including zip code, and telephone number, including area code, of agent for service)

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Approximate date of commencement of proposed sale to the public: As soon as practicable after this Registration Statement is declared effective.

If any of the securities being registered on this form are offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, as amended (the Securities Act) please check the following box. o

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act or until the Registration Statement shall become effective on such date as the Commission, acting pursuant to Section 8(a), may determine.

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EXPLANATORY NOTE

This Amendment No. 4 to the Registration Statement on Form S-1 is being filed solely to include the artwork that will appear on the inside cover of the Prospectus. No other changes have been made.

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The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and it is not soliciting offers to buy these securities in any state where the offer or sale is not permitted.

SUBJECT TO COMPLETION APRIL 9, 2007

PRELIMINARY PROSPECTUS

5,000,000 Shares

Common Stock

This is the initial public offering of our common stock in the United States. We are offering 5,000,000 shares of common stock offered by this prospectus. We expect the public offering price to be between $20.00 and $22.00 per share.

We have applied to have our common stock approved for listing on The Nasdaq Global Market under the symbol OPTT.

Our common stock is listed on the AIM market of the London Stock Exchange plc under the symbol OPT. We will apply to list the shares of common stock being offered by this prospectus on the AIM market. The last reported sale price of our common stock on the AIM market on April 5, 2007 was £11.70 per share (as adjusted to give effect to a one-for-ten reverse stock split to be effected prior to this offering), or approximately $23.05 per share based on the noon buying rate for sterling of £1.00 = $1.97 on April 5, 2007.

Investing in our common stock involves a high degree of risk. Before buying any shares, you should read the discussion of material risks of investing in our common stock in Risk Factors beginning on page 7 of this prospectus.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

	Per Share	Total
Public offering price	$	$
Underwriting discounts and commissions	$	$
Proceeds, before expenses, to us	$	$

The underwriters may also purchase up to an additional 90,000 shares of our common stock from the selling stockholders identified in this prospectus and up to 660,000 additional shares of common stock from us at the public

offering price, less the underwriting discounts and commissions, to cover over-allotments, if any, within 30 days from the date of this prospectus. If the underwriters exercise this option in full, the total underwriting discounts and commissions will be $, and our total proceeds, before expenses, will be $. We will not receive any proceeds from the sale of shares by the selling stockholders.

The underwriters are offering the common stock as set forth under Underwriting. Delivery of the shares will be made on or about , 2007.

UBS Investment Bank

Banc of America Securities LLC

Bear, Stearns & Co. Inc.

First Albany Capital

, 2007

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POWERBUOY SYSTEM AS DEPLOYED OFF COAST OF NEW JERSEY, USA

You should rely only on the information contained in this prospectus. We have not, the selling stockholders have not and the underwriters have not, authorized anyone to provide you with additional information or information different from that contained in this prospectus. We and the selling stockholders are offering to sell, and seeking offers to buy, shares of our common stock only in jurisdictions where offers and sales are permitted. The information contained in this prospectus is accurate only as of the date of this prospectus, regardless of the time of delivery of this prospectus or of any sale of shares of our common stock.

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PROSPECTUS SUMMARY

This summary highlights selected information appearing elsewhere in this prospectus. While this summary highlights what we consider to be the most important information about us, you should carefully read this prospectus and the registration statement of which this prospectus is a part in their entirety before investing in our common stock, especially the risks of investing in our common stock, which we discuss under Risk Factors, and our consolidated financial statements and related notes beginning on page F-1.

Our Company

We develop and are commercializing proprietary systems that generate electricity by harnessing the renewable energy of ocean waves. The energy in ocean waves is predictable, and electricity from wave energy can be produced on a consistent basis at numerous sites located near major population centers worldwide. Wave energy is an emerging segment of the renewable energy market. Based on our proprietary technology, considerable ocean experience, existing products and expanding commercial relationships, we believe we are the leading wave energy company.

We currently offer two products as part of our line of PowerBuoy® systems: a utility PowerBuoy system and an autonomous PowerBuoy system. Our PowerBuoy system is based on modular, ocean-going buoys, which we have been ocean testing for nearly a decade. The rising and falling of the waves moves the buoy-like structure creating mechanical energy that our proprietary technologies convert into electricity. We have tested and developed wave power generation and control technology using proven equipment and processes in novel applications. Our two products are designed for the following applications:

Our utility PowerBuoy system is capable of supplying electricity to a local or regional electric power grid. Our wave power stations will be comprised of a single PowerBuoy system or an integrated array of PowerBuoy systems, plus the remaining components required to deliver electricity to a power grid. We intend to sell our utility PowerBuoy system to utilities and other electrical power producers seeking to add electricity generated by wave energy to their existing electricity supply.

Our autonomous PowerBuoy system is designed to generate power for use independently of the power grid in remote locations. There are a variety of potential applications for this system, including sonar and radar surveillance, offshore cellular phone service, tsunami warning, oceanographic data collection, offshore platforms and offshore aquaculture.

From October 2005 to October 2006, we operated a demonstration PowerBuoy system with a maximum peak, or rated, output of 40 kilowatts, or kW, off the coast of New Jersey under a contract with the New Jersey Board of Public Utilities. This PowerBuoy system has been removed from the ocean and is currently undergoing planned maintenance prior to re-deployment. No other PowerBuoy systems are currently deployed.

Our current efforts are focused on our goal of increasing the maximum rated output of our utility PowerBuoy system from the current 40kW to 150kW in 2007, then to 250kW in 2008 and ultimately to 500kW in 2010, as well as expanding our key commercial opportunities for both the utility and the autonomous PowerBuoy systems. We currently have commercial relationships with the following:

Iberdrola S.A., or Iberdrola, which is a large electric utility company located in Spain and one of the largest renewable energy producers in the world, Total S.A., or Total, which is one of the world s largest oil and gas companies, and two Spanish governmental agencies for the first phase of the construction of a 1.39 megawatt,

or MW, wave power station off the coast of Santoña, Spain. We currently plan to deploy an initial 40kW PowerBuoy system for this project by October 2007.

Iberdrola and Total to evaluate the development of a wave power station off the coast of France.

The United States Navy to develop and build a wave power station at the US Marine Corps Base in Oahu, Hawaii that we believe will serve as a prototype wave power station for the installation of wave power stations at other US Navy bases. One PowerBuoy system was installed in connection with this

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project for a total of eight months over a two-year period. We plan to deploy an improved system in April 2007.

Lockheed Martin Corporation to market cooperatively with us our autonomous PowerBuoy system for use with Lockheed Martin equipment. Lockheed Martin successfully completed an ocean test of an autonomous PowerBuoy system in September 2004.

As part of our marketing efforts, we use demonstration wave power stations to establish the feasibility of wave power generation. In addition to the demonstration PowerBuoy system operated off the coast of New Jersey, we plan to develop and operate two additional demonstration wave power stations. Unlike the New Jersey power system, these demonstration wave power stations will, if approved and constructed as planned, be connected to the local power grids. In February 2006, we received approval from the South West of England Regional Development Agency to install a 5MW demonstration wave power station off the coast of Cornwall, England. In February 2007, the US Federal Energy Regulatory Commission granted us a preliminary permit to evaluate the feasibility of a location off the coast of Reedsport, Oregon for the proposed construction and operation of a wave power station with a maximum rated output of 50MW, of which up to the first 5MW will be a demonstration wave power station. We plan to generate incremental revenue from the demonstration wave power stations by selling electricity to utilities. Also, in March 2007, we were awarded a conditional grant from the Scottish Ministers Wave and Tidal Energy Support Scheme, managed by the Scottish Executive. This grant is for the design, manufacture and installation of a 150kW PowerBuoy system in Orkney, Scotland.

We had revenues of $1.7 million in fiscal 2006 and recorded a net loss of $7.1 million, compared to revenues of $5.4 million and a net loss of $0.4 million in fiscal 2005. For the nine months ended January 31, 2007, we had revenues of $1.5 million and a net loss of $5.5 million. As of January 31, 2007, our accumulated deficit was $34.1 million.

Our Market

Global demand for electric power is expected to increase from 14.8 trillion kilowatt hours in 2003 to 30.1 trillion kilowatt hours by 2030, according to the Energy Information Administration, or the EIA. To meet this demand, the International Energy Agency, or the IEA, estimates that investments in new generating capacity will exceed $4 trillion in the period from 2003 to 2030, of which $1.6 trillion will be for new renewable energy generation equipment.

A variety of factors are contributing to the development of renewable energy systems that capture energy from replenishable natural resources, including ocean waves, flowing water, wind and sunlight, and convert it into electricity. These factors include the rising cost of fossil fuels, dependence on energy from foreign sources, environmental concerns, government incentives and infrastructure constraints.

Wave energy systems such as ours compare favorably with many other renewable energy technologies. Due to the tremendous energy in ocean waves, wave power stations with high capacity 50MW and above can be installed in a relatively small area. In addition, the supply of electricity from wave energy can be forecasted days in advance and the annual flow of waves at specific sites can be relatively constant.

Our Competitive Advantages

We believe that our technology for generating electricity from wave energy and our commercial relationships give us several potential competitive advantages in the renewable energy market, including the following:

our PowerBuoy system uses an ocean-tested technology to generate electricity;

our PowerBuoy system is efficient in harnessing wave energy;

our PowerBuoy system takes advantage of time-tested and well-known technology;

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numerous potential sites for our wave power stations are located near major population centers worldwide;

we have significant commercial relationships with governmental and commercial entities active in the development of renewable energy;

our PowerBuoy system has the potential to offer cost competitive renewable energy power generation solutions; and

our PowerBuoy system is environmentally benign and aesthetically non-intrusive.

Our Business Strategy

Our goal is to strengthen our leadership in developing wave energy technologies and commercializing wave power stations and related services. In order to achieve this goal, we are pursuing the following business strategies:

concentrate sales and marketing efforts on four geographic markets: coastal North America, the west coast of Europe, the coasts of Australia and the east coast of Japan;

continue to increase PowerBuoy system output;

construct demonstration wave power stations to encourage market adoption of our wave power stations;

leverage customer relationships to enhance the commercial acceptance of our utility PowerBuoy system;

expand revenue streams from our autonomous PowerBuoy system; and

maximize revenue opportunities with existing customers.

Risks Associated with Our Business

Our business is subject to numerous risks, as more fully described in the section entitled Risk Factors immediately following this prospectus summary. We have a history of operating losses, and we may never achieve or maintain profitability. Wave energy technology may not gain broad commercial acceptance, and demand for our PowerBuoy systems may not develop. The reduction or elimination of subsidies and incentives for renewable energy sources could prevent demand for our PowerBuoy systems from developing. Our product development costs have been increasing and are likely to increase significantly over the next several years. We have invested, and will continue to invest, funds in demonstration wave power stations that generate little or no direct revenue. Our PowerBuoy systems do not have a long operating history and may develop performance problems. We may be unable to increase the power output of our utility PowerBuoy system, and we may not be able to deploy multiple systems in a large-scale wave power station or to deploy larger PowerBuoy systems cost effectively and without damage to the systems. We depend on a small number of customers for substantially all of our revenues, and the US Navy currently accounts for a majority of our revenues. Our relationships with alliance partners may not be successful. We compete with other renewable energy companies. We are also subject to risks associated with international operations.

Our Corporate Information

We were incorporated under the laws of the State of New Jersey in April 1984 and began commercial operations in 1994. We plan to reincorporate in Delaware prior to this offering. Our principal executive offices are located at 1590

Reed Road, Pennington, New Jersey 08534, and our telephone number is (609) 730-0400. Our website address is *www.oceanpowertechnologies.com.* The information on our website is not a part of this prospectus.

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THE OFFERING

Common stock we are offering	5,000,000 shares
Over-allotment option	750,000 shares The underwriters have an option for a period of up to 30 days to purchase up to 90,000 additional shares of common stock from the selling stockholders and up to 660,000 additional shares of common stock from us to cover over-allotments.
Common stock to be outstanding after this offering	10,177,219 shares (10,837,219 shares if the over-allotment option is exercised in full)
Use of proceeds after expenses	We estimate that the net proceeds from this offering after expenses will be approximately $94.8 million, assuming an initial public offering price of $21.00 per share, the midpoint of the estimated price range set forth on the cover page of this prospectus. We intend to use the net proceeds from this offering to construct demonstration wave power stations and to fund minority investments in wave station projects to encourage market adoption of our wave power stations; to fund the continued development of our PowerBuoy system, including increases in system output; to expand our international sales and marketing capabilities; and for working capital and general corporate purposes, including potential acquisitions of complementary businesses, products or technologies. See Use of Proceeds. For a sensitivity analysis of the effect of changes in the public offering price on our net proceeds, see Use of Proceeds. We will not receive any proceeds from the sale of shares of common stock by the selling stockholders as a result of any exercise by the underwriters of their over-allotment option.
Risk Factors	Investing in our common stock involves a high degree of risk. Before buying any shares, you should read the discussion of material risks of investing in our common stock in Risk Factors beginning on page 7 of this prospectus.
Proposed Nasdaq Global Market symbol	OPTT
Listing on AIM market	Our common stock is listed on the AIM market of the London Stock Exchange under the symbol OPT. We will apply to list the shares of common stock being offered by this prospectus on the AIM market.

The number of shares of our common stock outstanding immediately after this offering is based on 5,177,219 shares of common stock outstanding as of January 31, 2007.

The number of shares of our common stock outstanding immediately after this offering excludes:

- 1,366,574 shares of our common stock issuable upon the exercise of stock options outstanding as of January 31, 2007 at a weighted average exercise price of $14.25 per share; and

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803,215 shares of our common stock available for future grant under our equity compensation plans, including our new 2006 stock incentive plan, as of January 31, 2007.

Unless otherwise indicated, all information in this prospectus:

assumes that the underwriters do not exercise their option to purchase up to 750,000 additional shares of our common stock to cover over-allotments, if any;

gives effect to the one-for-ten reverse stock split of our common stock to be completed prior to this offering;

gives effect to our reincorporation in Delaware and the adoption of a new certificate of incorporation and bylaws, which will become effective prior to this offering; and

gives effect to the establishment of our 2006 stock incentive plan, which will become effective upon the effectiveness of the registration statement for this offering.

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SUMMARY CONSOLIDATED FINANCIAL DATA

The following summary consolidated financial data as of and for the fiscal years ended April 30, 2004, 2005 and 2006 have been derived from our audited consolidated financial statements. We refer to the fiscal year ended April 30, 2004 as fiscal 2004, the fiscal year ended April 30, 2005 as fiscal 2005 and the fiscal year ended April 30, 2006 as fiscal 2006. The summary consolidated financial data as of January 31, 2007 and for the nine month periods ended January 31, 2006 and 2007 have been derived from our unaudited consolidated financial statements. The unaudited summary consolidated financial statement data includes, in our opinion, all adjustments, consisting only of normal recurring adjustments, that are necessary for a fair presentation of our financial position and results of operations for these periods. Operating results for the nine months ended January 31, 2007 are not necessarily indicative of the results that may be expected for the fiscal year ending April 30, 2007. You should read this information together with our consolidated financial statements and the related notes appearing at the end of this prospectus and the Management s Discussion and Analysis of Financial Condition and Results of Operations section of this prospectus.

The as adjusted balance sheet information gives effect to the sale by us of 5,000,000 shares of common stock in this offering at an assumed initial public offering price of $21.00 per share, the midpoint of the estimated price range set forth on the cover page of this prospectus, after deducting underwriting discounts and commissions and estimated offering expenses payable by us. For a sensitivity analysis of the effect of changes in the public offering price on our capitalization, see Capitalization.

	Fiscal Year Ended April 30,			Nine Months Ended January 31,	
	2004	2005	2006	2006	2007
				(Unaudited)	
Consolidated Statement of Operations Data:					
Revenues	$ 4,713,202	$ 5,365,235	$ 1,747,715	$ 1,467,283	$ 1,513,631
Cost of revenues	4,319,850	5,170,521	2,059,318	1,920,980	2,103,108
Gross profit (loss)	393,352	194,714	(311,603)	(453,697)	(589,477)
Operating expenses:					
Product development costs	255,958	904,618	4,224,997	2,630,663	4,100,418
Selling, general and administrative costs	1,745,955	2,553,911	3,190,687	2,168,345	3,083,621
Total operating expenses	2,001,913	3,458,529	7,415,684	4,799,008	7,184,039
Operating loss	(1,608,561)	(3,263,815)	(7,727,287)	(5,252,705)	(7,773,516)
Interest income, net	555,717	1,297,156	1,408,361	1,062,095	1,066,823
Other income (expense)(1)	(3,500,096)	1,545	74,294	75,000	13,744
Foreign exchange gain (loss)	1,585,345	1,507,145	(978,242)	(1,514,630)	1,184,499
Loss before income taxes	(2,967,595)	(457,969)	(7,222,874)	(5,630,240)	(5,508,450)
Income tax benefit	118,119	29,335	143,963	143,963	

Net loss	$ (2,849,476)	$ (428,634)	$ (7,078,911)	$ (5,486,277)	$ (5,508,450)
Basic and diluted loss per share	$ (0.71)	$ (0.08)	$ (1.37)	$ (1.06)	$ (1.06)
Basic and diluted weighted average common shares outstanding	4,037,501	5,135,550	5,162,340	5,158,982	5,174,539

(1) The $3.5 million expense in fiscal 2004 resulted from a one time charge incurred at the time of our stock offering on the AIM market in October 2003 relating to a 1999 agreement between us and Tyco Electronics Corp.

