VALHI INC /DE/
Form 10-K
March 13, 2015

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934—For the fiscal year ended December 31, 2014
Commission file number 1-5467

VALHI, INC.

(Exact name of Registrant as specified in its charter)

Delaware (State or other jurisdiction of Incorporation or organization)	87-0110150 (IRS Employer Identification No.)
5430 LBJ Freeway, Suite 1700, Dallas, Texas (Address of principal executive offices)	75240-2697 (Zip Code)

Registrant's telephone number, including area code: (972) 233-1700

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common stock ($.01 par value per share)	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:

None.

Indicate by check mark:

If the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ¨ No x

If the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No x

Whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

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

If disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. Yes ¨ No x

Whether the Registrant is a large accelerated filer, an accelerated filer or a non-accelerated filer or a smaller reporting company (as defined in Rule 12b-2 of the Act).

Large accelerated filer	¨	Accelerated filer	x
non-accelerated filer	¨	smaller reporting company	¨

Whether the Registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ¨ No x.

The aggregate market value of the 19.1 million shares of voting common stock held by nonaffiliates of Valhi, Inc. as of June 30, 2014 (the last business day of the Registrant's most recently-completed second fiscal quarter) approximated $122.6 million.

As of March 6, 2015, 339,132,449 shares of the Registrant's common stock were outstanding.

Documents incorporated by reference

The information required by Part III is incorporated by reference from the Registrant's definitive proxy statement to be filed with the Commission pursuant to Regulation 14A not later than 120 days after the end of the fiscal year covered by this report.

PART I

ITEM 1. BUSINESS

Valhi, Inc. (NYSE: VHI) is primarily a holding company. We operate through our wholly-owned and majority-owned subsidiaries, including NL Industries, Inc., Kronos Worldwide, Inc., CompX International Inc. and Waste Control Specialists LLC ("WCS"). Kronos (NYSE: KRO), NL (NYSE: NL) and CompX (NYSE MKT: CIX) each file periodic reports with the U.S. Securities and Exchange Commission ("SEC").

Our principal executive offices are located at Three Lincoln Center, 5430 LBJ Freeway, Suite 1700, Dallas, Texas 75240. Our telephone number is (972) 233-1700. We maintain a worldwide website at www.valhi.net.

Brief History

LLC Corporation, our legal predecessor, was incorporated in Delaware in 1932. We are the successor company of the 1987 merger of LLC Corporation and another entity controlled by Contran Corporation. One of Contran's wholly-owned subsidiaries held approximately 93% of Valhi's outstanding common stock at December 31, 2014. As discussed in Note 1 to our Consolidated Financial Statements, Lisa K. Simmons, Serena Simmons Connelly and Annette Simmons may be deemed to control Contran and us.

Key events in our history include:

- 1979—Contran acquires control of LLC;
- 1981—Contran acquires control of our other predecessor company;
- 1982—Contran acquires control of Keystone Consolidated Industries, Inc., a predecessor to CompX;
- 1984—Keystone spins-off an entity that includes what is to become CompX; this entity subsequently merges with LLC;
- 1986—Contran acquires control of NL, which at the time owns 100% of Kronos and a 50% interest in Titanium Metals Corporation ("TIMET");
- 1987—LLC and another Contran controlled company merge to form Valhi, our current corporate structure;
- 1988—NL spins-off an entity that includes its investment in TIMET;
- 1995—WCS begins start-up operations;
- 1996—TIMET completes an initial public offering;
- 2003—NL completes the spin-off of Kronos through the pro-rata distribution of Kronos shares to its shareholders including us;
- 2004 through 2005—NL distributes Kronos shares to its shareholders, including us, through quarterly dividends;
- 2007—We distribute all of our TIMET common stock to our shareholders through a stock dividend;
- 2008—WCS receives a license for the disposal of byproduct material and begins construction of the byproduct facility infrastructure;
- 2009—WCS receives a license for the disposal of Class A, B and C low-level radioactive waste and completes construction of the byproduct facility;
- 2010—Kronos completes a secondary offering of its common stock lowering our ownership of Kronos to 80%;
- 2011—WCS begins construction on its Compact and Federal low-level radioactive waste ("LLRW") and mixed LLRW disposal facilities;
- 2012—WCS completes construction of its Compact and Federal LLRW disposal facilities and commences operations at the Compact facility;
- 2012—In December we sell all of our remaining interest in TIMET and TIMET is no longer our affiliate;
- 2012—In December CompX completes the sale of its furniture components business;
- 2013—WCS commences operations at the Federal LLRW facility; and

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- 2013—In December we purchased an additional ownership interest in and became the majority owner of Basic Management, Inc. and The LandWell Company; both companies are now included in our Consolidated Financial Statements effective December 31, 2013.

Unless otherwise indicated, references in this report to “we”, “us” or “our” refer to Valhi, Inc. and its subsidiaries, taken as a whole.