	As of January 31, 2007	
	Actual	As Adjusted
	(Unaudited)	
Consolidated Balance Sheet Data:		
Cash, cash equivalents and certificates of deposit	$ 26,657,152	$ 122,788,581
Working capital	26,224,722	120,980,072
Total assets	30,925,630	125,106,707
Long-term debt, net of current portion	233,959	233,959
Deferred credits	600,000	600,000
Accumulated deficit	(34,140,603)	(34,140,603)
Total stockholders equity	26,577,235	121,332,585

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RISK FACTORS

Investing in our common stock involves a high degree of risk. You should carefully consider the risks described below with all of the other information included in this prospectus before deciding to invest in our common stock. If any of the following risks actually occur, they may materially harm our business and our financial condition and results of operations. In this event, the market price of our common stock could decline and you could lose part or all of your investment.

Risks Relating to Our Business

We have a history of operating losses and may never achieve or maintain profitability.

We have incurred net losses since we began operations in 1994, including net losses of $2.8 million in fiscal 2004, $0.4 million in fiscal 2005 and $7.1 million in fiscal 2006. As of January 31, 2007, we had an accumulated deficit of approximately $34.1 million. These losses have resulted primarily from costs incurred in our research and development programs and from our selling, general and administrative costs. We expect to increase our operating expenses significantly as we continue to expand our infrastructure, research and development programs and commercialization activities. As a result, we will need to generate significant revenues to cover these costs and achieve profitability.

We have entered into an agreement for the first phase of construction of a wave power station off the coast of Santoña, Spain, as well as an operations and maintenance contract for the equipment to be installed in this first phase. Under both contracts our potential profitability is limited. Under the construction contract, our revenues are limited to reimbursement for our construction costs without any mark-up and we are required to bear the first 0.5 million of any cost overruns. Under the operations and maintenance contract, we are paid a fixed fee for scheduled maintenance, the profits on which are required to be refunded to cover any unscheduled maintenance fees we receive during the term of the agreement.

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. Even if we do achieve profitability, we may not be able to sustain or increase profitability on a quarterly or annual basis. If we are unable to achieve and then maintain profitability, the market value of our common stock may decline.

Wave energy technology may not gain broad commercial acceptance, and therefore our revenues may not increase, and we may be unable to achieve and then sustain profitability.

Wave energy technology is at an early stage of development, and the extent to which wave energy power generation will be commercially viable is uncertain. Many factors may affect the commercial acceptance of wave energy technology, including the following:

- performance, reliability and cost-effectiveness of wave energy technology compared to conventional and other renewable energy sources and products;
- developments relating to other renewable energy generation technologies;
- fluctuations in economic and market conditions that affect the cost or viability of conventional and renewable energy sources, such as increases or decreases in the prices of oil and other fossil fuels;

overall growth in the renewable energy equipment market;

availability and terms of government subsidies and incentives to support the development of renewable energy sources, including wave energy;

fluctuations in capital expenditures by utilities and independent power producers, which tend to decrease when the economy slows and interest rates increase; and

the development of new and profitable applications requiring the type of remote electric power provided by our autonomous wave energy systems.

If wave energy technology does not gain broad commercial acceptance, our business will be materially harmed and we may need to curtail or cease operations.

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If sufficient demand for our PowerBuoy systems does not develop or takes longer to develop than we anticipate, our revenues may decline, and we may be unable to achieve and then sustain profitability.

Even if wave energy technology achieves broad commercial acceptance, our PowerBuoy systems may not prove to be a commercially viable technology for generating electricity from ocean waves. We have invested a significant portion of our time and financial resources since our inception in the development of our PowerBuoy systems. To date, we have not yet manufactured and deployed any PowerBuoy systems for commercial use. As we begin to manufacture, market, sell and deploy our PowerBuoy systems in greater quantities, unforeseen hurdles may be encountered that would limit the commercial viability of our PowerBuoy systems, including unanticipated manufacturing, deployment, operating, maintenance and other costs. Our target customers and we may also encounter technical obstacles to deploying, operating and maintaining PowerBuoy systems in quantities necessary to generate competitively-priced electricity.

If demand for our PowerBuoy systems fails to develop sufficiently, we may be unable to grow our business or generate sufficient revenues to achieve and then sustain profitability. In addition, demand for PowerBuoy systems in our presently targeted markets, including coastal North America, the west coast of Europe, the coasts of Australia and the east coast of Japan, may not develop or may develop to a lesser extent than we anticipate.

If we are not successful in commercializing our PowerBuoy system, or are significantly delayed in doing so, our business, financial condition and results of operations could be adversely affected.

The reduction or elimination of government subsidies and economic incentives for renewable energy sources could prevent demand for our PowerBuoy systems from developing, which in turn would adversely affect our business, financial condition and results of operations.

Federal, state and local governmental bodies in many countries, most notably France, Spain, the United Kingdom, Australia, Japan and the United States, have provided subsidies in the form of tariff subsidies, rebates, tax credits and other incentives to utilities, power generators and distributors using renewable energy. However, these incentives and subsidies generally decline over time, and many incentive and subsidy programs have specific expiration dates. Moreover, because the market for electricity generated from wave energy is at an early stage of development, some of the programs may not include wave energy as a renewable energy source eligible for the incentives and subsidies.

Currently, the cost of electricity generated from wave energy, without the benefit of subsidies or other economic incentives, substantially exceeds the price of electricity in most significant markets in the world. As a result, the near-term growth of the market for our utility PowerBuoy systems, which are designed to feed electricity into a local or regional power grid, depends significantly on the availability and size of government incentives and subsidies for wave energy. As renewable energy becomes more of a competitive threat to conventional energy providers, companies active in the conventional energy business may increase their lobbying efforts in order to encourage governments to stop providing subsidies for renewable energy, including wave energy. We cannot predict the level of any such efforts, or how governments may react to such efforts. The reduction, elimination or expiration of government incentives and subsidies, or the exclusion of wave energy technology from those incentives and subsidies, may result in the diminished competitiveness of wave energy relative to conventional and non-wave energy renewable sources of energy. Such diminished competitiveness could materially and adversely affect the growth of the wave energy industry, which could in turn adversely affect our business, financial condition and results of operations.

In 2000, we entered into an agreement with Woodside Sustainable Energy Solutions Pty. Ltd., or Woodside, under which we received $0.6 million in exchange for granting Woodside an option to purchase, at a 30% discount from the then-prevailing market rate, up to 500,000 metric tons of carbon emission credits we generate during the years 2008 through 2012. However, if by December 31, 2012 we do not become entitled under applicable laws to the full amount

of emission credits covered by the option, we are obligated to return the option fee of $0.6 million, less the aggregate discount on any emission credits sold to Woodside prior to such date. If we receive emission credits under applicable laws and fail to sell to Woodside the credits up to the full amount of emission credits covered by the option, Woodside is entitled to liquidated damages equal to

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30% of the aggregate market value of the shortfall in emission credits (subject to a limit on the market price of emission credits).

Our product development costs have been steadily increasing and are likely to increase significantly over the next several years.

Our product development costs primarily relate to our efforts to increase the maximum rated output of our current 40kW utility PowerBuoy system in successive stages to 500kW in 2010. Our product development costs were $4.1 million in the nine months ended January 31, 2007 as compared to $2.6 million in the same period in 2006, and were $4.2 million in fiscal 2006 as compared to $0.9 million in fiscal 2005 and $0.3 million in fiscal 2004. We anticipate that our product development costs related to the planned increase in the output of our utility PowerBuoy system will increase significantly over the next several years.

We have invested, and will continue to invest, funds to construct demonstration wave power stations that may generate little or no direct revenue.

We have constructed and plan to construct in the future demonstration wave power stations to establish the feasibility of wave energy technology and to encourage the market adoption of our wave power stations. Demonstration wave power stations allow potential customers to see first-hand the viability of wave energy technology as a source of electricity. We incur significant costs in constructing and maintaining these demonstration wave power stations, and we may generate little or no direct revenue from them.

Our PowerBuoy systems do not have a sufficient operating history to confirm how they will perform over their estimated 30-year useful life.

We began developing and testing wave energy technology nearly 10 years ago. However, to date we have only manufactured eight PowerBuoy systems for use in testing and development. The longest continuous in-ocean deployment of our PowerBuoy system has been for 12 months. As a result, our PowerBuoy systems do not have a sufficient operating history to confirm how they will perform over their estimated 30-year useful life. Our technology has not been deployed commercially and we have not yet demonstrated that our engineering and test results can be duplicated in commercial production. We have conducted and plan to continue to conduct practical testing of our PowerBuoy system. If our PowerBuoy system ultimately proves ineffective or unfeasible, we may not be able to engage in commercial production of our products or we may become liable to our customers for quantities we are obligated but are unable to produce. If our PowerBuoy systems perform below expectations, we could lose customers and face substantial repair and replacement expense which could in turn adversely affect our business, financial condition and results of operations.

Our future success depends on our ability to increase the maximum rated power output of our utility PowerBuoy system. If we are unable to increase the maximum rated output of our utility PowerBuoy system, the commercial prospects for our utility PowerBuoy system would be adversely affected.

One of our goals is to increase the maximum rated output of our utility PowerBuoy system, which is currently 40kW, to 150kW in 2007, then to 250kW in 2008 and ultimately to 500kW in 2010. Our success in meeting this objective depends on our ability to significantly increase the power output of our PowerBuoy system in a cost-effective and timely manner and our ability to overcome the engineering and deployment hurdles that we face, including developing design and construction techniques that will enable the larger PowerBuoy systems to be deployed cost effectively and without damage, and developing adjustments to the mooring system to account for the larger sized PowerBuoy systems. We have experienced delays in the development and deployment of our PowerBuoy system in the past, and could experience similar delays or other difficulties in the future. If we cannot increase the power output of the

PowerBuoy system, or if it takes us longer to do so than we anticipate, we may be unable to expand our business, maintain our competitive position, satisfy our contractual obligations or become profitable. In addition, if the cost associated with these development efforts exceeds our projections, our results of operations will be adversely affected.

If we do not reach full commercial scale, we may not be able to offer a cost competitive power station and the commercial prospects of our utility PowerBuoy system would be adversely affected.

Unless we reach full commercial scale, which we estimate to be manufacturing levels of at least 300 units of 500kW PowerBuoy systems per year, we may not be able to offer an electricity solution that competes on a

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non-subsidized basis with today s price of wholesale electricity in key markets in the United States, Europe, Japan and Australia. If we do not reach full commercial scale, the commercial prospects for our utility PowerBuoy system would be adversely affected.

We have not yet deployed a wave power station consisting of an array of two or more PowerBuoy systems. If we are unable to deploy a multiple-system wave power station, our revenues may not increase, and we may be unable to achieve and then maintain profitability.

We have not yet deployed a wave power station consisting of an array of two or more PowerBuoy systems. Our success in developing and deploying a wave power station consisting of an array of two or more PowerBuoy systems is contingent upon, among other things, receipt of required governmental permits, obtaining adequate financing, successful array design implementation and finally, successful deployment and connection of the PowerBuoy systems.

We have not conducted ocean testing or otherwise installed in the ocean a multiple-system wave power station. In particular, unlike single-system wave power stations, multiple-system wave power stations require use of an underwater substation to connect the cables from, and collect the electricity generated by, each PowerBuoy system in the array. If our underwater substation does not work as we anticipate, we will need to design an alternative system, which could delay our business plans. In addition, unanticipated issues may arise with the logistics and mechanics of deploying and maintaining multiple PowerBuoy systems at a single site and the additional equipment associated with these multiple-system wave power stations.

We may be unsuccessful in accomplishing any of these tasks or doing so on a timely basis. The development and deployment of an array of PowerBuoy systems may require us to incur significant expenses for preliminary engineering, permitting and legal and other expenses before we can determine whether a project is feasible, economically attractive or capable of being financed.

If we are unable to deploy larger PowerBuoy systems cost effectively and without damage to the systems, we may be unable to compete effectively.

We will need to build larger buoys in order to increase the output of our current PowerBuoy systems. The larger buoys will be more difficult than our current buoys to deploy cost effectively and without damage. Our current deployment methodologies, including transportation to the installation site and the mooring of the PowerBuoy systems, will need to be revised for PowerBuoy systems with greater output. If we cannot develop cost effective methodologies for deployment of the larger PowerBuoy systems, or if it takes us longer to do so than we anticipate, we may not be able to deploy such systems in the time we anticipate or at all. Therefore, even if we succeed in increasing the output of our PowerBuoy systems above 40kW, if we are unable to deploy these larger PowerBuoy systems or encounter problems in doing so, we may be unable to expand our business, maintain our competitive position, satisfy our contractual obligations or become profitable.

If we are not successful in completing the development of wave power stations in Spain or France, it would materially harm our business, financial condition and results of operations.

In July 2006, we entered into an agreement for the first phase of the construction of a wave power station off the coast of Santoña, Spain, with our customer, Iberdrola Energias Marinas de Cantabria, S.A., or Iberdrola Cantabria. We refer to this agreement as the Spain construction agreement. Iberdrola Cantabria was formed by affiliates of Iberdrola and Total, two Spanish governmental agencies and us for the purpose of constructing and operating a wave power station off the coast of Spain. Under the Spain construction agreement, we have agreed to manufacture and deploy no later than December 31, 2009 one 40kW PowerBuoy system and the ocean-based substation and infrastructure required to connect nine additional 150kW PowerBuoy systems that together are contemplated to constitute a 1.39MW wave

power station. Under the terms of the agreement, our revenues are limited to reimbursement for our construction costs without any mark-up. In addition, we are required to bear the first 0.5 million of any cost overruns. As of January 31, 2007, we had recognized an anticipated loss of $0.5 million under the Spain construction agreement.

In addition, because the Spain construction agreement does not cover the terms for deployment of all ten PowerBuoy units, we will need to enter into a subsequent contract with Iberdrola Cantabria before we complete construction of the full wave power station. If we are unable to successfully manufacture all ten PowerBuoy units or meet the terms of the Spain construction agreement, or if we are not able to successfully

negotiate a subsequent contract with Iberdrola Cantabria for the deployment of the nine additional PowerBuoy units, we may lose a material component of our current and anticipated revenue stream. Iberdrola Cantabria has the right to terminate the agreement if we interrupt our services for more than 180 days and do not resume within a 30-day period or if the first phase of construction is not complete by December 31, 2009 for reasons attributable to us, or for a serious and repeated breach of a major obligation that is not cured within a 30-day period after we receive notice of the breach. If Iberdrola Cantabria were to terminate the Spain construction agreement for any of these reasons, we may not be able to find another company to fund development of the wave power station.

Under our agreement with affiliates of Iberdrola and Total to study and assess the feasibility of a wave power station off the coast of France, either of Iberdrola or Total may withdraw. In addition, in order to proceed with development of the France wave power station, all three parties must conclude that development is feasible. If we proceed, Iberdrola, Total and we will form a new company for the purpose of constructing and operating the wave power station. If either Iberdrola or Total withdraws or does not agree that development of the wave power station is feasible, we may not be able to proceed with development of the wave power station. In addition, if we withdraw from the France project, we will remain obligated to supply and install equipment and provide the new company with assistance and information so that a new company can operate the wave power station.

If either of the Spain or France projects were cancelled or otherwise interrupted, it would adversely affect our business, financial condition and results of operations.

If we are unable to successfully negotiate and enter into operations and maintenance contracts with our customers on terms that are acceptable to us, our ability to diversify our revenue stream will be impaired.

An important element of our business strategy is to maximize our revenue opportunities with our existing and future customers by seeking to enter into operations and maintenance contracts with them under which we would be paid fees for operating and maintaining wave power stations that they have purchased from us. Even if customers purchase our PowerBuoy systems, they may not enter into operations and maintenance contracts with us. We may not be able to negotiate operations and maintenance contracts that provide us with any profit opportunities. Even if we successfully negotiate and enter into such operations and maintenance contracts, our customers may terminate them prematurely or they may not be profitable for a variety of reasons, including the presence of unforeseen hurdles or costs. In addition, our inability to perform adequately under such operations and maintenance contracts could impair our efforts to successfully market the PowerBuoy systems. Any one of these outcomes could have a material adverse effect on our business, financial condition and results of operations.

If we are unable to fulfill our obligations under our current operations and maintenance contract in a cost effective manner, our financial condition and results of operations could be adversely affected.

In January 2007, we entered into an agreement with Iberdrola Cantabria for the monitoring, operation and maintenance of the 40kW PowerBuoy system and the ocean-based substation and infrastructure to be manufactured and deployed under the Spain construction agreement. Under this operations and maintenance agreement, we are required to provide services for two years following provisional acceptance of the PowerBuoy system and substation and infrastructure. We are to be paid a fixed fee for scheduled maintenance, ongoing operations and other routine services. In connection with any unscheduled repairs we perform under the operations and maintenance agreement, Iberdrola Cantabria and we will agree on the fees, if any, and timing, for those services. To the extent we would otherwise have profits from the fixed fee at the end of the two-year initial term of the agreement, we are obligated to reimburse Iberdrola Cantabria for any fees paid to us for unscheduled repairs. If the costs we actually incur in connection with providing services under the operations and maintenance agreement exceed the fees we receive, we will incur a loss in connection with these services, which could adversely affect our financial condition and results of operations.

Our inability to effectively manage our growth could adversely affect our business and operations.

The scope of our operations to date has been limited, and we do not have experience operating on the scale that we believe will be necessary to achieve profitable operations. Our current personnel, facilities, systems and internal procedures and controls are not adequate to support our future growth. We plan to add sales, marketing and engineering offices in additional locations, including Australia, Japan, continental Europe

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and the west coast of the United States. By the end of fiscal 2010, we currently estimate that we will need to add approximately 90,000 square feet of leased space for sales, marketing, engineering, assembly and testing in order to meet our current manufacturing targets.

To manage the expansion of our operations, we will be required to improve our operational and financial systems, procedures and controls, increase our manufacturing capacity and throughput and expand, train and manage our employee base, which must increase significantly if we are to be able to fulfill our current manufacturing and growth plans. Our management will also be required to maintain and expand our relationships with customers, suppliers and other third parties, as well as attract new customers and suppliers. If we do not meet these challenges, we may be unable to take advantage of market opportunities, execute our business strategies or respond to competitive pressures.

Problems with the quality or performance of our PowerBuoy systems could adversely affect our business, financial condition and results of operations.

Our agreements with customers will generally include guarantees with respect to the quality and performance of our PowerBuoy systems. For example, our agreement to complete the first phase of the construction of a 1.39MW wave power station off the coast of Santoña, Spain contains guarantees associated with this first phase regarding the quality, replacement and repair of the 40kW PowerBuoy system and ocean-based substation and the level of power output of the 40kW PowerBuoy system.

Because of the limited operating history of our PowerBuoy systems, we have been required to make assumptions regarding the durability, reliability and performance of the systems, and we cannot predict whether and to what extent we may be required to perform under the guarantees that we expect to give our customers. Our assumptions could prove to be materially different from the actual performance of our PowerBuoy systems, causing us to incur substantial expense to repair or replace defective systems in the future. We will bear the risk of claims long after we have sold our PowerBuoy systems and recognized revenue. Moreover, any widespread product failures could adversely affect our business, financial condition and results of operations.

We currently depend on a limited number of customers for substantially all of our revenues. The loss of, or a significant reduction in revenues from, any of these customers could significantly reduce our revenues and harm our operating results.

In the nine months ended January 31, 2007, we generated substantially all of our revenues from three entities. The US Navy, our largest customer, accounted for approximately 57% of our revenues during that period, while Iberdrola and Total accounted for 32% of our revenues. In fiscal 2006, revenues from the US Navy accounted for approximately 61% of our total revenues. We expect that revenues from the US Navy will account for a substantial portion of our total revenues in fiscal 2007. In addition, our current contract with the US Navy expires in April 2008. We will be required to enter into additional contracts with the US Navy, which will require appropriation by the US Congress and the US Navy in order to receive additional funding. Additional funding for our project with the US Navy may not be approved or we may not be able to negotiate future agreements with the US Navy on acceptable terms, if at all.

Generally, we recognize revenue on 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 currently have a small number of customers and contracts, problems with a single contract can adversely affect our business, financial condition and results of operations. For example, our revenues in fiscal 2006 decreased

significantly from fiscal 2005 primarily as a result of unanticipated delays in our contract with the US Navy.

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Historically, we have relied on a small group of customers for substantially all of our revenue, and such concentration will continue for the foreseeable future. The loss of any of our customers or their default in payment could adversely affect our business, financial condition and results of operations.

Our relationships with our alliance partners may not be successful and we may not be successful in establishing additional relationships, which could adversely affect our ability to commercialize our products and services.

An important element of our business strategy is to enter into development agreements and strategic alliances with regional utility and energy companies committed to providing electricity from renewable energy sources. If we are unable to reach agreements with suitable alliance partners, we may fail to meet our business objectives for the commercialization of our PowerBuoy system. We may face significant competition in seeking appropriate alliance partners. Moreover, these development agreements and strategic alliances are complex to negotiate and time consuming to document. We may not be successful in our efforts to establish additional strategic relationships or other alternative arrangements. The terms of any additional strategic relationships or other arrangements that we establish may not be favorable to us. In addition, these relationships may not be successful, and we may be unable to sell and market our PowerBuoy systems to these companies and their affiliates and customers in the future, or growth opportunities may not materialize, any of which could adversely affect our business, financial condition and results of operations.

Our investments in joint ventures could be adversely affected by our lack of sole decision-making authority, our reliance on a co-venturer s financial condition and disputes between us and our co-venturers.

It is part of our strategy to co-invest in wave power projects with third parties through joint ventures by acquiring non-controlling interests in special purpose entities. In these situations, we will not be in a position to exercise sole decision-making authority regarding the joint venture. Investments in joint ventures involve risks that would not be present were a third party not involved, including the possibility that our co-venturers might become bankrupt or fail to fund their share of required capital contributions. Our co-venturers may have economic or other business interests or goals that are inconsistent with our business interests or goals, and may be in a position to take actions that are contrary to our policies or objectives. Disputes between us and our co-venturers may result in litigation or arbitration that would increase our expenses and prevent our officers and/or directors from focusing their time and effort on our business. Consequently, actions by, or disputes with, partners or co-venturers might result in subjecting wave power projects undertaken by the joint venture to additional risk.

Our targeted markets are highly competitive. We compete with other renewable energy companies and may have to compete with larger companies that enter into the renewable energy business. If we are unable to compete effectively, we may be unable to increase our revenues and achieve or maintain profitability.

The renewable energy industry, particularly in our targeted markets of coastal North America, the west coast of Europe, the coasts of Australia and the east coast of Japan, is highly competitive and continually evolving as participants strive to distinguish themselves and compete with the larger electric power industry. Competition in the renewable energy industry is likely to continue to increase with the advent of several renewable energy technologies, including tidal and ocean current technologies. If we are not successful in manufacturing systems that generate competitively priced electricity, we will not be able to respond effectively to competitive pressures from other renewable energy technologies.

Moreover, the success of renewable energy generation technologies may cause larger electric utility and other energy companies with substantial financial resources to enter into the renewable energy industry. These companies, due to their greater capital resources and substantial technical expertise, may be better positioned to develop new technologies.

Our inability to respond effectively to such competition could adversely affect our business, financial condition and results of operations.

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We have limited manufacturing experience. If we are unable to increase our manufacturing capacity in a cost-effective manner, our business will be materially harmed.

We plan to manufacture key components of our PowerBuoy systems, including the advanced control and generation systems. However, we have only manufactured our PowerBuoy systems in limited quantities for use in development and testing and have little commercial manufacturing experience. Our future success depends on our ability to significantly increase both our manufacturing capacity and production throughput in a cost-effective and efficient manner. In order to meet our growth objectives, by the end of fiscal 2010 we will need to increase our engineering and manufacturing staff by over 120 people. There is intense competition for hiring qualified technical and engineering personnel, and we may not be able to hire a sufficient number of qualified engineers to allow us to meet our growth objectives.

We may be unable to develop efficient, low-cost manufacturing capabilities and processes that will enable us to meet the quality, price, engineering, design and production standards or production volumes necessary to successfully commercialize our PowerBuoy systems. If we cannot do so, we may be unable to expand our business, satisfy our contractual obligations or become profitable. Even if we are successful in developing our manufacturing capabilities and processes, we may not be able to do so in time to meet our commercialization schedule or satisfy the requirements of our customers.

Failure by third parties to supply or manufacture components of our products or to deploy our systems timely or properly could adversely affect our business, financial condition and results of operations.

We are highly dependent on third parties to supply or manufacture components of our PowerBuoy systems. If, for any reason, our third-party manufacturers or vendors are not willing or able to provide us with components or supplies in a timely fashion, or at all, our ability to manufacture and sell many of our products could be impaired.

We do not have long-term contracts with our third-party manufacturers or vendors. If we do not develop ongoing relationships with vendors located in different regions, we may not be successful at controlling unit costs as our manufacturing volume increases. We may not be able to negotiate new arrangements with these third parties on acceptable terms, if at all.

In addition, we rely on third parties, under our oversight, for the deployment and mooring of our PowerBuoy systems. We have utilized several different deployment methods, including towing the PowerBuoy system to the deployment location, and transporting the PowerBuoy system to the deployment location by barge or ocean workboat. If these third parties do not properly deploy our systems, cannot effectively deploy the PowerBuoy system on a large, commercial scale or otherwise do not perform adequately, or if we fail to recruit and retain third parties to deploy our systems in particular geographic areas, this could adversely affect our business, financial condition and results of operations.

Business activities conducted by our third-party contractors and us involve the use of hazardous materials, which require compliance with environmental and occupational safety laws regulating the use of such materials. If we violate these laws, we could be subject to significant fines, liabilities or other adverse consequences.

Our manufacturing operations, in particular some of the activities undertaken by our third-party suppliers and manufacturers, involve the controlled use of hazardous materials. Accordingly, our third-party contractors and we are subject to foreign, federal, state and local laws governing the protection of the environment and human health and safety, including those relating to the use, handling and disposal of these materials. We cannot completely eliminate the risk of accidental contamination or injury from these hazardous materials. In the event of an accident or failure to comply with environmental or health and safety laws and regulations, we could be held liable for resulting damages,

including damages to natural resources, fines and penalties, and any such liability could adversely affect our business, financial condition and results of operations.

Environmental laws and regulations are complex, change frequently and have tended to become stringent over time. While we have budgeted for future capital and operating expenditures to maintain compliance, we cannot assure you that environmental laws and regulations will not change or become more stringent in the future. Therefore, we cannot assure you that our costs of complying with current and future environmental and

health and safety laws, and any liabilities arising from past or future releases of, or exposure to, hazardous substances will not adversely affect our business, financial condition or results of operations.

If we become ineligible for or are otherwise unable to replace any contract with the US federal government that is not extended or is terminated, our business, financial condition and results of operations will be adversely affected.

We derive a significant portion of our revenue from US federal government contracts, which are subject to special funding restrictions, regulatory requirements and eligibility standards and which the government may terminate at any time or determine not to extend after their scheduled expiration. During fiscal 2006, we derived approximately 61% of our total revenue from contracts with the US Navy.

US federal government contracts are subject to funding restrictions that generally limit the government s funding commitments to one federal fiscal year. There is no guarantee that our federal contracts will continue to be funded even if we perform successfully. If sufficient funds are not made available for subsequent contract periods of a multi-year program, the government s obligations will end, which in turn will adversely affect our business, financial condition and results of operations.

Our contracts with the US Navy contain provisions permitting it to terminate the contract for its convenience, as well as for our default. A decision by a government agency not to exercise option periods or to terminate contracts could result in significant revenue shortfalls.

If the government terminates a contract for convenience, then we may recover only our incurred or committed costs, settlement expenses and profit on work completed prior to the termination. We cannot recover anticipated profit on terminated work. If the government terminates a contract for default, then we may not recover even those amounts, and instead we may be liable for excess costs incurred by the government in procuring undelivered items and services from another source. We cannot predict if the government will terminate or choose not to extend our Federal government contracts. The government has never terminated any of our contracts; however, it may do so at any time.

US federal government contracts are also subject to contractual and regulatory requirements that may increase our costs of doing business and could expose us to substantial contractual damages, civil fines and criminal penalties for noncompliance. These requirements include business ethics, equal employment opportunity, environmental, foreign purchasing, most-favored pricing and accounting provisions, among others. Payments that we receive under US federal government contracts are subject to audit and potential refunds for at least three years after the final contract payment is received.

The loss of federal funding designed to promote innovative research by small businesses may adversely affect our research and development costs and revenues.

Most of our federal contracts were awarded through a special US government program designed to promote innovative research by small businesses called Small Business Innovation Research, or SBIR. The SBIR program provides funds to qualified small businesses to further their technological research and development activities and provides incentives to these companies to profit from commercialization of their technology. SBIR funding represents both revenues and outside research and development investment dollars for companies that receive it. The program is open to companies that are majority owned and controlled by individual US citizens or permanent resident aliens, or by a parent entity that meets this standard. Our revenues from the SBIR program were approximately $0.8 million for the first nine months of fiscal 2007 and approximately $1.1 million for fiscal 2006.

Increased institutional, corporate or foreign ownership as a result of this offering will likely make us ineligible for the SBIR program, which may adversely affect our ability to win future government contracts. We intend to continue to

seek research and development funding from other sources, including funding from existing government customers under non-SBIR programs. Our inability to replace SBIR contracts with funds from other sources could result in reduced revenues and higher internal research and development costs, and therefore adversely affect our operating results.

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We market and sell, and plan to market and sell, our products in numerous international markets. If we are unable to manage our international operations effectively, our business, financial condition and results of operations could be adversely affected.

We market and sell, and plan to market and sell, our products in a number of foreign countries, including France, Spain, the United Kingdom, Australia and Japan, and we are therefore subject to risks associated with having international operations. International operations accounted for 4% of our revenues in fiscal 2005, 9% of our revenues in fiscal 2006 and 35% of our revenues for the first nine months of fiscal 2007. Risks inherent in international operations include, but are not limited to, the following:

changes in general economic and political conditions in the countries in which we operate;

unexpected adverse changes in foreign laws or regulatory requirements, including those with respect to renewable energy, environmental protection, permitting, export duties and quotas;

trade barriers such as export requirements, tariffs, taxes and other restrictions and expenses, which could increase the prices of our PowerBuoy systems and make us less competitive in some countries;

fluctuations in exchange rates may affect demand for our PowerBuoy systems and may adversely affect our profitability in US dollars to the extent the price of our PowerBuoy systems and cost of raw materials and labor are denominated in a foreign currency;

difficulty with staffing and managing widespread operations;

difficulty of, and costs relating to compliance with, the different commercial and legal requirements of the overseas markets in which we offer and sell our PowerBuoy systems;

inability to obtain, maintain or enforce intellectual property rights; and

difficulty in enforcing agreements in foreign legal systems.

Our business in foreign markets requires us to respond to rapid changes in market conditions in these countries. Our overall success as a global business depends, in part, on our ability to succeed in differing legal, regulatory, economic, social and political conditions. We may not be able to develop and implement policies and strategies that will be effective in each location where we do business, which in turn could adversely affect our business, financial condition and results of operations.

We may not be able to raise sufficient capital to grow our business.

We have in the past needed to raise funds to operate our business, and we may need to raise additional funds to manufacture our PowerBuoy systems in commercial quantities. If we are unable to raise additional funds when needed, our ability to operate and grow our business could be impaired. We do not know whether we will be able to secure additional funding or funding on terms favorable to us. Our ability to obtain additional funding will be subject to a number of factors, including market conditions, our operating performance and investor sentiment. These factors may make the timing, amount, terms and conditions of additional funding unattractive. If we issue additional equity securities, our existing stockholders may experience dilution or be subordinated to any rights, preferences or privileges granted to the new equity holders.

Our financial results may fluctuate from quarter to quarter, which may make it difficult to predict our future performance.

Our financial results may fluctuate as a result of a number of factors, many of which are outside of our control. For these reasons, comparing our financial results on a period-to-period basis may not be meaningful, and you should not rely on our past results as an indication of our future performance. Our future quarterly and annual expenses as a percentage of our revenues may be significantly different from those we have recorded in the past or which we expect for the future. Our financial results in some quarters may fall below expectations. Any of these events could cause our stock price to fall. Each of the risk factors listed in this Risk Factors section, including the following factors, may adversely affect our business, financial condition and results of operations:

delays in permitting or acquiring necessary regulatory consents;

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delays in the timing of contract awards and determinations of work scope;

delays in funding for or deployment of wave energy projects;

changes in cost estimates relating to wave energy project completion, which under percentage of completion accounting principles could lead to significant charges to previously recognized revenue or to changes in the timing of our recognition of revenue from those projects;

delays in meeting specified contractual milestones or other performance criteria under project contracts or in completing project contracts that could delay the recognition of revenue that would otherwise be earned;

reductions in the availability or level of subsidies and incentives for renewable energy sources;

decisions made by parties with whom we have commercial relationships not to proceed with anticipated projects;

increases in the length of our sales cycle; and

reductions in the efficiency of our manufacturing processes.

Currency translation and transaction risk may adversely affect our business, financial condition and results of operations.

Our reporting currency is the US dollar, and we conduct our business and incur costs in the local currency of most countries in which we operate. As a result, we are subject to currency translation risk. In fiscal 2006, approximately 9% of our revenues were generated outside the United States and denominated in Euros and in the first nine months of fiscal 2007, 32% of our revenues were generated outside the United States and denominated in Euros and 3% of our revenues were generated outside the United States and denominated in Australian dollars. We expect a large percentage of our revenues to be generated outside the United States and denominated in foreign currencies in the future. Changes in exchange rates between foreign currencies and the US dollar could affect our revenues and cost of revenues, and could result in exchange losses. In addition, we incur currency transaction risk whenever one of our operating subsidiaries enters into either a purchase or a sales transaction using a different currency from our reporting currency. For example, our agreement with Iberdrola Cantabria for the first phase of the construction of a wave power station off the coast of Santoña, Spain is denominated in Euros, and we expect that we will enter into a number of purchase and supply contracts with local Spanish companies also denominated in Euros in connection with the project. We cannot accurately predict the impact of future exchange rate fluctuations on our results of operations. Currently, we do not engage in any exchange rate hedging activities and, as a result, any volatility in currency exchange rates may have an immediate adverse effect on our business, results of operations and financial condition.

Existing regulations and policies and changes to these or new regulations and policies may present technical, regulatory and economic barriers to the use of wave energy technology, which may significantly reduce demand for our PowerBuoy systems.

The market for electricity generation equipment is heavily influenced by foreign, federal, state and local government regulations and policies concerning the electric utility industry, as well as policies promulgated by electric utilities. These regulations and policies often relate to electricity pricing and connection to the power grid. In the United States and in a number of other countries, these regulations and policies currently are being modified and may be modified again in the future. Utility company and independent power producer purchases of, or further investment in the

research and development of, alternative energy sources, including wave energy technology, could be deterred by these regulations and policies, which could result in a significant reduction in the potential demand for our PowerBuoy systems.