Forward-Looking Statements

This Annual Report on Form 10-K contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, as amended. Statements in this Annual Report that are not historical facts are forward-looking in nature and represent management’s beliefs and assumptions based on currently available information. In some cases, you can identify forward-looking statements by the use of words such as “believes,” “intends,” “may,” “should,” “could,” “anticipates,” “expects” or comparable terminology, or by discussions of strategies or trends. Although we believe that the expectations reflected in such forward-looking statements are reasonable, we do not know if these expectations will be correct. Such statements by their nature involve substantial risks and uncertainties that could significantly impact expected results. Actual future results could differ materially from those predicted. The factors that could cause actual future results to differ materially from those described herein are the risks and uncertainties discussed in this Annual Report and those described from time to time in our other filings with the SEC include, but are not limited to, the following:

- Future supply and demand for our products;
- The extent of the dependence of certain of our businesses on certain market sectors;
- The cyclicality of certain of our businesses (such as Kronos’ TiO_2 operations);
- Customer and producer inventory levels;
- Unexpected or earlier-than-expected industry capacity expansion (such as the TiO_2 industry);
- Changes in raw material and other operating costs (such as energy, ore, zinc and brass costs) and our ability to pass those costs on to our customers or offset them with reductions in other operating costs;
- Changes in the availability of raw materials (such as ore);
- General global economic and political conditions (such as changes in the level of gross domestic product in various regions of the world and the impact of such changes on demand for, among other things, TiO_2 and component products);
- Competitive products and prices and substitute products, including increased competition from low-cost manufacturing sources (such as China);
- Possible disruption of our business or increases in the cost of doing business resulting from terrorist activities or global conflicts;
- Customer and competitor strategies;
- Potential difficulties in integrating future acquisitions;
- Potential difficulties in upgrading or implementing new manufacturing and accounting software systems;
- Potential consolidation of our competitors;
- Potential consolidation of our customers;
- The impact of pricing and production decisions;
- Competitive technology positions;
- The introduction of trade barriers;
- The ability of our subsidiaries to pay us dividends;
- The impact of current or future government regulations (including employee healthcare benefit related regulations);
- Uncertainties associated with new product development and the development of new product features;

- Fluctuations in currency exchange rates (such as changes in the exchange rate between the U.S. dollar and each of the euro, the Norwegian krone and the Canadian dollar) or possible disruptions to our business resulting from potential instability resulting from uncertainties associated with the euro;
- Operating interruptions (including, but not limited to, labor disputes, leaks, natural disasters, fires, explosions, unscheduled or unplanned downtime, transportation interruptions and cyber attacks);
- Decisions to sell operating assets other than in the ordinary course of business;
- The timing and amounts of insurance recoveries;
- Our ability to renew, amend, refinance or establish credit facilities;
- Our ability to maintain sufficient liquidity;
- The ultimate outcome of income tax audits, tax settlement initiatives or other tax matters;
- Our ultimate ability to utilize income tax attributes or changes in income tax rates related to such attributes, the benefits of which have been recognized under the more-likely-than-not recognition criteria (such as Kronos' ability to utilize its German net operating loss carryforwards);
- Environmental matters (such as those requiring compliance with emission and discharge standards for existing and new facilities, or new developments regarding environmental remediation at sites related to our former operations);
- Government laws and regulations and possible changes therein (such as changes in government regulations which might impose various obligations on former manufacturers of lead pigment and lead-based paint, including NL, with respect to asserted health concerns associated with the use of such products);
- The ultimate resolution of pending litigation (such as NL's lead pigment litigation, environmental and other litigation and Kronos' class action litigation);
- Our ability to comply with covenants contained in our revolving bank credit facilities;
- Our ability to complete and comply with the conditions of our licenses and permits;
- Our ability to successfully defend against any currently-pending or possible future challenge to WCS' operating licenses and permits;
- Changes in real estate values and construction costs in Henderson, Nevada;
- Water levels in Lake Mead; and
- Possible future litigation.

Should one or more of these risks materialize (or the consequences of such development worsen), or should the underlying assumptions prove incorrect, actual results could differ materially from those currently forecasted or expected. We disclaim any intention or obligation to update or revise any forward-looking statement whether as a result of changes in information, future events or otherwise.

Segments

We have four consolidated reportable operating segments at December 31, 2014:

Chemicals Kronos Worldwide, Inc.	Our chemicals segment is operated through our majority control of Kronos. Kronos is a leading global producer and marketer of value-added titanium dioxide pigments ("TiO_2"), TiO_2 is used to impart whiteness, brightness and opacity to a wide variety of products, including paints, plastics, paper, fibers and ceramics. Additionally, TiO_2 is a critical component of everyday applications, such as coatings, plastics and paper, as well as many specialty products such as inks, foods and cosmetics.