As the renewable energy industry continues to develop and as the generation of power from wave energy in particular achieves commercial acceptance, we anticipate that wave energy technology and our PowerBuoy systems and their deployment will be subject to increased oversight and regulation. We are unable to predict the nature or extent of regulations that may be imposed or adopted. Any new government regulations or utility policies pertaining to wave energy or our PowerBuoy systems may result in significant additional expenses to us and our customers and, as a result, could adversely affect our business, financial condition and results of operations.

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If we are unable to obtain all necessary regulatory permits and approvals, we will not be able to implement our planned projects.

Offshore development of electric power generating facilities is heavily regulated. Each of our planned projects is subject to multiple permitting and approval requirements. With respect to our projects in Spain and France, we are dependent upon our customers to obtain any necessary permits and approvals, and with respect to our project in Cornwall, England, we are dependent on a regional government agency for such permits and approvals. Due to the unique nature of large scale commercial wave power stations, we would expect our projects to receive close scrutiny by permitting agencies, approval authorities and the public, which could result in substantial delay in the permitting process. Successful challenges by any parties opposed to our planned projects could result in conditions limiting the project size or in the denial of necessary permits and approvals.

If we are unable to obtain necessary permits and approvals in connection with any or all of our projects, those projects would not be implemented and our business, financial condition and results of operations would be adversely affected. Further, we cannot assure you that we have been or will be at all times in complete compliance with all such permits and approvals. If we violate or fail to comply with these permits and approvals, we could be fined or otherwise sanctioned by regulators.

We face hurricane- and storm-related risks and other risks typical of a marine environment which could adversely affect our business, financial condition and results of operations.

Our PowerBuoy systems are deployed in the ocean where they are subject to many hazards including severe storms and hurricanes, which could damage them and result in service interruptions. Our systems are also subject to more frequent lock-downs caused by higher waves during winter storm and hurricane seasons, which will reduce annual energy output. We cannot predict whether we will be able to recover from our insurance providers the additional costs that we may incur due to damage caused to our PowerBuoy systems, or whether we will continue to be able to obtain insurance for hurricane- and storm-related damages or, if obtainable and carried, whether this insurance will be adequate to cover our liabilities. Any future hurricane-or storm-related costs could adversely affect our business, financial condition and results of operations.

Since our PowerBuoy systems can only be deployed in certain geographic locations, our ability to grow our business could be adversely affected.

Our systems are designed to work in sites with average annual wave energy of at least 20kW per meter of wave front. Not all coastal areas worldwide have appropriate natural resources for our PowerBuoy systems to harness wave energy. Seasonal and local variations, water depth and the effect of particular locations of islands and other geographical features may limit our ability to deploy our PowerBuoy systems in coastal areas. If we are unable to identify and deploy PowerBuoy systems at sufficient sites near major population centers, our ability to grow our business could be adversely affected.

If we are unable to attract and retain management and other qualified personnel, we may not be able to achieve our business objectives.

Our success depends on the skills, experience and efforts of our senior management and other key development, manufacturing, and sales and marketing employees. We cannot be certain that we will be able to attract, retain and motivate such employees. The loss of the services of one or more of these employees could have a material adverse effect on our business. There is a risk that we will not be able to retain or replace these key employees. We have entered into employment agreements with Dr. George Taylor, our chief executive officer, Charles Dunleavy, our senior vice president and chief financial officer, Mark Draper, the chief executive officer of our UK subsidiary, and

John Baylouny, our senior vice president, engineering; however, the agreements permit the employees to terminate their employment with little notice. Implementation of our expansion plans will be highly dependent upon our ability to hire and retain additional senior executives.

In addition, our anticipated growth will require us to hire a significant number of qualified technical, commercial and administrative personnel. In order to meet our short-term goals, by the end of 2007, we plan to add approximately 15 to 20 employees, including a vice president of business development. The remainder will primarily be engineers with varying areas of expertise. By the end of fiscal 2010, we will need to increase

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our staff by nearly six times in order to meet our current manufacturing targets. The majority of our new hires will be engineers with varying levels and areas of expertise, project managers and manufacturing personnel. There is intense competition from other companies and research and academic institutions for qualified personnel in the areas of our activities. If we cannot continue to attract and retain, on acceptable terms, the qualified personnel necessary for the continued development of our business, we may not be able to sustain our operations or grow at a competitive pace.

Any acquisitions that we make or joint venture agreements that we enter into, or any failure to identify appropriate acquisition or joint venture candidates, could adversely affect our business, financial condition and results of operations.

From time to time, we evaluate potential strategic acquisitions of complementary businesses, products or technologies, as well as consider joint ventures and other collaborative projects. We may not be able to identify appropriate acquisition candidates or strategic partners, or successfully negotiate, finance or integrate any businesses, products or technologies that we acquire. We do not have any experience with acquiring companies or products. Any acquisition we pursue could diminish the proceeds from this offering available to us for other uses or be dilutive to our stockholders, and could divert management s time and resources from our core operations.

Strategic acquisitions, investments and alliances with third parties could subject us to a number of risks, including risks associated with sharing proprietary information and loss of control of operations that are material to our business. In addition, strategic acquisitions, investments and alliances may be expensive to implement. For example, under the France project, our entitlement to retain our current percentage interest is subject to our ability to make a proportionate capital investment, which we may be unable to finance. Moreover, strategic acquisitions, investments and alliances subject us to the risk of non-performance by a counterparty, which may in turn lead to monetary losses that materially and adversely affect our business, financial condition and results of operations.

Section 404 of the Sarbanes-Oxley Act of 2002 will require us to document and test our internal control over financial reporting for fiscal 2008 and beyond and will require an independent registered public accounting firm to report on our assessment as to the effectiveness of these controls. Any delays or difficulty in satisfying these requirements could adversely affect our future results of operations and our stock price.

Section 404 of the Sarbanes-Oxley Act of 2002 will require us to document and test the effectiveness of our internal control over financial reporting in accordance with an established internal control framework and to report on our conclusion as to the effectiveness of our internal controls. It will also require an independent registered public accounting firm to test our internal control over financial reporting and report on the effectiveness of such controls for our fiscal year ending April 30, 2008 and subsequent years. An independent registered public accounting firm will also be required to test, evaluate and report on the completeness of our assessment. In addition, upon completion of this offering, we will be required under the Securities Exchange Act of 1934 to maintain disclosure controls and procedures and internal control over financial reporting. Moreover, it may cost us more than we expect to comply with these control- and procedure-related requirements.

We may in the future discover areas of our internal controls that need improvement, particularly with respect to businesses that we may acquire. We cannot be certain that any remedial measures we take will ensure that we implement and maintain adequate internal controls over our financial processes and reporting in the future. Any failure to implement required new or improved controls, or difficulties encountered in their implementation, could harm our operating results or cause us to fail to meet our reporting obligations. If we are unable to conclude that we have effective internal control over financial reporting, or if our independent registered public accounting firm is unable to provide us with an unqualified opinion regarding the effectiveness of our internal control over financial reporting as of April 30, 2008 and in future periods as required by Section 404, investors could lose confidence in the reliability of our consolidated financial statements, which could result in a decrease in the value of our common stock.

Failure to comply with

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Section 404 could potentially subject us to sanctions or investigations by the SEC, The Nasdaq Stock Market or other regulatory authorities.

Risks Related to Intellectual Property

If we are unable to obtain or maintain intellectual property rights relating to our technology and products, the commercial value of our technology and products may be adversely affected, which could in turn adversely affect our business, financial condition and results of operations.

Our success and ability to compete depends in part upon our ability to obtain protection in the United States and other countries for our products by establishing and maintaining intellectual property rights relating to or incorporated into our technology and products. We own a variety of patents and patent applications in the United States and corresponding patents and patent applications in several foreign jurisdictions. However, we have not obtained patent protection in each market in which we plan to compete. In addition, we do not know how successful we would be should we choose to assert our patents against suspected infringers. Our pending and future patent applications may not issue as patents or, if issued, may not issue in a form that will be advantageous to us. Even if issued, patents may be challenged, narrowed, invalidated or circumvented, which could limit our ability to stop competitors from marketing similar products or limit the length of term of patent protection we may have for our products. Changes in either patent laws or in interpretations of patent laws in the United States and other countries may diminish the value of our intellectual property or narrow the scope of our patent protection, which could in turn adversely affect our business, financial condition and results of operations.

Our contracts with the government could negatively affect our intellectual property rights, and our ability to commercialize our products could be impaired.

Our agreements with the US Navy help fund research and development of our PowerBuoy system. When new technologies are developed with US federal government funding, the government obtains certain rights in any resulting patents, technical data and software, generally including, at a minimum, a nonexclusive license authorizing the government to use the invention, technical data or software for non-commercial purposes. These rights may permit the government to disclose our confidential information to third parties and to exercise march-in rights. March-in rights refer to the right of the US government to require us to grant a license to the technology to a responsible applicant or, if we refuse, the government may grant the license itself. US government-funded inventions must be reported to the government. US government funding must be disclosed in any resulting patent applications, and our rights in such inventions will normally be subject to government license rights, periodic post-contract utilization reporting, foreign manufacturing restrictions and march-in rights.

The government can exercise its march-in rights if it determines that action is necessary because we fail to achieve practical application of the technology or because action is necessary to alleviate health or safety needs, to meet requirements of federal regulations or to give preference to US industry. Our government-sponsored research contracts are subject to audit and require that we provide regular written technical updates on a monthly, quarterly or annual basis, and, at the conclusion of the research contract, a final report on the results of our technical research. Because these reports are generally available to the public, third parties may obtain some aspects of our sensitive confidential information. Moreover, if we fail to provide these reports or to provide accurate or complete reports, the government may obtain rights to any intellectual property arising from the related research. Funding from government contracts also may limit when and how we can deploy our technology developed under those contracts.

If we are unable to protect the confidentiality of our proprietary information and know-how, the value of our technology and products could be adversely affected, which could in turn adversely affect our business, financial condition and results of operations.

In addition to patented technology, we rely upon unpatented proprietary technology, processes and know-how, particularly with respect to our PowerBuoy control and electricity generating systems. We generally seek to protect this information in part by confidentiality agreements with our employees, consultants and third

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parties. These agreements may be breached, and we may not have adequate remedies for any such breach. In addition, our trade secrets may otherwise become known or be independently developed by competitors.

If we infringe or are alleged to infringe intellectual property rights of third parties, our business, financial condition and results of operations could be adversely affected.

Our products may infringe or be claimed to infringe patents or patent applications under which we do not hold licenses or other rights. Third parties may own or control these patents and patent applications in the United States and abroad. From time to time, we receive correspondence from third parties offering to license patents to us. Correspondence of this nature might be used to establish that we received notice of certain patents in the event of subsequent patent infringement litigation. Third parties could bring claims against us that would cause us to incur substantial expenses and, if successfully asserted against us, could cause us to pay substantial damages. Further, if a patent infringement suit were brought against us, we could be forced to stop or delay manufacturing or sales of the product or component that is the subject of the suit.

As a result of patent infringement claims, or in order to avoid potential claims, we may choose or be required to seek a license from the third party and be required to pay license fees or royalties or both. These licenses may not be available on acceptable terms, or at all. Even if we were able to obtain a license, the rights may be nonexclusive, which could result in our competitors gaining access to the same intellectual property. Ultimately, we could be forced to cease some aspect of our business operations if, as a result of actual or threatened patent infringement claims, we are unable to enter into licenses on acceptable terms. This could significantly and adversely affect our business, financial condition and results of operations.

In addition to infringement claims against us, we may become a party to other types of patent litigation and other proceedings, including interference proceedings declared by the United States Patent and Trademark Office and opposition proceedings in the European Patent Office, regarding intellectual property rights with respect to our products and technology. The cost to us of any patent litigation or other proceeding, even if resolved in our favor, could be substantial. Some of our competitors may be able to sustain the costs of such litigation or proceedings more effectively than we can because of their greater financial resources. Uncertainties resulting from the initiation and continuation of patent litigation or other proceedings could have a material adverse effect on our ability to compete in the marketplace. Patent litigation and other proceedings may also absorb significant management time.

Risks Related to the Offering

Provisions in our corporate charter documents and under Delaware law may delay or prevent attempts by our stockholders to change our management and hinder efforts to acquire a controlling interest in us.

After we reincorporate in Delaware, provisions of our certificate of incorporation and bylaws may discourage, delay or prevent a merger, acquisition or other change in control that stockholders may consider favorable, including transactions in which our stockholders might otherwise receive a premium for their shares. These provisions may also prevent or frustrate attempts by our stockholders to replace or remove our management. These provisions include:

- advance notice requirements for stockholder proposals and nominations;
- the inability of stockholders to act by written consent or to call special meetings; and
- the ability of our board of directors to designate the terms of and issue new series of preferred stock without stockholder approval, which could be used to institute a poison pill that would work to dilute the stock ownership of a potential hostile acquirer, effectively preventing acquisitions that have not been approved by

our board of directors.

The affirmative vote of the holders of at least 75% of our shares of capital stock entitled to vote is necessary to amend or repeal the above provisions of our certificate of incorporation. In addition, absent approval of our board of directors, our bylaws may only be amended or repealed by the affirmative vote of the holders of at least 75% of our shares of capital stock entitled to vote.

In addition, Section 203 of the Delaware General Corporation Law prohibits a publicly held Delaware corporation from engaging in a business combination with an interested stockholder, generally a person which

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together with its affiliates owns or within the last three years has owned 15% of our voting stock, for a period of three years after the date of the transaction in which the person became an interested stockholder, unless the business combination is approved in a prescribed manner. Accordingly, after we reincorporate in Delaware, Section 203 may discourage, delay or prevent a change in control of our company.

An active trading market for our common stock may not develop in the United States, and you may not be able to resell your shares at or above the initial public offering price.

Prior to this offering, there has been no public market for shares of our common stock in the United States. Our common stock has been listed on the AIM market of the London Stock Exchange plc, referred to as the AIM market, under the symbol OPT since October 2003. However, there is currently a limited volume of trading in our common stock on the AIM market, which limits the liquidity of our common stock on that market. We cannot predict when or whether investor interest in our common stock on the AIM market might lead to an increase in its market price or the development of a more active trading market or how liquid that market might become.

The initial public offering price for our common stock was determined through negotiations with the underwriters based on a number of factors, including the historic trading prices of our common stock on the AIM market, that might not be indicative of prices that will prevail in the trading market for our common stock in the United States. An active trading market for our shares in the United States may never develop or be sustained following this offering. If an active market for our common stock does not develop, it may be difficult to sell shares you purchase in this offering without depressing the market price for the shares, or at all.

Liquidity in the market for our common stock may be adversely affected by our maintenance of two exchange listings.

Following this offering and after our common stock is traded on The Nasdaq Global Market, we currently expect to continue to list our common stock on the AIM market. We cannot predict the effect of having our common stock traded or listed on both of these markets. However, the dual listing of our common stock may dilute the liquidity of our common stock in one or both markets and may adversely affect the development of an active trading market for our shares in the United States.

Our stock price is likely to be volatile, and purchasers of our common stock could incur substantial losses.

The price of our common stock has been volatile on the AIM market, and after this offering our stock price is likely to continue to be volatile. The stock market in general has experienced extreme volatility that has often been unrelated to the operating performance of particular companies. As a result of this volatility, investors may not be able to sell their common stock at or above the initial public offering price. The market price for our common stock may be influenced by many factors, including:

- the success of competitive products or technologies;
- regulatory developments in the United States and foreign countries;
- developments or disputes concerning patents or other proprietary rights;
- the recruitment or departure of key personnel;
- quarterly or annual variations in our financial results or those of companies that are perceived to be similar to us;

market conditions in the conventional and renewable energy industries and issuance of new or changed securities analysts reports or recommendations;

the failure of securities analysts to cover our common stock after this offering or changes in financial estimates by analysts;

the inability to meet the financial estimates of analysts who follow our common stock;

investor perception of our company and of the renewable energy industry; and

general economic, political and market conditions.

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A substantial portion of our total outstanding shares may be sold into the market at any time. This could cause the market price of our common stock to drop significantly, even if our business is doing well.

All of the shares being sold in this offering will be freely tradable without restriction or further registration under the federal securities laws, unless purchased by our affiliates as that term is defined in Rule 144 under the Securities Act. The approximately 2.4 million shares held by our directors and executive officers and the selling stockholders will be eligible for sale upon completion of this offering pursuant to Rule 144 subject to the volume limitations and other applicable conditions of Rule 144 upon the expiration of 180-day lock-up agreements described under Underwriting . The balance of our outstanding shares will be immediately eligible for sale after the completion of this offering pursuant to Rule 144(k) without regard to volume limitations and other applicable conditions of Rule 144 or pursuant to other exemptions, including the 2,000,000 shares of our common stock that were sold in an offering on the AIM market in 2003.

We also intend to register all shares of our common stock that we may issue under our employee benefit plans. Once we register these shares, they can be freely sold in the public market upon issuance, subject to the lock-up agreements described in Underwriting. Sales of a substantial number of shares of our common stock, or the perception in the market that the holders of a large number of shares intend to sell shares, could reduce the market price of our common stock.

We have broad discretion in the use of our net proceeds from this offering and may not use them effectively.

Our management will have broad discretion in the application of the net proceeds from this offering and could spend the proceeds in ways that do not improve our operating results or enhance the value of our common stock. Our stockholders may not agree with the manner in which our management chooses to allocate and spend the net proceeds. The failure by our management to apply these funds effectively could result in financial losses that could have a material adverse effect on our business and cause the price of our common stock to decline. Pending their use, we may invest our net proceeds from this offering in a manner that does not produce income or that loses value.

We have never paid cash dividends on our common stock, and we do not anticipate paying any cash dividends in the foreseeable future.

We have not paid any cash dividends on our common stock to date. We currently intend to retain our future earnings, if any, to fund the development and growth of our business. In addition, the terms of any future debt agreements may preclude us from paying dividends. As a result, capital appreciation, if any, of our common stock will be your sole source of gain for the foreseeable future.

If you purchase shares of our common stock in this offering, you will suffer immediate and substantial dilution of your investment.

The initial public offering price of our common stock is substantially higher than the net tangible book value per share of our common stock. Therefore, if you purchase shares of our common stock in this offering, your interest will be diluted immediately to the extent of the difference between the initial public offering price per share of our common stock and the net tangible book value per share of our common stock after this offering. See Dilution.

Provisions in our bylaws will require disclosure of information by shareholders that would not otherwise be required to be disclosed under applicable US state or US federal laws.

In accordance with the rules of the AIM market, we are required to disclose information regarding beneficial owners of three percent or more of our outstanding common stock to the AIM market. In order to allow us to comply with the AIM rules, our bylaws that will be in effect upon completion of the offering contain a provision requiring any beneficial owner of three percent or more of our outstanding common stock to notify us of his or her shareholdings, as well as of any change in his or her beneficial ownership of one percent or more of our outstanding common stock. Comparatively, none of US state or US federal laws that will be applicable to us after the offering or the rules of the SEC or The Nasdaq Global Market require stockholders to report this beneficial ownership information to us or us to disclose this information to the

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public or a regulatory body. We do not intend to make any such information public, unless required by law or the rules of the AIM market, the SEC or The Nasdaq Global Market.

We will incur increased costs as a result of being a public company.

As a public company in the United States, we will incur significant legal, accounting and other expenses that we have not incurred to date. In addition, the Sarbanes-Oxley Act of 2002, as well as new rules subsequently implemented by the SEC and The Nasdaq Stock Market, have required changes in corporate governance practices of public companies in the United States. We expect these new rules and regulations to increase our legal and financial compliance costs and to make some activities more time-consuming and costly. In addition, we will incur additional costs associated with our United States public company reporting requirements. We also expect these new rules and regulations to make it more difficult and more expensive for us to obtain director and officer liability insurance, and we may be required to accept reduced policy limits and coverage or incur substantially higher costs to obtain the same or similar coverage. As a result, it may be more difficult for us to attract and retain qualified persons to serve on our board of directors or as executive officers. We are currently evaluating and monitoring developments with respect to these new rules, and we cannot predict or estimate the amount of additional costs we may incur or the timing of such costs.

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This prospectus, including the sections titled Prospectus Summary, Risk Factors, Management s Discussion and Analysis of Financial Condition and Results of Operations and Business, contains forward-looking statements. Forward-looking statements convey our current expectations or forecasts of future events. All statements contained in this prospectus other than statements of historical fact are forward-looking statements. 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, belie 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. These forward-looking statements include, among other things, statements about:

- our ability to identify and penetrate markets for our PowerBuoy systems and our wave energy technology;
- our ability to implement our commercialization strategy as planned, or at all;
- changes in current legislation or regulations that affect the demand for renewable energy;
- our ability to compete effectively in the renewable energy market;
- our limited operating history and history of operating losses;
- our sales and marketing capabilities and strategy in the United States and internationally;
- our intellectual property portfolio; and
- our estimates regarding expenses, future revenues, capital requirements and needs for additional financing.

Any or all of our forward-looking statements in this prospectus 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 risk, uncertainties and assumptions described in Risk Factors. In light of these risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this prospectus 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 prospectus. 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. You should, however, review the factors and risks we describe in the reports we will file from time to time with the SEC after the date of this prospectus. See Where You Can Find More Information.

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USE OF PROCEEDS

We estimate that the net proceeds to us from the sale of the 5,000,000 shares of common stock we are offering will be approximately $94.8 million, assuming an initial public offering price of $21.00 per share, the midpoint of the estimated price range shown on the cover of this prospectus, and after deducting underwriting discounts and commissions and the estimated offering expenses payable by us. If the underwriters exercise their over-allotment option in full, we estimate the net proceeds to us from this offering will be approximately $107.6 million. We will not receive any proceeds from the sale of shares of common stock by the selling stockholders as a result of any exercise by the underwriters of their over-allotment option.

The principal purposes of this offering are to obtain additional capital resources to construct demonstration wave power stations and to fund minority investments in wave station projects to encourage market adoption of our wave power stations; to fund the continued development and commercialization of our PowerBuoy system, including increases in system output; to expand our international sales and marketing capabilities; and for working capital and general corporate purposes, including potential acquisitions of complementary businesses, products or technologies. We intend to use the net proceeds of this offering as follows:

- approximately $25.0 million to construct demonstration wave power stations and approximately $25.0 million to fund minority investments in wave station projects to encourage market adoption of our wave power stations;
- approximately $10.5 million to fund the continued development and commercialization of our PowerBuoy system, including increases in system output;
- approximately $7.5 million to fund the expansion of assembly, test and field service facilities;
- approximately $4.0 million to expand our international sales and marketing capabilities; and
- the balance for working capital and other general corporate purposes.

We may also use a portion of the net proceeds to acquire complementary products, technologies or businesses, although we currently have no agreements or commitments with respect to any such transactions.

Assuming the number of shares offered by us, as set forth on the cover page of this prospectus, remains the same, after deducting the estimated underwriting discounts and commissions and other estimated offering expenses payable by us in connection with the offering, a $1.00 increase (decrease) in the assumed public offering price of $21.00 per share of common stock would increase (decrease) our expected net proceeds by approximately $4.7 million.

As of the date of this prospectus, we cannot specify with certainty all of the particular uses for the net proceeds of this offering. The amounts and timing of our actual expenditures may vary significantly from our expectations depending upon numerous factors, including our development and commercialization efforts, our operating costs and capital expenditures, our future revenues and cash generated by operations. Accordingly, we will retain broad discretion to allocate the net proceeds of this offering among the identified uses described above, and we reserve the right to change the allocation of the net proceeds of this offering.

Pending use of the proceeds from this offering, we intend to invest the proceeds in short-term, investment-grade, interest-bearing instruments.

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PRICE RANGE OF OUR COMMON STOCK

Prior to this offering, there has been no trading market for our common stock in the United States. Our common stock has been listed on the AIM market of the London Stock Exchange since October 2003 under the symbol OPT. The historical trading prices of our common stock on the AIM market may not be indicative of prices that will prevail in the trading market for our common stock in the United States.

The following table sets forth, for the periods indicated, the high and low closing sale prices for our common stock on the AIM market as reported by the London Stock Exchange. The sales prices have been adjusted to give effect to a one-for-ten reverse stock split of our common stock to be effective prior to this offering. The sales prices for our shares of common stock on the AIM market are quoted in pound sterling (£), the lawful currency of the United Kingdom. The following table also shows the high and low closing sales price of our common stock (as adjusted to give effect to a one-for-ten reverse split to be effective prior to this offering) expressed in dollars based upon the average noon buying rate for pound sterling for the periods indicated.

	High	Low	High	Low
Year ended April 30, 2005				
First quarter	£ 8.55	£ 7.35	$ 15.56	$ 13.38
Second quarter	£ 8.15	£ 7.00	$ 14.75	$ 12.67
Third quarter	£ 9.30	£ 7.90	$ 17.58	$ 14.93
Fourth quarter	£ 11.90	£ 7.60	$ 22.61	$ 14.44
Year ended April 30, 2006				
First quarter	£ 8.45	£ 6.55	$ 15.29	$ 11.86
Second quarter	£ 10.75	£ 7.75	$ 19.24	$ 13.87
Third quarter	£ 9.25	£ 7.15	$ 16.19	$ 12.51
Fourth quarter	£ 10.70	£ 6.80	$ 18.73	$ 11.90
Year ending April 30, 2007				
First quarter	£ 10.00	£ 6.60	$ 18.50	$ 12.21
Second quarter	£ 8.90	£ 6.15	$ 16.82	$ 11.62
Third quarter	£ 9.05	£ 5.35	$ 17.56	$ 10.38
Fourth quarter (through April 5, 2007)	£ 12.35	£ 8.60	$ 24.33	$ 16.94

On April 5, 2007, the last reported sale price of our common stock on the AIM market (as adjusted to give effect to a one-for-ten reverse split to be effective prior to this offering) was £11.70 per share, or approximately $23.05 per share based on the noon buying rate for pound sterling of £1.00 = $1.97 on that date.

The following table sets forth, for the periods indicated, the high, low, average and period end noon buying rate for pound sterling, expressed in dollars per pound sterling in New York City as certified for customs purposes by the Federal Reserve Bank of New York.

	High	Low	Average	Period End
Year ended April 30, 2005				

First quarter	$ 1.87	$ 1.75	$ 1.82	$ 1.82
Second quarter	$ 1.85	$ 1.77	$ 1.81	$ 1.83
Third quarter	$ 1.95	$ 1.83	$ 1.89	$ 1.89
Fourth quarter	$ 1.93	$ 1.86	$ 1.90	$ 1.91
Year ended April 30, 2006				
First quarter	$ 1.90	$ 1.73	$ 1.81	$ 1.76
Second quarter	$ 1.84	$ 1.75	$ 1.79	$ 1.77
Third quarter	$ 1.79	$ 1.71	$ 1.75	$ 1.78
Fourth quarter	$ 1.82	$ 1.73	$ 1.75	$ 1.82
Year ending April 30, 2007				
First quarter	$ 1.89	$ 1.81	$ 1.85	$ 1.87
Second quarter	$ 1.91	$ 1.85	$ 1.89	$ 1.91
Third quarter	$ 1.98	$ 1.89	$ 1.94	$ 1.96
Fourth quarter (through April 5, 2007)	$ 1.98	$ 1.92	$ 1.95	$ 1.97

The initial public offering price for the common stock being offered by this prospectus was determined by negotiation between us and the underwriters based on a number of factors which are described in Underwriting Determination of Offering Price.

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DIVIDEND POLICY

We have never declared or paid any cash dividends on our common stock, and we do not currently anticipate declaring or paying cash dividends on our common stock in the foreseeable future. We currently intend to retain all of our future earnings, if any, to finance the growth and development of our business. Any future determination relating to our dividend policy will be made at the discretion of our board of directors and will depend on a number of factors, including future earnings, capital requirements, financial conditions, future prospects, contractual restrictions and covenants and other factors that our board of directors may deem relevant.

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CAPITALIZATION

The following table sets forth our cash, cash equivalents and short-term investments and capitalization as of January 31, 2007:

- on an actual basis; and
- on an as adjusted basis to reflect the sale of the 5,000,000 shares of our common stock we are offering at an assumed initial public offering price of $21.00 per share, the midpoint of the estimated price range set forth on the cover page of this prospectus, after deducting underwriting discounts and commissions and estimated offering expenses payable by us.

	As of January 31, 2007	
	Actual	As Adjusted(1)
	(Unaudited)	
Cash, cash equivalents and certificates of deposit(1)	$ 26,657,152	$ 122,788,581
Long-term debt	$ 233,959	$ 233,959
Stockholders equity:		
Preferred stock, par value $0.001 per share; 5,000,000 shares authorized; no shares outstanding actual and no shares outstanding as adjusted		
Common stock, par value $0.001 per share; 105,000,000 shares authorized; 5,177,219 shares outstanding actual and 10,177,219 shares outstanding as adjusted	5,177	10,177
Additional paid-in capital	60,731,724	155,482,074
Accumulated deficit	(34,140,603)	(34,140,603)
Accumulated other comprehensive loss	(19,063)	(19,063)
Total stockholders equity	26,577,235	121,332,585
Total capitalization	$ 26,811,194	$ 121,566,544

(1) Assuming the number of shares offered by us, as set forth on the cover page of this prospectus, remains the same, after deducting the estimated underwriting discounts and commissions and other estimated offering expenses payable by us in connection with the offering, a $1.00 increase (decrease) in the assumed public offering price of $21.00 per share of common stock (the midpoint of the estimated price range set forth on the cover of this prospectus) would increase (decrease) each of cash, cash equivalents and certificates of deposit, additional paid-in capital, total stockholders equity and total capitalization by approximately $4.7 million.

The table above should be read in conjunction with our consolidated financial statements and related notes appearing at the end of this prospectus and the Management s Discussion and Analysis of Financial Condition and Results of Operations section of this prospectus.

This table is based on 5,177,219 shares of our common stock outstanding as of January 31, 2007 (as adjusted to give effect to a one-for-ten reverse split to be effective prior to this offering) and excludes:

- 1,366,574 shares of our common stock issuable upon the exercise of stock options outstanding as of January 31, 2007 at a weighted average exercise price of $14.25 per share; and

- 803,215 shares of our common stock available for future grant under our equity compensation plans, including our new 2006 stock incentive plan, as of January 31, 2007.

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DILUTION

If you invest in our common stock, your interest will be diluted immediately to the extent of the difference between the initial public offering price per share you will pay in this offering and the net tangible book value per share of our common stock after this offering.

Our actual net tangible book value as of January 31, 2007 was $26.1 million, or $5.03 per share of common stock. Net tangible book value per share represents the amount of our total tangible assets less total liabilities, divided by the number of shares of common stock outstanding.

After giving effect to the issuance and sale by us of the 5,000,000 shares of common stock in this offering, at an assumed initial public offering price of $21.00 per share, the midpoint of the estimated price range set forth on the cover page of this prospectus, less the underwriting discounts and commissions and estimated offering expenses payable by us, our net tangible book value as of January 31, 2007 would have been $120.8 million, or $11.87 per share of common stock. This represents an immediate increase in net tangible book value per share of $6.84 to existing stockholders and immediate dilution of $9.13 per share to new investors purchasing shares in this offering. Dilution per share to new investors is determined by subtracting the net tangible book value per share after this offering from the initial public offering price per share paid by a new investor. The following table illustrates the per share dilution without giving effect to the over-allotment option granted to the underwriters:

Assumed initial public offering price per share of common stock		$ 21.00
Actual net tangible book value per share as of January 31, 2007	$ 5.03	
Increase in net tangible book value per share attributable to new investors	6.84	
Adjusted tangible book value per share after this offering		11.87
Dilution per share to new investors		$ 9.13

A $1.00 increase (decrease) in the assumed public offering price of $21.00 per share would increase (decrease) the adjusted net tangible book value per share by $0.46, and the dilution per share to new investors by $0.54, assuming the number of shares offered by us in this offering as set forth on the cover page of this prospectus remains the same and after deducting the estimated underwriting discounts and commissions and estimated offering expenses payable by us.

If the underwriters exercise their over-allotment option in full, our net tangible book value will increase to $12.34 per share, representing an immediate increase to existing stockholders of $7.31 per share and an immediate dilution of $8.66 per share to new investors. If any shares are issued in connection with outstanding options, you will experience further dilution.

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The following table summarizes as of January 31, 2007 the number of shares of common stock purchased or to be purchased from us, the total consideration paid or to be paid and the average price per share paid by (1) the stockholders that purchased our shares in our October 2003 offering on the AIM market of the London Stock Exchange, (2) other existing stockholders and (3) new investors in this offering, before deducting underwriting discounts and commissions and other estimated expenses of this offering.

	Total Shares		Total Consideration		Average Price per Share
	Number	%	Amount	%	
Stockholders that purchased in the AIM market offering	2,000,000	19.7%	$ 42,600,000	26.2%	$ 21.30
Other existing stockholders(1)	3,177,219	31.2	15,260,000	9.4	$ 4.80
New investors	5,000,000	49.1	105,000,000	64.4	$ 21.00
Total	10,177,219	100%	$ 162,860,000	100%	

(1) Includes shares held by our directors and executive officers, 78% of which shares were purchased more than five years prior to January 31, 2007.

The table above is based on shares outstanding as of January 31, 2007 and excludes:

1,366,574 shares of our common stock issuable upon the exercise of stock options outstanding as of January 31, 2007 at a weighted average exercise price of $14.25 per share; and

803,215 shares of our common stock available for future grant under our equity compensation plans, including our new 2006 stock incentive plan, as of January 31, 2007.

If the underwriters exercise their over-allotment option in full, the following will occur:

the percentage of shares of common stock held by existing stockholders will decrease to approximately 47% of the total number of shares of our common stock outstanding after this offering; and

the number of shares held by new investors will be increased to 5,750,000, or approximately 53%, of the total number of shares of our common stock outstanding after this offering.

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SELECTED CONSOLIDATED FINANCIAL DATA

You should read the following selected consolidated financial data in conjunction with our consolidated financial statements and the related notes appearing at the end of this prospectus and the Management s Discussion and Analysis of Financial Condition and Results of Operations section of this prospectus. We have derived the consolidated statement of operations data for the fiscal years ended April 30, 2004, 2005 and 2006 and the consolidated balance sheet data as of April 30, 2005 and 2006 from our audited consolidated financial statements, which are included in this prospectus, as audited by KPMG LLP, our independent registered public accounting firm for fiscal 2005 and 2006 and by Deloitte & Touche LLP for fiscal 2004. We have derived the consolidated statement of operations data for the fiscal years ended April 30, 2002 and 2003 and the consolidated balance sheet data as of April 30, 2002, 2003 and 2004 from our audited consolidated financial statements, which are not included in this prospectus. We have derived the consolidated statement of operations data for the nine months ended January 31, 2006 and 2007 and the consolidated balance sheet data as of January 31, 2007 from our unaudited consolidated financial statements, which are included in this prospectus. The unaudited summary consolidated financial statement data include, in our opinion, all adjustments, consisting only of normal recurring adjustments, that are necessary for a fair presentation of our financial position and results of operations for these periods. Our historical results for any prior period are not necessarily indicative of results to be expected for any future period.