Component Products CompX International Inc.	We operate in the component products industry through our majority control of CompX. CompX is a leading manufacturer of engineered components utilized in a variety of applications and industries. CompX manufactures engineered components that are sold to a variety of industries including recreational transportation (including boats), postal, office and institutional furniture, cabinetry, tool storage, healthcare, gas stations and vending equipment.
Waste Management Waste Control Specialists LLC	WCS is our subsidiary which operates a West Texas facility for the processing, treatment, storage and disposal of a broad range of low-level radioactive, hazardous, toxic and other wastes. WCS obtained a byproduct disposal license in 2008 and began disposal operations at this facility in October 2009. WCS received a LLRW disposal license in September 2009. The Compact LLRW disposal facility commenced operations in 2012, and the Federal LLRW commenced operations in 2013.
Real Estate Management and Development Basic Management, Inc. and The LandWell Company	We operate in real estate management and development through our majority control of BMI and LandWell. BMI provides utility services to certain industrial and municipal customers and owns real property in Henderson, Nevada. LandWell is engaged in efforts to develop certain land holdings for commercial, industrial and residential purposes in Henderson, Nevada. In December 2013, we acquired a controlling interest in each of these companies, and they are included in our results of operations and cash flows beginning on January 1, 2014. See Note 3 to our Consolidated Financial Statements.

For additional information about our segments and equity investments see "Part II—Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" and Notes 2 and 7 to our Consolidated Financial Statements.

CHEMICALS SEGMENT—KRONOS WORLDWIDE, INC.

Business Overview

Through our majority-controlled subsidiary, Kronos, we are a leading global producer and marketer of value-added titanium dioxide pigments, or TiO_2, a base industrial product used in a wide range of applications. We, along with our distributors and agents, sell and provide technical services for our products to approximately 4,000 customers in 100 countries with the majority of sales in Europe and North America. We believe we have developed considerable expertise and efficiency in the manufacture, sale, shipment and service of our products in domestic and international markets.

TiO_2 is a white inorganic pigment used in a wide range of products for its exceptional durability and its ability to impart whiteness, brightness and opacity. TiO_2 is a critical component of everyday applications, such as coatings, plastics and paper, as well as many specialty products such as inks, food and cosmetics. TiO_2 is widely considered to be superior to alternative white pigments in large part due to its hiding power (or opacity), which is the ability to cover or mask other materials effectively and efficiently. TiO_2 is designed, marketed and sold based on specific end-use applications.

TiO_2 is the largest commercially used whitening pigment because it has a high refractive rating, giving it more hiding power than any other commercially produced white pigment. In addition, TiO_2 has excellent resistance to interaction with other chemicals, good thermal stability and resistance to ultraviolet degradation. Although there are other white pigments on the market, we believe there are no effective substitutes for TiO_2 because no other white pigment has the physical properties for achieving comparable opacity and brightness or can be incorporated in as cost-effective a manner. Pigment extenders such as kaolin clays, calcium carbonate and polymeric opacifiers are used together with TiO_2 in a number of end-use markets. However, these products are not able to duplicate the opacity performance characteristics of TiO_2 and we believe these products are unlikely to have a significant impact on the use of TiO_2.

TiO_2 is considered a "quality-of-life" product. Demand for TiO_2 has generally been driven by worldwide gross domestic product and has generally increased with rising standards of living in various regions of the world. According to industry estimates, TiO_2 consumption has grown at a compound annual growth rate of approximately 3.0% since 1990. Per capita consumption of TiO_2 in Western Europe and the United States far exceeds that in other areas of the world, and these regions are expected to continue to be the largest consumers of TiO_2 on a per capita basis. We believe that Western Europe and North America currently account for approximately 19% and 17% of global TiO_2 consumption, respectively. Markets for TiO_2 are generally increasing in South America, Eastern Europe, the Asia Pacific region and China and we believe these are significant markets where we expect continued growth as economies in these regions continue to develop and quality-of-life products, including TiO_2, experience greater demand.

Products and End-use Markets

Including our predecessors, we have produced and marketed TiO_2 in North America and Europe, our primary markets, for over 90 years. We believe that we are the largest producer of TiO_2 in Europe with approximately one-half of our sales volumes attributable to markets in Europe. The table below shows our market share for our significant markets, Europe and North America, for the last three years.

	2012	2013	2014
Europe	19 %	18 %	18 %
North America	19 %	18 %	17 %

We believe that we are the leading seller of TiO_2 in several countries, including Germany, with an estimated 9% share of worldwide TiO_2 sales volume in 2014. Overall, we are one of the top five producers of TiO_2 in the world.

We offer our customers a broad portfolio of products that include over 40 different TiO_2 pigment grades under the Kronos® trademark, which provide a variety of performance properties to meet customers' specific requirements. Our major customers include domestic and international paint, plastics, decorative laminate and paper manufacturers. We ship TiO_2 to our customers in either a powder or slurry form via rail, truck and/or ocean carrier. Sales of our core TiO_2 pigments represented approximately 90% of our net sales in 2014. We and our agents and distributors primarily sell and provide technical services for our products in three major end-use markets: coatings, plastics and paper.

The following tables show our approximate TiO_2 sales volume by geographic region and end use for the year ended December 31, 2014:

Sales volumes percentages by geographic region		Sales volumes percentages by end-use	
Europe	50%	Coatings	56%
North America	33%	Plastics	31%
Asia Pacific	7 %	Other	8 %
Rest of World	10%	Paper	5 %

Some of the principal applications for our products include the following.

TiO_2 for coatings - Our TiO_2 is used to provide opacity, durability, tinting strength and brightness in industrial coatings, as well as coatings for home commercial and residential interiors and exteriors, automobiles, aircraft, machines, appliances, traffic paint and other special purpose coatings. The amount of TiO_2 used in coatings varies widely depending on the opacity, color and quality desired. In general, the higher the opacity requirement of the coating, the greater the TiO_2 content.

TiO_2 for plastics - We produce TiO_2 pigments that improve the optical and physical properties in plastics, including whiteness and opacity. TiO_2 is used to provide opacity in items such as containers and packaging materials, and vinyl products such as windows, door profiles and siding. TiO_2 also generally provides hiding power, neutral undertone, brightness and surface durability for housewares, appliances, toys, computer cases and food packages. TiO_2's high brightness along with its opacity, is used in some engineering plastics to help mask their undesirable natural color. TiO_2 is also used in masterbatch, which is a concentrate of TiO_2 and other additives and is one of the largest uses for TiO_2 in the plastics end-use market. In masterbatch, the TiO_2 is dispersed at high concentrations into a plastic resin and is then used by manufacturers of plastic containers, bottles, packaging and agricultural films.

TiO_2 for paper - Our TiO_2 is used in the production of several types of paper, including laminate (decorative) paper, filled paper and coated paper to provide whiteness, brightness, opacity and color stability. Although we sell our TiO_2 to all segments of the paper end-use market, our primary focus is on the TiO_2 grades used in paper laminates, where several layers of paper are laminated together using melamine resin under high temperature and pressure. The top layer of paper contains TiO_2 and plastic resin and is the layer that is printed with decorative patterns. Paper laminates are used to replace materials such as wood and tile for such applications as counter tops, furniture and wallboard. TiO_2 is beneficial in these applications because it assists in preventing the material from fading or changing color after prolonged exposure to sunlight and other weathering agents.

p;**Europe Australia Total**

Revenues from external customers
 $540,059 282,934 37,754 860,747
Operating loss
 (4,016,654) (1,292,218) (28,187) (5,337,059)
Long-lived assets
 393,462 53,501 446,963
Total assets
 31,841,573 813,475 30,055 32,685,103

	Six Months Ended October 31, 2007			
	North America	**Europe**	**Australia**	**Total**
Revenues from external customers	$ 1,376,606	865,310		2,241,916
Operating loss	(5,740,196)	(1,755,962)	(116,323)	(7,612,481)
Long-lived assets	276,017	118,880	1,404	396,301
Total assets	113,073,249	1,732,803	41,347	114,847,399

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Item 2. ***MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS***

The following discussion and analysis should be read in conjunction with the accompanying unaudited consolidated financial statements and related notes included in this Quarterly Report on Form 10-Q. References to a fiscal year in this Form 10-Q refer to the year ended April 30 of that year (e.g., fiscal 2007 refers to the year ended April 30, 2007).

Overview

We develop and are commercializing proprietary systems that generate electricity by harnessing the renewable energy of ocean waves. Our PowerBuoy systems use proprietary technologies to convert the mechanical energy created by the rising and falling of ocean waves into electricity. We currently offer two PowerBuoy products, which consist of our utility PowerBuoy system and our autonomous PowerBuoy system.

We market our utility PowerBuoy system, which is designed to supply electricity to a local or regional power grid, to utilities and other electrical power producers seeking to add electricity generated by wave energy to their existing electricity supply. We market our autonomous PowerBuoy system, which is designed to generate power for use independent of the power grid, to customers that require electricity in remote locations. We believe there are a variety of potential applications for our autonomous PowerBuoy system, including sonar and radar surveillance, tsunami warning, oceanographic data collection, offshore platforms and offshore aquaculture. We 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, began commercial operations in 1994, and were re-incorporated in Delaware in 2007. We currently have six wholly owned subsidiaries, which include Ocean Power Technologies Ltd., Reedsport OPT Wave Park LLC, Oregon Wave Energy Partners I, LLC, Oregon Wave Energy Partners II, LLC, California Wave Energy Partners I, LLC and Fairhaven OPT OceanPower 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 U.S. 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 U.S. Navy in fiscal 2002 under a still on-going project for the development and testing of our wave power systems at the U.S. 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, also entered into 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 (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. In 2007, we received a $1.8 million contract from the Scottish Executive for the demonstration of a 150 kilowatt (kW) PowerBuoy system at Orkney, Scotland. In June 2007, we received a $1.7 million contract from the U.S. Navy to provide our PowerBuoy technology to a unique program for ocean data gathering. Under this 18-month program, the U.S. Navy will conduct an ocean test of our autonomous PowerBuoy as the power source for the Navy s Deep Water Acoustic Detection System. In August 2007, we announced the award of a $0.5 million contract from PNGC Power, an Oregon-based electric power cooperative, providing funding toward the fabrication and installation of a 150kW PowerBuoy system off the coast of Oregon. As of October 31, 2007, our backlog was $7.9 million, an increase of $1.0 million from the prior quarter ended July 31, 2007.