	Fiscal Years Ended April 30,					Nine Months Ended January 31,	
	2002	2003	2004	2005	2006	2006	2007
						(Unaudited)	
nsolidated tement of erations Data:							
enues	$ 1,375,339	$ 2,548,294	$ 4,713,202	$ 5,365,235	$ 1,747,715	$ 1,467,283	$ 1,513,6
t of revenues	3,619,996	2,555,267	4,319,850	5,170,521	2,059,318	1,920,980	2,103,1
ss profit (loss)	(2,244,657)	(6,973)	393,352	194,714	(311,603)	(453,697)	(589,4
erating expenses:							
duct development s	622,137	180,403	255,958	904,618	4,224,997	2,630,663	4,100,4
ing, general and inistrative costs	1,832,747	818,596	1,745,955	2,553,911	3,190,687	2,168,345	3,083,6
al operating enses	2,454,884	998,999	2,001,913	3,458,529	7,415,684	4,799,008	7,184,0
erating loss	(4,699,541)	(1,005,972)	(1,608,561)	(3,263,815)	(7,727,287)	(5,252,705)	(7,773,5
er income pense):							
rest income, net	120,880	38,441	555,717	1,297,156	1,408,361	1,062,095	1,066,8
er income pense)	499,591	473	(3,500,096)(1)	1,545	74,294	75,000	13,7
			1,585,345	1,507,145	(978,242)	(1,514,630)	1,184,4

eign exchange n (loss)							
s before incomes es	(4,079,070)	(967,058)	(2,967,595)	(457,969)	(7,222,874)	(5,630,240)	(5,508,4
ome tax benefit	155,312	146,853	118,119	29,335	143,963	143,963	
loss	$ (3,923,758)	$ (820,205)	$ (2,849,476)	$ (428,634)	$ (7,078,911)	$ (5,486,277)	$ (5,508,4
ic and diluted net per share	$ (1.30)	$ (0.27)	$ (0.71)	$ (0.08)	$ (1.37)	$ (1.06)	$ (1.
ic and diluted ghted average res outstanding	3,015,118	3,017,422	4,037,501	5,135,550	5,162,340	5,158,982	5,174,5

	2002	2003	As of April 30, 2004	2005	2006	As of January 31, 2007 (Unaudited)
Consolidated Balance Sheet Data:						
Cash, cash equivalents and certificates of deposit	$ 3,255,238	$ 2,246,175	$ 39,565,574(2)	$ 38,787,176	$ 32,439,365	$ 26,657,152
Working capital	1,714,786	1,177,789	38,422,395	37,903,207	30,886,029	26,224,722
Total assets	3,837,915	2,878,947	40,747,479	41,596,387	33,996,138	30,925,630
Long-term debt, net of current portion	250,000	250,000	250,000	245,844	233,959	233,959
Accumulated deficit	(17,486,799)	(18,275,132)	(21,124,608)	(21,553,242)	(28,632,153)	(34,140,603)
Total stockholders equity	1,104,284	490,785	37,853,246	37,836,531	31,066,704	26,577,235

(1) Other expense in fiscal 2004 resulted from a one time charge incurred at the time of our stock offering on the AIM market in October 2003 relating to a 1999 agreement between us and Tyco Electronics Corp.

(2) On October 31, 2003, we completed our offering on the AIM market resulting in net proceeds to us of $38.3 million.

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MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read the following discussion and analysis of our financial condition and results of operations together with our consolidated financial statements and the related notes and other financial information included elsewhere in this prospectus. Some of the information contained in this discussion and analysis or set forth elsewhere in this prospectus, including information with respect to our plans and strategy for our business and related financing, includes forward-looking statements that involve risks and uncertainties. You should review the Risk Factors section of this prospectus for a discussion of important factors that could cause actual results to differ materially from the results described in or implied by the forward-looking statements contained in the following discussion and analysis.

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, our utility PowerBuoy system and our autonomous PowerBuoy system.

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 independently 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, offshore cellular phone service, tsunami warning, oceanographic data collection, offshore platforms and offshore aquaculture. We also offer our customers operations and maintenance services for our PowerBuoy systems, which are expected to provide a source of recurring revenues.

We were incorporated in New Jersey in April 1984 and began commercial operations in 1994. We currently have five wholly owned subsidiaries, Ocean Power Technologies Ltd., Reedsport OPT Wave Park LLC, Oregon Wave Energy Partners I, LLC, Oregon Wave Energy Partners II, LLC and Fairhaven OPT Ocean Power LLC, and we own approximately 88% of the ordinary shares of Ocean Power Technologies (Australasia) Pty Ltd. Our revenues have been generated from research contracts and development and construction contracts relating to our wave energy technology. 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 construction of a grid-connected wave power station 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 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. In fiscal 2005, we entered into a development agreement with an affiliate of Iberdrola S.A., a large electric utility company located in Spain and one of the largest renewable energy producers in the world, and other parties to jointly study the possibility of developing a wave power station off the coast of northern Spain. An affiliate of Total S.A., which is one of the world s largest oil and gas companies, joined the development agreement in June 2005. In January 2006, we completed the assessment phase of the project, and in July 2006 we entered into an agreement with Iberdrola Energias Marinas de Cantabria, S.A. to complete the first phase of the construction of a 1.39 megawatt, or MW, wave power station. In addition, we have entered into a contract with affiliates of Iberdrola and Total to assess

the viability of a 2 to 5MW power station off the coast of France.

Our fiscal year ends on April 30. For the nine months ended January 31, 2007, we generated revenues of $1.5 million and incurred a net loss of $5.5 million, and for fiscal 2006 we generated revenues of $1.7 million and incurred a net loss of $7.1 million. As of January 31, 2007, our accumulated deficit was $34.1 million. We have not been profitable since inception, and we do not know whether or when we will become profitable

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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 majority 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 will, within a few years, represent the majority of our revenues.

Financial Operations Overview

The following describes certain line items in our statement of operations and some of the factors that affect our operating results.

Revenues

We have historically generated revenues primarily from the development and construction of our PowerBuoy systems for demonstration purposes and, to a lesser extent, from customer-sponsored research and development. In fiscal 2006, we derived approximately 96% of our revenues from government and commercial development and construction contracts and 4% of our revenues from customer-sponsored research and development contracts. For the nine months ended January 31, 2007, we derived approximately 92% of our revenues from government and commercial development and construction contracts and 8% of our revenues from customer-sponsored research and development. Generally, we recognize revenue on 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. Under our agreement for the first phase of construction of a wave power station off the coast of Santoña, Spain, our revenues are limited to reimbursement for our construction costs without any mark-up and we are required to bear the first 0.5 million of any cost overruns.

Our revenues increased in each of fiscal 2003, 2004 and 2005, but decreased significantly in fiscal 2006 as a result of delays in the timing of contract award and in the approval of the scope of work relating to our project for the US Navy for the development and construction of a wave power station in Hawaii, and the determination by Lockheed Martin and some of its subcontractors not to proceed with a project under consideration that would have utilized our autonomous PowerBuoy system.

The US Navy has been our largest customer since fiscal 2002. The US Navy accounted for approximately 57% of our revenues in the nine months ended January 31, 2007, approximately 61% of our revenues in fiscal 2006, 57% of our revenues in fiscal 2005 and approximately 95% of our revenues in fiscal 2004. We anticipate that the US Navy will continue to account for a substantial portion of our revenue in fiscal 2007 and, if our commercialization efforts are successful, its relative contribution to our revenue will decline thereafter. Lockheed Martin was also a significant customer in fiscal 2006 and 2005, accounting for approximately 22% of our revenues in fiscal 2006 and approximately 32% of our revenues in fiscal 2005.

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We currently focus our sales and marketing efforts on coastal North America, the west coast of Europe, the coasts of Australia and the east coast of Japan. In fiscal 2006, we derived 9%, and for the nine months ended January 31, 2007, we derived 35%, of our revenues from outside the United States. The following table provides information regarding the breakdown of our revenues by geographical region for fiscal years 2004, 2005 and 2006 and for the nine months ended January 31, 2007:

	Percentage of Revenues			
Region	**Year Ended April 30, 2004**	**Year Ended April 30, 2005**	**Year Ended April 30, 2006**	**Nine Months Ended January 31, 2007**
United States	100%	96%	91%	65%
Europe		4	9	32
Australia				3
Total	100%	100%	100%	100%

Cost of revenues

Our cost of revenues consists primarily of 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.

In the nine months ended January 31, 2007, we operated at a gross loss of approximately $0.6 million, while in fiscal 2006 we operated at a gross loss of $0.3 million and in fiscal 2005 we operated at a gross profit of $0.2 million. Our ability to operate at a gross profit will depend on 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 research activities. Our product development costs primarily relate to our efforts to increase the output of our current 40 kilowatt, or kW, utility PowerBuoy system to 150kW in 2007, then to 250kW in 2008 and ultimately to 500kW in 2010 and, to a lesser extent, 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 amortize over a 17-year period commencing with the issuance date of each patent.

Our product development costs increased significantly in each of fiscal 2005 and 2006 as a result of the development of our current 40kW utility PowerBuoy system, which was introduced in fiscal 2006. We expect our product development costs to increase in absolute dollars as we continue to increase the output and efficiency of our PowerBuoy systems.

During fiscal 2006, we refocused many of our engineering and development resources that had previously been deployed on our commercial research or product development contracts on the development effort for our current

40kW PowerBuoy system, including the development of the buoy structure, the power take off system and the power grid connection. We introduced our current 40kW PowerBuoy system in fiscal 2006 one system has been deployed for twelve months off the coast of New Jersey, one system is expected to be deployed in Hawaii for the US Navy project in April 2007 and another system is expected to be deployed for the wave power station off the coast of Spain by October 2007.

Selling, general and administrative costs

Our selling, general and administrative costs consist primarily of salaries and other personnel-related costs for employees engaged in sales and marketing and support of our PowerBuoy systems, promotional and public relations expenses and management and administration expenses in support of sales and marketing, as well as costs for executive, accounting and administrative personnel, professional fees and other general corporate expenses.

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We expect our selling, general and administrative costs to increase in absolute dollars as we expand our sales and marketing capabilities, including increased headcount, and as a result of our becoming a public company in the United States.

Interest income, net

Interest income, net consists primarily of interest received on cash and cash equivalents and investments in commercial bank-issued certificates of deposit. Most of our cash, cash equivalents and bank-issued certificates of deposit result from the remaining proceeds of our October 2003 offering on the AIM market. Total cash, cash equivalents and certificates of deposit were $26.7 million as of January 31, 2007, $32.4 million as of April 30, 2006 and $38.8 million as of April 30, 2005. We expect that interest income will generally increase during periods of increasing interest rates and decrease during periods of declining interest rates, net of changes in invested balances. We anticipate that our interest income will increase significantly as a result of the investment of the proceeds from this offering pending the application of the proceeds as described in Use of Proceeds.

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 $17.0 million as of January 31, 2007 and $16.7 million as of April 30, 2006, compared to our total certificates of deposits and cash account balances of $26.7 million as of January 31, 2007 and $32.4 million as of April 30, 2006. 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 year ended April 30, 2006 were recorded in Euros or British pounds.

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.

Income tax benefit

As of April 30, 2006, we had federal research and development tax credits of $0.5 million and federal net operating losses of approximately $19.5 million to offset future federal taxable income. If not utilized, the credit carryforwards will expire at various dates through 2026, and the net operating loss carryforwards will expire at various dates through 2026. We may not achieve profitability in time to utilize the tax credit and net operating loss carryforwards in full or

at all. In addition, the future utilization of our net operating loss carryforwards may be limited based upon changes in ownership, including changes resulting from this offering and the AIM offering in 2003, pursuant to regulations promulgated under the Internal Revenue Code. These limitations may result in the expiration of net operating losses and credits prior to utilization. As discussed in

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Note 12 to our consolidated financial statements included in this prospectus, we have established valuation allowances for the full value of our deferred tax assets, which was $10.1 million as of April 30, 2006 and $12.1 million as of January 31, 2007.

In fiscal 2004, 2005 and 2006, we sold a portion of our New Jersey state net operating losses and a portion of our New Jersey research and development credits under a program offered by the State of New Jersey, and recognized income tax benefits of approximately $0.1 million in fiscal 2004, $29,000 in fiscal 2005 and approximately $0.1 million in fiscal 2006. Because we believe we are no longer eligible to participate in this program, we do not expect to sell any additional New Jersey state net operating losses or research and development credits in the future.

Results of Operations

Nine Months Ended January 31, 2006 and 2007

The following table contains selected unaudited statement of operations information, which serves as the basis of the discussion of our results of operations for the nine months ended January 31, 2006 and 2007:

	Nine Months Ended January 31, 2006 (Unaudited)		Nine Months Ended January 31, 2007 (Unaudited)		Change 2007 Period to 2006 Period	
	Amount	As a % of Revenues	Amount	As a % of Revenues	$ Change	% Change
Revenues	$ 1,467,283	100%	$ 1,513,631	100%	$ 46,348	3%
Cost of revenues	1,920,980	131	2,103,108	139	182,128	9
Gross loss	(453,697)	(31)	(589,477)	(39)	(135,780)	30
Operating expenses:						
Product development costs	2,630,663	179	4,100,418	271	1,469,755	56
Selling, general and administrative costs	2,168,345	148	3,083,621	204	915,276	42
Total operating expenses	4,799,008	327	7,184,039	475	2,385,031	50
Operating loss	(5,252,705)	(358)	(7,773,516)	(514)	(2,520,811)	(48)
Interest income, net	1,062,095	72	1,066,823	71	4,728	
Other income	75,000	5	13,744	1	(61,256)	(82)
Foreign exchange (loss) gain	(1,514,630)	(103)	1,184,499	78	2,699,129	(178)
Loss before income taxes	(5,630,240)	(384)	(5,508,450)	(364)	121,790	2
Income tax benefit	143,963	10			(143,963)	(100)
Net loss	$ (5,486,277)	(374)%	$ (5,508,450)	(364)%	$ (22,173)	%

Revenues

Revenues of $1.5 million in the first nine months of fiscal 2007 were relatively unchanged from revenues in the same period of fiscal 2006. The change in composition of revenues between the two periods reflected the following factors:

Revenues relating to our autonomous PowerBuoy system decreased by approximately $0.3 million as a result of the completion of a development and construction contract with Lockheed Martin in the first quarter of fiscal 2006.

Revenues relating to our utility PowerBuoy system increased by approximately $0.3 million as we started work on the first phase of construction of a 1.39MW wave power station off the coast of Spain and began to assess the feasibility of a 2 to 5MW wave power station off the coast of France in the first nine months of fiscal 2007.

Revenues relating to our US Navy project increased by approximately $0.1 million due to a slightly higher activity level.

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Revenues decreased by approximately $0.1 million as a result of the completion of the demonstration wave power system that was deployed off the coast of New Jersey in fiscal 2006.

Revenues were adversely affected by the determination by Lockheed Martin and some of its subcontractors not to proceed with an anticipated defense application project that would have utilized our autonomous PowerBuoy system, although this was partially offset by revenues from a contract with the US Department of Homeland Security to design and study an autonomous PowerBuoy system for offshore marine surveillance, with Lockheed Martin as our subcontractor.

Cost of revenues

Cost of revenues increased by $0.2 million, or 9%, to $2.1 million in the first nine months of fiscal 2007, as compared to $1.9 million in the same period of fiscal 2006. The decrease in gross margin in the nine months ended January 31, 2007 as compared to the same period of fiscal 2006 was primarily due to an anticipated loss of $0.5 million that was recognized in the nine months ended January 31, 2007 on our contract for a wave power station off the coast of Spain. The loss was recognized based on a change in estimated costs associated with this contract. In addition, $0.2 million of compensation expense was recorded as cost of revenues under Statement of Financial Accounting Standards, or SFAS, No. 123(R), *Share-Based Payment*, or SFAS 123(R), which requires companies to recognize compensation expense for all stock-based payments to employees. Because we adopted SFAS 123(R) effective May 1, 2006, we did not record similar compensation expense in the first nine months of fiscal 2006.

Product development costs

Product development costs increased $1.5 million, or 56%, to $4.1 million in the nine months ended January 31, 2007, as compared to $2.6 million in the same period of fiscal 2006. The substantial increase in product development costs was primarily attributable to our efforts to increase the power output of our utility PowerBuoy system. In addition, we recorded $0.2 million of compensation expense as product development costs under SFAS 123(R). Because we adopted SFAS 123(R) effective May 1, 2006, we did not record similar compensation expense in the first nine months of fiscal 2006. As a percentage of revenues, product development costs increased to 271% in the nine months ended January 31, 2007 from 179% in the same period in fiscal 2006. We anticipate that our product development costs related to the planned increase in the output of our utility PowerBuoy system will increase significantly over the next several years and that the amount of these expenditures will not necessarily be affected by the level of revenue generated over that time period. Accordingly, comparisons of product development costs as a percentage of revenue may not be meaningful.

Selling, general and administrative costs

Selling, general and administrative costs increased $0.9 million, or 42%, to $3.1 million in the nine months ended January 31, 2007, as compared to $2.2 million in the same period of fiscal 2006. The increase was primarily attributable to an increase of $0.2 million related to additional marketing expenses and consulting costs, $0.3 million in professional fees, and $0.5 million of compensation expense recorded under SFAS 123(R). Because we adopted SFAS 123(R) effective May 1, 2006, we did not record similar compensation expense in the first nine months of fiscal 2006.

Interest income, net

Interest income, net remained relatively flat at $1.1 million in the nine months ended January 31, 2007, compared to the same period of fiscal 2006, due to a reduction in the balance of our cash, cash equivalents and certificates of

deposit between the two periods of $3.8 million, offset by higher interest rates.