For the three months ended October 31, 2007, we generated revenues of $1.7 million and incurred a net loss of $1.8 million, compared to revenues of $0.6 million and a net loss of $2.3 million for the three months ended October 31, 2006. For the six months ended October 31, 2007, we generated revenues of $2.2 million and incurred a net loss of $4.3 million, compared to revenues of $0.9 million and a net loss of $4.0 million for the six months ended October 31, 2006. As of October 31, 2007, our accumulated deficit was $42.6 million. We have not been profitable since inception, and we do not know whether or when we will become profitable because of the significant uncertainties with respect to our ability to successfully commercialize our PowerBuoy systems in the emerging renewable energy market. Since fiscal 2002, the U.S. Navy has accounted for a significant portion of our revenues. We expect that over time, revenues derived from utilities and other non-government commercial customers will increase more rapidly than sales to government customers and will, within a few years, represent the majority of our revenues.

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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. For the three months ended October 31, 2006 and 2007, we derived approximately 94% and 95%, respectively, of our revenues from government and commercial development and construction contracts and 6% and 5%, respectively, of our revenues from customer-sponsored research and development. For the six months ended October 31, 2006 and 2007, we derived approximately 88% and 92%, respectively, of our revenues from government and commercial development and construction contracts and 12% and 8%, respectively, 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 and to absorb certain other costs as set forth in the agreement. Our estimates of the project s costs may increase in the future, and we may be required to seek customer approval for additional increases in the construction budget for the project. If the construction budget is not increased, we may elect to incur the additional costs and continue the project, to seek other suppliers for the materials or services related to the cost increases or to terminate the agreement. Any of such outcomes may have a material effect on our financial condition and results of operations.

Our revenues for the three and six months ended October 31, 2007 increased compared to the revenues for the three and six months ended October 31, 2006. The revenue increase reflected a higher level of activity in connection with our Spain construction contract, our entry into a new contract with the U.S. Navy in June 2007 and a higher level of activity on our contract for the construction, installation and in-ocean demonstration of our latest 150kW PowerBuoy that will be installed at the European Marine Energy Centre (EMEC) at Orkney, Scotland.

The U.S. Navy has been our largest customer since fiscal 2002. The U.S. Navy accounted for approximately 67% of our revenues for the three months ended October 31, 2007, and approximately 51% of our revenues for the three months ended October 31, 2006. The U.S. Navy accounted for approximately 61% of our revenues for the six months ended October 31, 2007, and approximately 55% of our revenues for the six months ended October 31, 2006. We anticipate that, if our commercialization efforts are successful, the relative contribution of the U.S. Navy to our revenue will decline in the future.

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. During the three months ended October 31, 2007, we derived 33%, and during the three months ended October 31, 2006, we derived 44%, of our revenues from outside the United States. During the six months ended October 31, 2007, we derived 39%, and during the six months ended October 31, 2006, we derived 37%, of our revenues from outside the United States.

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 three months ended October 31, 2007, we operated at a gross loss of $0.2 million, while in the three months ended October 31, 2006 we operated at a gross loss of $0.6 million. In the six months ended October 31, 2007 and 2006, we operated at a gross loss of $0.5 million. Our ability to operate at a gross profit will depend on the nature of future contracts and on our success at increasing sales of our PowerBuoy systems and our ability to manage costs incurred on fixed price commercial contracts.

Product development costs

Our product development costs consist of salaries and other personnel-related costs and the costs of products, materials and outside services used in our product development and unfunded research activities. Our product development costs primarily relate to our efforts to increase the output of our utility PowerBuoy system, including the 150kW PowerBuoy system 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 capitalize and amortize over a 17-year period commencing with the issuance date of each patent.

Our product development costs increased in the three and six months ended October 31, 2007, primarily as a result of our work to continue to increase the output and efficiency of our PowerBuoy systems.

We introduced our current 40kW PowerBuoy system in fiscal 2006. One system was deployed off the coast of New Jersey from October 2005 to October 2006, when it was removed from the ocean for routine maintenance and diagnostic testing. This system has been redeployed off the coast of New Jersey. Another system was deployed and tested in Hawaii for the U.S. Navy project during the month of June 2007. Work is also currently in progress on the design and construction of a third PowerBuoy system. During the three months ended October 31, 2007, we continued development activity in connection with our 150kW PowerBuoy system and expect to commence ocean testing of that system in 2008.

Selling, general and administrative costs

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

Our selling, general and administrative costs have increased in the three and six months ended October 31, 2007 compared to the three and six months ended October 31, 2006. This increase is due to the expansion of our sales and marketing capabilities, including increased headcount, and as a result of our becoming a public company in the United States in April 2007. We expect our selling, general and administrative costs will continue to increase as we further expand our sales and marketing capabilities.

Interest income

Interest income consists of interest received on cash and cash equivalents and investments in commercial bank-issued certificates of deposit. Prior to April 30, 2007, most of our cash, cash equivalents and bank-issued certificates of deposit resulted from the remaining proceeds of our October 2003 offering on the AIM market of the London Stock Exchange. On April 30, 2007, we completed our initial public offering in the United States, which resulted in net proceeds to us of $89.9 million. Total cash, cash equivalents and certificates of deposit were $109.7 million as of October 31, 2007, compared to $29.2 million as of October 31, 2006. We anticipate that our interest income reported in fiscal 2008 will continue to be significantly higher than the comparable periods of the prior fiscal year as a result of the investment of the proceeds from our United States initial public offering.

Foreign exchange gain

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 U.S. dollars and our functional currency is the U.S. dollar, our main foreign exchange exposure, if any, results from changes in the exchange rate between the U.S. dollar and the British pound sterling, the Euro and the Australian dollar.

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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 $14.3 million as of October 31, 2007 and $16.7 million as of October 31, 2006, compared to our total certificates of deposits and cash account balances of $109.7 million as of October 31, 2007 and $29.2 million as of October 31, 2006. These foreign currency balances are translated at each month end to our functional currency, the U.S. dollar, and any resulting gain or loss is recognized in our results of operations.

In addition, a portion of our operations is conducted through our subsidiaries in countries other than the United States, specifically Ocean Power Technologies Ltd. in the United Kingdom, the functional currency of which is the British pound sterling, and Ocean Power Technologies (Australasia) Pty Ltd. in Australia, the functional currency of which is the Australian dollar. Both of these subsidiaries have foreign exchange exposure that results from changes in the exchange rate between their functional currency and other foreign currencies in which they conduct business. All of our international revenues for the three and six months ended October 31, 2006 and 2007 were recorded in Euros, British pounds or Australian dollars.

We currently do not hedge our exchange rate exposure. However, we assess the anticipated foreign currency working capital requirements and capital asset acquisitions of our foreign operations and attempt to maintain a portion of our cash, cash equivalents and 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.

Results of Operations

Three Months Ended October 31, 2007 Compared to Three Months Ended October 31, 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 three months ended October 31, 2006 and 2007:

	Three Months Ended October 31, 2006		Three Months Ended October 31, 2007		Change 2007 Period to 2006 Period	
	Amount	As a % of Revenues	Amount	As a % of Revenues	$ Change	% Change
Revenues	$ 555,561	100%	$ 1,686,212	100%	$ 1,130,651	204%
Cost of revenues	1,156,665	208	1,923,196	114	766,531	66
Gross loss	(601,104)	(108)	(236,984)	(14)	364,120	(61)
Operating expenses:						
Product development costs	1,749,913	315	1,942,713	116	192,800	11
Selling, general and administrative costs	625,092	113	1,371,160	81	746,068	119
Total operating expenses	2,375,005	428	3,313,873	197	938,868	40
Operating loss	(2,976,109)	(536)	(3,550,857)	(211)	(574,748)	19
Interest income	360,561	65	1,343,877	80	983,316	273
Foreign exchange gain	308,348	56	336,164	20	27,816	9
Net loss	$ (2,307,200)	(415)%	$ (1,870,816)	(111)%	$ 436,384	(19)

Revenues

Revenues increased by $1.1 million in the three months ended October 31, 2007, or 204%, to $1.7 million as compared to $0.6 million in the three months ended October 31, 2006. The increase in revenues was primarily attributable to the following factors:

Revenues relating to our utility PowerBuoy system increased by approximately $1.0 million due to an increase in on-going work on our Hawaii project for the U.S. Navy, work on the first phase of construction of a 1.39MW wave power station off the coast of Spain and work on the design, manufacture and installation of an OPT wave power station consisting of a single PB150 (150kW) PowerBuoy device in Orkney, Scotland.

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Revenues relating to our autonomous PowerBuoy system increased approximately $0.1 million as a result of work commencing on our $1.7 million contract with the U.S. Navy to provide our PowerBuoy technology to a program for ocean data gathering and work completed on our contract with the Department of the Interior for Homeland Security.