Foreign exchange (loss) gain

Foreign exchange gain was $1.2 million in the nine months ended January 31, 2007, compared to a foreign exchange loss of $1.5 million in the same period of fiscal 2006. The gain in the first nine months of fiscal 2007 was primarily attributable to the appreciation of the British pound compared to the US dollar.

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Fiscal Years Ended April 30, 2005 and 2006

The following table contains selected statement of operations information, which serves as the basis of the discussion of our results of operations for the years ended April 30, 2005 and 2006:

	Fiscal Year Ended April 30, 2005		Fiscal Year Ended April 30, 2006		Change 2006 Period to 2005 Period	
	Amount	As a % of Revenues	Amount	As a % of Revenues	$ Change	% Change
Revenues	$ 5,365,235	100%	$ 1,747,715	100%	$ (3,617,520)	(67)%
Cost of revenues	5,171,521	96	2,059,318	117	(3,112,203)	(60)%
Gross profit (loss)	194,714	4	(311,603)	(18)	(506,317)	(260)%
Operating expenses:						
Product development costs	904,618	17	4,224,997	242	3,320,379	367%
Selling, general and administrative costs	2,553,911	48	3,190,687	183	636,776	25%
Total operating expenses	3,458,529	64	7,415,684	424	3,957,155	114%
Operating loss	(3,263,815)	(61)	(7,727,287)	(442)	(4,463,472)	137%
Interest income, net	1,297,156	24	1,408,361	81	111,205	9%
Other income	1,545		74,294	4	72,749	4,709%
Foreign exchange gain (loss)	1,507,145	28	(978,242)	(56)	(2,485,387)	(165)%
Loss before income taxes	(457,969)	(9)	(7,222,874)	(413)	(6,764,905)	1,477%
Income tax benefit	29,335	1	143,963	8	114,628	58%
Net loss	$ (428,634)	(8)%	$ (7,078,911)	(405)%	$ (6,650,277)	1,552%

Revenues

Revenues decreased by $3.6 million in fiscal 2006, or 67%, to $1.7 million as compared to $5.4 million in fiscal 2005. The decrease in revenues was primarily attributable to the following factors:

Revenues from our US Navy wave power station project in Hawaii decreased by approximately $1.8 million as a result of delays in the timing of contract award and in the approval of the scope of development and construction of the wave power station.

Revenues related to our autonomous PowerBuoy system decreased by approximately $1.3 million as a result of the completion of a development and construction contract with Lockheed Martin in the first quarter of fiscal 2006, and the determination by Lockheed Martin and some of its subcontractors not to proceed with an

anticipated defense application project that would have utilized our autonomous PowerBuoy system, partially offset by revenues of approximately $61,000 from a contract with the US Department of Homeland Security to design and study an autonomous PowerBuoy system for offshore marine surveillance.

Revenues decreased by approximately $0.3 million as a result of the completion early in fiscal 2006 of the demonstration wave power station that was deployed off the coast of New Jersey under a contract with the New Jersey Board of Public Utilities.

Cost of revenues

Cost of revenues decreased by $3.1 million, or 60%, to $2.1 million in fiscal 2006 as compared to $5.2 million in fiscal 2005. The decrease in the cost of revenues was primarily attributable to the reduction in revenue during fiscal 2006. Gross loss on revenues in fiscal 2006 primarily reflected discretionary costs incurred by us in connection with the deployment of the first PowerBuoy system in Hawaii that were not reimbursed under our agreement with the US Navy.

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Product development costs

Product development costs increased $3.3 million, or 367%, to $4.2 million in fiscal 2006, as compared to $0.9 million in fiscal 2005. The substantial increase in product development costs was primarily attributable to the development of our current 40kW PowerBuoy system, which was deployed in October 2005 off the coast of New Jersey and which is expected to be deployed in the second half of fiscal 2007 in Hawaii.

As discussed above, in fiscal 2006 we experienced a reduction in revenues from approximately $5.4 million in fiscal 2005 to approximately $1.7 million in fiscal 2006. In response to this reduction in revenues, during fiscal 2006 we refocused many of our engineering and development resources that had previously been deployed on our commercial research or development contracts on the product development effort for our current 40kW PowerBuoy system, including the development of the buoy structure, the power take off system and the power grid connection. We also began our efforts to increase the maximum rated output of our utility PowerBuoy system to 150kW.

Selling, general and administrative costs

Selling, general and administrative costs increased $0.6 million, or 25%, to $3.2 million in fiscal 2006, as compared to $2.6 million in fiscal 2005. The increase was primarily attributable to a $0.5 million increase in marketing expenses, including additional marketing personnel, and to increased professional fees.

Interest income, net

Interest income, net increased $0.1 million, or 9%, to $1.4 million in fiscal 2006, as compared to $1.3 million in fiscal 2005. The increase was attributable to higher interest rates in fiscal 2006, which were partially offset by a reduction of our cash, cash equivalents and bank-issued certificates of deposit balances between the two periods of approximately $6.3 million.

Other income

Other income in fiscal 2006 included the recognition of a one-time payment of $0.1 million in fiscal 2006 in connection with the termination of a license development agreement entered into in April 2003. See Note 8 to our consolidated financial statements appearing elsewhere in this prospectus.

Foreign exchange gain (loss)

In fiscal 2006, we had a foreign exchange loss of $1.0 million, as compared to a foreign exchange gain of $1.5 million in fiscal 2005. The difference was primarily attributable to the appreciation of the US dollar compared to the British pound between the two periods.

Income tax benefit

During fiscal 2006, we recorded an income tax benefit of approximately $0.1 million compared to an income tax benefit of approximately $29,000 recorded in fiscal 2005. The income tax benefit recorded in both periods resulted from our sale of New Jersey state net operating losses under a program offered by the State of New Jersey, and the increase from fiscal 2005 to fiscal 2006 reflected the sale of more state net operating losses in fiscal 2006 than in fiscal 2005. Because we believe we are no longer eligible to participate in this program, we do not expect to sell any additional New Jersey state net operating losses or research and development credits in the future.

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Fiscal Years Ended April 30, 2004 and 2005

The following table contains selected statement of operations information, which serves as the basis of the discussion of our results of operations for the years ended April 30, 2004 and 2005:

	Fiscal Year Ended April 30, 2004		Fiscal Year Ended April 30, 2005		Change 2005 Period to 2004 Period	
	Amount	As a % of Revenues	Amount	As a % of Revenues	$ Change	% Change
Revenues	$ 4,713,202	100%	$ 5,365,235	100%	$ 652,033	14%
Cost of revenues	4,319,850	92	5,171,521	96	850,671	20%
Gross profit	393,352	8	194,714	4	(198,638)	(50)%
Operating expenses:						
Product development costs	255,958	5	904,618	17	648,660	253%
Selling, general and administrative costs	1,745,955	37	2,553,911	48	807,956	46%
Total operating expenses	2,001,913	42	3,458,529	64	1,456,616	73%
Operating loss	(1,608,561)	(34)	(3,263,815)	(61)	(1,655,254)	103%
Interest income, net	555,717	12	1,297,156	24	741,439	133%
Other income (expense)	(3,500,096)	(74)	1,545	0	3,501,641	(100)%
Foreign exchange gain	1,585,345	34	1,507,145	28	(78,200)	(5)%
Loss before income taxes	(2,967,595)	(63)	(457,969)	(9)	$ 2,509,626	85%
Income tax benefit	118,119	3	29,335	1	(88,784)	(75)%
Net loss	$ (2,849,476)	(60)%	$ (428,634)	(8)%	$ 2,420,842	(85)%

Revenues

Revenues increased by $0.7 million in fiscal 2005, or 14%, to $5.4 million as compared to $4.7 million in fiscal 2004. The increase in revenues was primarily attributable to the following factors:

Revenues relating to our autonomous PowerBuoy system increased by approximately $1.5 million as a result of a development and construction contract with Lockheed Martin for an autonomous PowerBuoy system that was deployed in September 2004.

Revenues relating to our utility PowerBuoy system increased by approximately $0.2 million as we began the development phase of the project for a wave power station off the coast of Spain in fiscal 2005.

Revenues increased by $0.4 million as a result of the recognition of revenue attributable to work performed on the demonstration wave power station that subsequently was deployed off the coast of New Jersey.

Revenues from our US Navy project in Hawaii decreased by approximately $1.2 million as a result of lower revenue recognized in fiscal 2005 relating to the first deployment of a PowerBuoy in Hawaii that occurred in the first month of fiscal 2005 and revenues decreased an additional $0.2 million as a result of a US Navy sponsored research contract that was completed during the first quarter of fiscal 2005 under which revenues were recognized for all of fiscal 2004.

Cost of revenues

Cost of revenues increased by $0.9 million in fiscal 2005, or 20%, to $5.2 million as compared to $4.3 million in fiscal 2004. The increase in the cost of revenues was primarily attributable to the increase in revenues. The decrease in gross margin reflected the higher level of labor-related and subcontractor costs in fiscal 2005.

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Product development costs

Product development costs increased $0.6 million, or 253%, to $0.9 million in fiscal 2005, as compared to $0.3 million in fiscal 2004. The increase in product development costs was primarily attributable to our development efforts for the autonomous and utility PowerBuoy systems.

Selling, general and administrative costs

Selling, general and administrative costs increased $0.8 million, or 46%, to $2.6 million in fiscal 2005, as compared to $1.7 million in fiscal 2004. The increase was primarily attributable to increased costs of approximately $0.5 million as a result of our listing on the AIM market and increased costs of approximately $0.4 million related to our United Kingdom operations which commenced in September 2004.

Interest income, net

Interest income, net increased $0.7 million, or 133%, to $1.3 million in fiscal 2005, as compared to $0.6 million in fiscal 2004. The increase was attributable to a full year of interest income in fiscal 2005 on the proceeds from our stock offering on the AIM market in October 2003.

Other income (expense)

Other income was approximately $2,000 in fiscal 2005, compared to net other expense of $3.5 million in fiscal 2004. The $3.5 million expense in fiscal 2004 resulted from a one time $3.5 million charge at the time of our stock offering on the AIM market in October 2003 relating to a 1999 agreement between us and Tyco Electronics Corp. See Note 7 to our consolidated financial statements appearing elsewhere in this prospectus.

Foreign exchange gain

Foreign exchange gain decreased $0.1 million, or 5%, to $1.5 million in fiscal 2005, as compared to a foreign exchange gain of $1.6 million in fiscal 2004. The decrease in the foreign exchange gain was primarily attributable to lower balances of funds held in British pound-denominated cash equivalents and certificates of deposit.

Income tax benefit

During fiscal 2005, we recorded an income tax benefit of approximately $29,000 compared to an income tax benefit of $0.1 million recorded in fiscal 2004. The income tax benefit recorded in both periods resulted from our sale of New Jersey state net operating losses under a program offered by the State of New Jersey, and the decrease from fiscal 2004 to fiscal 2005 reflected the sale of fewer state net operating losses in fiscal 2005 than in fiscal 2004.

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, 2006, our revenues were $11.8 million, our net losses were $10.4 million and our net cash used in operating activities was $9.4 million. Over that same period, we raised $38.7 million in financing activities. For the nine months ended January 31, 2007, revenues were $1.5 million and net cash used in operations was $6.6 million, reducing the capital resources available to fund our future operations and growth.

At January 31, 2007, our total cash, cash equivalents and certificates of deposit were $26.7 million. Our cash and cash equivalents are highly liquid investments with maturities of three months or less at the date of purchase and consist primarily of time deposits with large commercial banks. Our certificates of deposit are denominated in US dollars and British pounds. The certificates of deposit generally have a fixed maturity date of more than 90 days but less than one year from the date of purchase.

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The primary drivers of our cash flows have been our ability to generate revenues and decrease losses related to our contracts, as well as our ability to obtain and invest the capital resources needed to fund our development. Net cash used in operating activities was $6.6 million for the nine months ended January 31, 2007. This primarily resulted from the net loss for the period of $5.5 million. We used $6.9 million of cash in investing activities for the nine months ended January 31, 2007, which consisted primarily of the purchases of certificates of deposit.

Net cash used in operating activities was $5.1 million for fiscal 2006. This primarily resulted from a net loss for the period of $7.1 million, increased by a $0.6 million reduction in our accounts payable and a $0.1 million reduction in our accrued expenses, partially offset by a $1.3 million decrease in our accounts receivable and unbilled receivables, a non-cash foreign exchange loss of $1.0 million and $0.2 million in depreciation and amortization. In fiscal 2006, the decrease in receivables was due to the large reduction in our revenues. The non-cash foreign exchange loss reflected our significant holdings of sterling-denominated certificates of deposit, which were impacted by the appreciation of the dollar against the British pound during fiscal 2006. Net cash provided by investing activities was $24.3 million for fiscal 2006 resulting primarily from $87.4 million in maturities of certificates of deposit partially offset by $62.7 million in purchases of certificates of deposit and $0.4 million in purchases of equipment and patent costs, as we invested in expanding our assembly and test facilities and developed several new patent applications as part of our ongoing investment in technology development. Net cash provided by financing activities was $0.1 million for fiscal 2006 resulting from the proceeds from the exercise of stock options.

Net cash used in operating activities was $1.9 million for fiscal 2005. This primarily resulted from the net loss for the period of $0.4 million and a non-cash foreign exchange gain of $1.5 million. The non-cash foreign exchange gain primarily reflected the impact of the appreciation of the British pound against the dollar on our holdings in sterling-denominated certificates of deposit. Changes in working capital were offset by non-cash adjustments relating to depreciation and amortization and compensation expenses related to stock option grants. Net cash used in investing activities was $25.1 million for fiscal 2005 and primarily consisted of $58.1 million in purchases of certificates of deposit, partially offset by $33.6 million in maturities of certificates of deposit. Net cash used in investing activities also reflected our $0.4 million investment in assembly and test equipment during the year. Net cash provided by financing activities was $0.2 million for fiscal 2005 resulting from the proceeds from the exercise of stock options.

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 success of our commercial relationships with Iberdrola, Total, the US Navy and Lockheed Martin;
- 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 believe that the net proceeds from this offering, together with our current cash and cash equivalents and certificates of deposit, will be sufficient to meet our anticipated cash needs for working capital and capital expenditures at least through fiscal 2008. 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

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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.

Contractual Obligations

Our major outstanding contractual obligations relate to our facilities leases. We have summarized in the table below our fixed contractual cash obligations as of April 30, 2006.

		Payments Due by Period			
	Total	Less Than One Year	One to Three Years	Four to Five Years	More Than Five Years
Long-term debt	$ 246,000	$ 12,000	(1)	(1)	(1)
Operating leases	$ 1,496,000	$ 233,000	$ 435,000	$ 414,000	$ 414,000

(1) Our long-term debt consists of an interest-free loan from the New Jersey Commission on Science and Technology. The amounts to be repaid each year are determined as a percentage of revenues we receive in that year from our customer contracts that meet criteria specified in the loan agreement, with any remaining amount due on January 15, 2012.

Off Balance Sheet Arrangements

Since inception we have not engaged in any off balance sheet financing activities.

Quantitative and Qualitative Disclosures About Market Risk

Our primary exposure to market risk is currently confined to our cash, cash equivalents and certificates of deposit. None of these items that we hold have maturities that exceed one year. We currently do not hedge interest rate exposure. We have not used derivative financial instruments for speculative or trading purposes. Because the maturities of our cash, cash equivalents and certificates of deposit do not exceed one year, we do not believe that a change in market rates would have any significant impact on the realized value of our investments. We do not have market risk exposure on our long-term debt because it consists only of an interest-free loan from the New Jersey Board of Public Utilities.

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 $17.0 million as of January 31, 2007 and $16.7 million as of April 30, 2006, compared to our total certificates of deposits and cash account balances of $26.7 million as of January 31, 2007 and $32.4 million as of April 30, 2006. 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 year ended April 30, 2006 were recorded in Euros or British pounds. If the foreign currency exchange rates had fluctuated by 10% as of April 30, 2006, our foreign exchange loss would have changed by approximately $1.7 million.

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

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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.

Critical Accounting Policies and Estimates

The discussion and analysis of our financial condition and results of operations set forth above are based on our consolidated financial statements, which have been prepared in accordance with US generally accepted accounting principles. The preparation of these consolidated financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses. On an ongoing basis, we evaluate our estimates and judgments, including those described below. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances. These estimates and assumptions form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

We believe the following accounting policies require significant judgment and estimates by us in the preparation of our consolidated financial statements.

Revenue recognition and deferred revenue

Generally, we recognize revenue on 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. We had loss reserves of $1.3 million as of January 31, 2007 related to two contracts, $0.8 million as of April 30, 2006 related to one contract and $0.8 million as of April 30, 2005 related to two contracts. For the nine months ended January 31, 2007, due to a change in estimated costs, we recognized a loss of $0.5 million on our contract for a wave power station off the coast of Spain.

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 in unbilled receivables, and to the extent that those billings exceed costs incurred plus applicable profit margin, they are recorded as unearned revenues.

Stock-based compensation

In December 2004, the Financial Accounting Standards Board issued SFAS 123(R), which requires companies to recognize compensation expense for all stock-based payments to employees, including grants of employee stock options, in their statement of operations based on the fair value of the awards. We adopted SFAS 123(R) effective May 1, 2006 using the modified prospective method. Under this method, compensation cost is recognized for all share-based payments granted subsequent to April 30, 2006, awards modified after April 30, 2006, and the remaining portion of the fair value of unvested awards at April 30, 2006. Prior to May 1, 2006, we used the intrinsic value method to determine values used in our pro forma stock-based compensation disclosures.