Cost of revenues

Cost of revenues increased by $0.7 million to $1.9 million in the three months ended October 31, 2007, as compared to $1.2 million in the three months ended October 31, 2006. This increase in cost of revenues reflected the higher level of activity on revenue-bearing contracts, and an increase of approximately $0.1 million of compensation expense recorded as cost of revenues under Statement of Financial Accounting Standards No. 123(R), *Share-Based Payment* (SFAS No. 123(R)), which requires companies to recognize compensation expense for all stock-based payments to employees. The increase in gross margin percent in the three months ended October 31, 2007 also reflected a decrease in gross profit of approximately $0.5 million recorded in the three months ended October 31, 2006 in connection with our project in Spain, due to higher expected costs at completion of the project.

Product development costs

Product development costs increased $0.2 million, or 11%, to $1.9 million in the three months ended October 31, 2007, as compared to $1.7 million in the three months ended October 31, 2006. The increase in product development costs was primarily attributable to our work to increase the power output of our utility PowerBuoy system, including the 150kW PowerBuoy system. 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.

Selling, general and administrative costs

Selling, general and administrative costs increased $0.8 million, or 119%, to $1.4 million for the three months ended October 31, 2007, as compared to $0.6 million for the three months ended October 31, 2006. The increase was attributable to an increase of $0.1 million related to additional marketing expenses and consulting costs, $0.3 million in professional fees and other costs incurred as a result of our becoming a public company in the United States, and $0.4 million in additional payroll and incentive-based costs related to Company growth.

Interest income

Interest income increased by $0.9 million to $1.3 million for the three months ended October 31, 2007, compared to $0.4 million for the three months ended October 31, 2006, due to the investment of the net proceeds of our United States initial public offering on April 30, 2007.

Foreign exchange gain

Foreign exchange gain was $0.3 million for both the three months ended October 31, 2007 and the three months ended October 31, 2006, and was primarily attributable to the appreciation of the British pound compared to the U.S. dollar.

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Six Months Ended October 31, 2007 Compared to Six Months Ended October 31, 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 six months ended October 31, 2006 and 2007:

	Six Months Ended October 31, 2006		Six Months Ended October 31, 2007		Change 2007 Period to 2006 Period	
	Amount	As a % of Revenues	Amount	As a % of Revenues	$ Change	% Change
Revenues	$ 860,747	100%	$ 2,241,916	100%	$ 1,381,169	160%
Cost of revenues	1,382,630	161	2,728,188	122	1,345,558	97
Gross loss	(521,883)	(61)	(486,272)	(22)	35,611	(7)
Operating expenses:						
Product development costs	2,802,039	325	3,758,447	168	956,408	34
Selling, general and administrative costs	2,013,137	234	3,367,762	150	1,354,625	67
Total operating expenses	4,815,176	559	7,126,209	318	2,311,033	48
Operating loss	(5,337,059)	(620)	(7,612,481)	(340)	(2,275,422)	43
Interest income	722,928	84	2,788,163	125	2,065,235	286
Foreign exchange gain	645,977	75	515,658	23	(130,319)	(20)
Net loss	$ (3,968,154)	(461)%	$ (4,308,660)	(192)%	$ (340,506)	9

Revenues

Revenues increased by $1.3 million in the six months ended October 31, 2007, or 160%, to $2.2 million as compared to $0.9 million in the six months ended October 31, 2006. The increase in revenues was primarily attributable to the following factors:

Revenues relating to our utility PowerBuoy system increased by approximately $1.2 million due to an increase in on-going work on our Hawaii project for the U.S. Navy, work on the first phase of construction of a 1.39MW wave power station off the coast of Spain and work on the design, manufacture and installation of an OPT wave power station consisting of a single PB150 (150kW) PowerBuoy device in Orkney, Scotland. Revenues relating to our autonomous PowerBuoy system increased approximately $0.1 million as a result of work on our $1.7 million contract with the U.S. Navy to provide our PowerBuoy technology to a program for ocean data gathering.

Cost of revenues

Cost of revenues increased by $1.3 million to $2.7 million in the six months ended October 31, 2007, as compared to $1.4 million in the six months ended October 31, 2006. This increase in cost of revenues reflected the higher level of activity on revenue-bearing contracts, and an increase of approximately $0.2 million of compensation expense recorded as cost of revenues under SFAS No. 123(R), which requires companies to recognize compensation expense for all stock-based payments to employees. The increase in gross margin percent in the six months ended October 31, 2007 also reflected a decrease in gross profit of approximately $0.5 million recorded in the six months ended October 31, 2006 in connection with our project in Spain, due to higher expected costs at completion of the project.

Product development costs

Product development costs increased $1.0 million, or 34%, to $3.8 million in the six months ended October 31, 2007, as compared to $2.8 million in the six months ended October 31, 2006. The increase in product development costs was primarily attributable to our work to increase the power output of our utility PowerBuoy system, including the 150kW PowerBuoy system. 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.