In March 2005, the SEC issued Staff Accounting Bulletin No. 107, or SAB 107, which provides guidance regarding the implementation of SFAS 123(R). In particular, SAB 107 provides guidance regarding calculating assumptions used in stock-based compensation valuation models, the classification of stock-based compensation expense, the capitalization of stock-based compensation costs and disclosures in filings with the SEC.

Determining the appropriate fair-value model and calculating the fair value of stock-based awards at the date of grant using any valuation model requires judgment. We use the Black-Scholes option pricing model to estimate the fair value of employee stock options, consistent with the provisions of SFAS 123(R). Option pricing models, including the Black-Scholes model, require the use of input assumptions, including expected

volatility, expected term and the expected dividend rate. Because our stock is not currently publicly traded in the United States, we do not have an observable share-price volatility for the United States capital markets; therefore, we estimate our expected volatility based on that of what we consider to be similar publicly-traded companies and expect to continue to do so until such time as we have adequate historical data from our traded share price in the United States. We did not estimate our expected volatility based on the price of our common stock on the AIM market because we do not believe, based on the historically low trading volume of our shares on that market, that the price of our common stock on the AIM market is an appropriate indicator of the expected volatility of our common stock. Prior to fiscal 2007, we estimated the expected term of our options using our best estimate of the period of time from the grant date that we expect the options to remain outstanding. Beginning in fiscal 2007, we estimate the expected term using the average midpoint between the vesting terms and the contractual terms of our options as described in SAB 107. If we determine another method to estimate expected volatility or expected term is more reasonable than our current methods, or if another method for calculating these input assumptions is prescribed by authoritative guidance, the fair value calculated for future stock-based awards could change significantly. Higher volatility and longer expected terms have a significant impact on the value of stock-based compensation determined at the date of grant. The expected dividend rate is not as significant to the calculation of fair value.

In addition, SFAS 123(R) requires us to develop an estimate of the number of stock-based awards that will be forfeited due to employee turnover. Quarterly changes in the estimated forfeiture rate can have a significant effect on reported stock-based compensation. If the actual forfeiture rate is higher than the estimated forfeiture rate, then an adjustment is made to increase the estimated forfeiture rate, which will result in a decrease to the expense recognized in the consolidated financial statements during the quarter of the change. If the actual forfeiture rate is lower than the estimated forfeiture rate, then an adjustment is made to decrease the estimated forfeiture rate, which will result in an increase to the expense recognized in the consolidated financial statements. These adjustments affect our cost of revenues, product development costs and selling, general and administrative costs. Through the nine months ended January 31, 2007, the effect of forfeiture adjustments on our consolidated financial statements has been insignificant. The expense we recognize in future periods could differ significantly from the current period and/or our forecasts due to adjustments in the assumed forfeiture rates.

As a result of the adoption of SFAS 123(R), we recorded stock compensation expense of $0.9 million in the nine months ended January 31, 2007.

Income taxes

We account for income taxes in accordance with SFAS No. 109, *Accounting for Income,* or SFAS 109. Under this method, we determine deferred tax assets and liabilities based upon the differences between the financial statement carrying amounts and the tax bases of assets and liabilities, as well as credit and net operating loss carryforwards, using enacted tax rates in effect for the year in which such items are expected to affect taxable income. The tax consequences of most events recognized in the current year s financial statements are included in determining income taxes currently payable. However, because tax laws and financial accounting standards differ in their recognition and measurement of assets, liabilities, equity, revenues, expenses, gains and losses, differences arise between the amount of taxable income and pretax financial income for a year and between the tax bases of assets or liabilities and their reported amounts in the financial statements. Because we assume that the reported amounts of assets and liabilities will be recovered and settled, respectively, a difference between the tax basis of an asset or a liability and its reported amount in the balance sheet will result in a taxable or a deductible amount in some future years when the related liabilities are settled or the reported amounts of the assets are recovered, giving rise to a deferred tax asset. We then assess the likelihood that our deferred tax assets will be recovered from future taxable income and, to the extent we believe that recovery is not likely, we establish a valuation allowance. As discussed in Note 12 to our consolidated financial statements included in this prospectus, we have established valuation allowances for the full value of our net deferred tax assets, which were $10.1 million as of April 30, 2006 and $12.1 million as of January 31, 2007.

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Recent Accounting Pronouncements

In June 2005, the Financial Accounting Standards Board issued SFAS No. 154, *Accounting Changes and Error Corrections*, or SFAS 154, which requires entities that voluntarily make a change in accounting principle to apply that change retrospectively to prior periods financial statements, unless this would be impracticable. SFAS 154 supersedes Accounting Principles Board Opinion No. 20, *Accounting Changes*, which previously required that most voluntary changes in accounting principles be recognized by including the cumulative effect of changing to the new accounting principle in the current period s net income or loss. SFAS No. 154 also makes a distinction between retrospective application of an accounting principle and the restatement of financial statements to reflect the correction of an error. Another significant change in practice under SFAS No. 154 will be that if an entity changes its method of depreciation, amortization or depletion for long-lived, non-financial assets, the change must be accounted for as a change in accounting estimate. Under Accounting Principles Board Opinion No. 20, such a change would have been reported as a change in accounting principle. SFAS 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. Adoption is not expected to have a material effect on our financial position or results of operations.

In July 2006, the Financial Accounting Standards Board issued Financial Accounting Standards Board Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*, or FIN 48. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprises financial statements in accordance with SFAS 109. FIN 48 prescribes a recognition and measurement method for tax positions taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosures and transitions. FIN 48 is effective for fiscal years beginning after December 15, 2006. We are currently analyzing the effects of FIN 48 but do not expect it to have a material effect on our financial position or results of operations.

In September 2006, the SEC issued Staff Accounting Bulletin No. 108, *Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements*, or SAB 108. SAB 108 provides guidance on how prior year misstatements should be taken into consideration when quantifying misstatements in current year financial statements for purposes of determining whether the current year s financial statements are materially misstated. SAB 108 becomes effective during our 2007 fiscal year. We do not expect the adoption of SAB 108 to have a material impact on our consolidated financial statements.

Change in Accountants

Deloitte & Touche LLP previously served as our independent registered public accounting firm. On July 27, 2004, the audit committee of our board of directors directed us to seek proposals from several accounting firms, with respect to the audit of our consolidated financial statements for the fiscal year ended April 30, 2005. On or about August 10, 2004, Deloitte & Touche LLP notified us that it declined to stand for reappointment as our independent auditors for the fiscal year ended April 30, 2005.

Deloitte & Touche LLP s audit reports on our consolidated financial statements as of and for the years ended April 30, 2003 and 2004 did not contain any adverse opinion or disclaimer of opinion, nor were they qualified or modified as to uncertainty, audit scope or accounting principle. In connection with its audits of our financial statements as of April 30, 2003 and 2004 and for the years then ended and during the interim period from May 1, 2004 until the date Deloitte & Touche LLP notified us that it declined to stand for reappointment as our independent auditors, there were no disagreements with Deloitte & Touche LLP on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure, which disagreements, if not resolved to the satisfaction of Deloitte & Touche LLP, would have caused Deloitte & Touche LLP to make reference to the subject matter of the disagreement in connection with its audit reports related to our fiscal 2003 and 2004 consolidated financial statements. During our two fiscal years ended April 30, 2003 and 2004 and during the interim period from May 1, 2004 until the date

Deloitte & Touche LLP notified us that it declined to stand for reappointment as our independent auditors, there were no reportable events as defined in Item 304(a)(1)(v) of Regulation S-K.

On November 24, 2004, the audit committee of our board of directors appointed KPMG LLP as our new independent registered public accounting firm for the fiscal year ended April 30, 2005. We did not consult with KPMG LLP on any financial or accounting reporting matters before its appointment.

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BUSINESS

Overview

We develop and are commercializing proprietary systems that generate electricity by harnessing the renewable energy of ocean waves. The energy in ocean waves is predictable, and electricity from wave energy can be produced on a consistent basis at numerous sites located near major population centers worldwide. Wave energy is an emerging segment of the renewable energy market. Based on our proprietary technology, considerable ocean experience, existing products and expanding commercial relationships, we believe we are the leading wave energy company.

We currently offer two products as part of our line of PowerBuoy® systems: a utility PowerBuoy system and an autonomous PowerBuoy system. Our PowerBuoy system is based on modular, ocean-going buoys, which we have been ocean testing for nearly a decade. The rising and falling of the waves moves the buoy-like structure creating mechanical energy that our proprietary technologies convert into electricity. We have tested and developed wave power generation and control technology using proven equipment and processes in novel applications. Our two products are designed for the following applications:

Our utility PowerBuoy system is capable of supplying electricity to a local or regional electric power grid. Our wave power stations will be comprised of a single PowerBuoy system or an integrated array of PowerBuoy systems, plus the remaining components required to deliver electricity to a power grid. We intend to sell our utility PowerBuoy system to utilities and other electrical power producers seeking to add electricity generated by wave energy to their existing electricity supply.

Our autonomous PowerBuoy system is designed to generate power for use independently of the power grid in remote locations. There are a variety of potential applications for this system, including sonar and radar surveillance, offshore cellular phone service, tsunami warning, oceanographic data collection, offshore platforms and offshore aquaculture.

From October 2005 to October 2006, we operated a demonstration PowerBuoy system with a maximum peak, or rated, output of 40 kilowatts, or kW, off the coast of New Jersey under a contract with the New Jersey Board of Public Utilities. This PowerBuoy system has been removed from the ocean and is currently undergoing planned maintenance prior to re-deployment. No other PowerBuoy systems are currently deployed.

Our product development and engineering efforts are focused on increasing the maximum rated output of our utility PowerBuoy system from the current 40kW to 150kW in 2007, then to 250kW in 2008 and ultimately to 500kW in 2010. We believe by increasing system output, we will be able to decrease the cost per kW of our PowerBuoy system and the cost per kilowatt hour of the energy generated. In addition, we are focusing on expanding our key commercial opportunities for both the utility and the autonomous PowerBuoy systems. We currently have commercial relationships with the following:

Iberdrola S.A., or Iberdrola, which is a large electric utility company located in Spain and one of the largest renewable energy producers in the world, Total S.A., or Total, which is one of the world s largest oil and gas companies, and two Spanish governmental agencies for the first phase of the construction of a 1.39 megawatt, or MW, wave power station off the coast of Santoña, Spain. We currently plan to deploy an initial 40kW PowerBuoy system for this project by October 2007.

Iberdrola and Total to evaluate the development of a wave power station off the coast of France.

The United States Navy to develop and build a wave power station at the US Marine Corps Base in Oahu, Hawaii that we believe will serve as a prototype wave power station for the installation of wave power stations at other US Navy bases. One PowerBuoy system was installed in connection with this project for a total of eight months over a two-year period. We plan to deploy an improved system in April 2007.

Lockheed Martin Corporation to market cooperatively with us our autonomous PowerBuoy system for use with Lockheed Martin equipment. Lockheed Martin successfully completed an ocean test of an autonomous PowerBuoy system in September 2004.

As part of our marketing efforts, we use demonstration wave power stations to establish the feasibility of wave power generation. In addition to the demonstration PowerBuoy system operated off the coast of New

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Jersey, we plan to develop and operate two additional demonstration wave power stations. Unlike the New Jersey power system, these demonstration wave power stations will, if approved and constructed as planned, be connected to the local power grids. In February 2006, we received approval from the South West of England Regional Development Agency to install a 5MW demonstration wave power station off the coast of Cornwall, England. In February 2007, the US Federal Energy Regulatory Commission granted us a preliminary permit to evaluate the feasibility of a location off the coast of Reedsport, Oregon for the proposed construction and operation of a wave power station with an anticipated maximum rated output of 50MW, of which up to the first 5MW will be a demonstration wave power station. In February 2007, we signed a cooperative agreement with a utility partner, Pacific Northwest Generating Cooperative, for the development of a wave power station. We plan to generate incremental revenue from the demonstration wave power stations by selling electricity to utilities. Also, in March 2007, we were awarded a conditional grant from the Scottish Ministers Wave and Tidal Energy Support Scheme, managed by the Scottish Executive. This grant is for the design, manufacture and installation of a 150kW PowerBuoy system in Orkney, Scotland.

In January 2007, we filed applications with the US Federal Energy Regulatory Commission for preliminary permits to evaluate the feasibility of two locations, off the coasts of Coos Bay, Oregon and Newport, Oregon, for the proposed construction and operation of wave power stations, each with an anticipated maximum rated output of 100MW.

Our Market

Global demand for electric power is expected to increase from 14.8 trillion kilowatt hours in 2003 to 30.1 trillion kilowatt hours by 2030, according to the Energy Information Administration, or the EIA. To meet this demand, the International Energy Agency, or the IEA, estimates that investments in new generating capacity will exceed $4 trillion in the period from 2003 to 2030, of which $1.6 trillion will be for new renewable energy generation equipment.

According to the IEA, fossil fuels such as coal, oil and natural gas generated over 60% of the world s electricity in 2002. However, a variety of factors are contributing to the development of renewable energy systems that capture energy from replenishable natural resources, including ocean waves, flowing water, wind and sunlight, and convert it into electricity.

Rising cost of fossil fuels. The cost of fossil fuel used to generate electricity has been rising. From 2000 to 2005 in the United States, the cost of coal used for electricity generation increased by 28%, the cost of natural gas used for electricity generation increased by 91% and the cost of oil used for electricity generation increased by 64%.

Dependence on energy from foreign sources. Many countries, including the United States, Japan and much of Europe, depend on foreign resources for a majority of their domestic energy needs. Concerns over political and economic instability in some of the leading energy producing regions of the world are encouraging consuming countries to diversify their sources of energy.

Environmental concerns. Environmental concerns regarding the by-products of fossil fuels have led many countries and several US states to agree to reduce emissions of carbon dioxide and other gases associated with the use of fossil fuels and to adopt policies promoting the development of cleaner technologies.

Government incentives. Many countries have adopted policies to provide incentives for the development and use of renewable energy sources, such as subsidies to encourage the commercialization of renewable energy power generation.

Infrastructure constraints. In many parts of the world, the existing electricity infrastructure is insufficient to meet projected, and in some places existing, demand. Expansion of generating capacity from existing energy sources is frequently hindered by significant regulatory, political and economic constraints.

As a result of these and other factors, the EIA projects that grid-connected generating capacity fueled by renewable energy resources will continue to grow over the next 25 years.

Wave Energy

The energy in ocean waves is a form of renewable energy that can be harnessed to generate electricity. Ocean waves are created when wind moves across the ocean surface. The interaction between the wind and

the ocean surface causes energy to be exchanged. At first, small waves occur on the ocean surface. As this process continues, the waves become larger and the distance between the tops of the waves becomes longer. The size of the waves, and the amount of energy contained in the waves, depends on the wind speed, the time the wind blows over the waves and the distance it covers. The rising and falling of the waves moves our PowerBuoy system creating mechanical energy that our proprietary technologies convert into usable electricity.

There are a variety of benefits to using wave energy for electricity generation.

Scalability within a small site area. Due to the tremendous energy in ocean waves, wave power stations with high capacity 50MW and above can be installed in a relatively small area. We estimate that, upon completion of the development of our 500kW PowerBuoy system, we would be able to construct a wave power station that would occupy less than one-tenth of the ocean surface occupied by an offshore wind power station of equivalent capacity.

Predictability. The supply of electricity from wave energy can be forecasted in advance. The amount of energy a wave thousands of miles away will have when it arrives at a wave power station days later can be calculated based on satellite images and meteorological data with a high degree of accuracy. Customers can use this information to develop sourcing plans to meet their short-term electricity needs.

Constant Source of Energy. The annual flow of waves at specific sites can be relatively constant. Based on our studies and analysis of our target sites, we believe our wave power stations will be able to produce usable electricity for approximately 90% of all hours during a year.

There are currently several approaches, in different stages of development, for capturing wave energy and converting it into electricity. Methods for generating electricity from wave energy can be divided into two general categories: onshore systems and offshore systems. Our PowerBuoy system is an offshore system. Offshore systems are typically located one to five miles offshore and in water depths of between 100 and 200 feet. The system can be above, on or below the ocean surface. Many offshore systems utilize a floatation device to harness wave energy. The heaving or pitching of the floatation device due to the force of the waves creates mechanical energy, which is converted into electricity by various technologies. Onshore systems are located at the edge of the shore, often on a sea cliff or a breakwater and typically must concentrate the wave energy first before using it to drive an electrical generator. Although maintenance costs of onshore systems may be less than those associated with offshore systems, there are a variety of disadvantages with these systems. As waves approach the shore, the energy in the waves decreases; therefore, onshore wave power stations do not take full advantage of the amount of energy that waves in deeper water produce. In addition, there are a limited number of suitable sites for onshore systems and there are environmental and possible aesthetic issues with these wave power stations due to their size and location on the seashore.

The scalability, predictability, constancy and limited environmental impact of offshore wave energy systems such as ours compare favorably with many other renewable energy technologies.

Hydroelectric power generates electricity by capturing energy from flowing waters typically stored in and then released from reservoirs. The expansion of hydroelectric power may be limited due to the environmental and ecological impact of hydroelectric power stations.

Wind power generates electricity by using wind turbines to harness the energy produced as a result of the wind s motion and to convert it into electricity. Wind turbine structures, which can be over 300 feet high and have blades with a span over 200 feet wide, require locations with plenty of open space and high average wind speeds. Due to the perceived aesthetic impact of wind turbines, some local governments have zoning restrictions prohibiting the installation of wind farms. In addition, because of their usual proximity to the shore,

offshore wind farms share some of the same perceived aesthetic challenges as onshore wind farms.