Selling, general and administrative costs

Selling, general and administrative costs increased $1.4 million, or 67%, to $3.4 million for the six months ended October 31, 2007, as compared to $2.0 million for the six months ended October 31, 2006. The increase was primarily attributable to an increase of $0.4 million related to additional marketing expenses and consulting costs, $0.7 million in professional fees and other costs incurred as a result of our becoming a public company in the United States, and $0.3 million in additional payroll and incentive-based costs related to Company growth.

Interest income

Interest income increased by $2.1 million to $2.8 million for the six months ended October 31, 2007, compared to $0.7 million for the six months ended October 31, 2006, due to the investment of the net proceeds of our United States initial public offering on April 30, 2007.

Foreign exchange gain

Foreign exchange gain was $0.5 million for the six months ended October 31, 2007, compared to a foreign exchange gain of $0.6 million for the six months ended October 31, 2006, and was primarily attributable to the appreciation of the British pound compared to the U.S. dollar.

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, 2007, our revenues were $9.6 million, our net losses were $17.1 million and our net cash used in operating activities was $13.5 million. Over that same period, we raised $90.3 million in financing activities, including $89.9 million from the closing of our United States initial public offering on April 30, 2007.

At October 31, 2007, our total cash and cash equivalents were $109.7 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 term deposits, commercial paper, treasury bills and money market funds with large commercial banks. We had no investments in certificates of deposit at October 31, 2007, reflecting our decision only to invest in investments with fixed maturity dates of less than three months.

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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 $5.7 million for the six months ended October 31, 2007. This primarily resulted from a net loss for the period of $4.3 million, decreased by non-cash charges of $0.1 million in depreciation and amortization, $1.2 million of compensation expense related to stock option grants, a $0.3 million decrease in our accounts receivable and a $0.6 million increase in our unearned revenues. This was partially offset by a non-cash foreign exchange gain of $0.5 million, a $1.3 million decrease in our accrued expenses, a $0.3 million decrease in our accounts payable, a $0.8 million increase in unbilled receivables and a $0.7 million increase in other current assets. The net increase in receivables was due to increased revenue recognized in the six months ended October 31, 2007, which was not billed until after period end, as compared to the period ended April 30, 2007. The non-cash foreign exchange gain reflected our significant holdings of sterling-denominated term deposits, which were impacted by the depreciation of the dollar against the British pound during the six months ended October 31, 2007. Decreases in accounts payable and accrued expenses in the six months ended October 31, 2007 primarily resulted from the payment of certain accounts payable and accrued expenses associated with incentive payments made to employees during the six months ended October 31, 2007. The increase in other current assets was due to prepayments of certain insurance premiums, increased interest receivable on invested cash, and deposits related to the Company s operations. Unearned revenues at October 31, 2007 reflect the amounts by which billings under two contracts exceeded revenues recognized. Net cash provided by investing activities was $8.2 million for the six months ended October 31, 2007 resulting primarily from a shift in funds from certificates of deposit with maturities of three months or longer to ones with maturities less than three months. There were $9.0 million in purchases and $17.4 million in maturities of certificates of deposit with terms longer than three months, during the six months ended October 31, 2007. Net cash used in financing activities was $0.8 million for the six months ended October 31, 2007, and primarily resulted from the payment of certain accrued expenses associated with our U.S. initial public offering.

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 and the U.S. Navy;
- 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 our current cash and cash equivalents will be sufficient to meet our anticipated cash needs for working capital and capital expenditures at least through fiscal 2009. If existing resources are insufficient to satisfy our liquidity requirements or if we acquire or license rights to additional product technologies, we may seek to sell additional equity or debt securities or obtain a credit facility. The sale of additional equity or convertible securities could result in dilution to our stockholders. If additional funds are raised through the issuance of debt securities, these securities could have rights senior to those associated with our common stock and could contain covenants that would restrict our operations. Financing may not be available in amounts or on terms acceptable to us. If we are unable to obtain required financing, we may be required to reduce the scope of our planned product development and marketing efforts, which could harm our financial condition and operating results.

Off-Balance Sheet Arrangements

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

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Item 3. *QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK*

Our primary exposure to market risk is currently confined to our cash and cash equivalents. None of these items that we hold have maturities that exceed three months. 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 equivalents do not exceed three months, 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 of an interest-free loan from the New Jersey Board of Public Utilities.

Management estimates that had the average yield on our cash and cash equivalents, and certificates of deposit decreased by 100 basis points, our interest income for the six months ended October 31, 2007 would have decreased by approximately $0.6 million. This estimate assumes that the decrease occurred on the first day of the fiscal year and reduced the yield of each investment by 100 basis points. The impact on our future interest income of future changes in investment yields will depend largely on the gross amount of our cash, cash equivalents, and investments.

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 U.S. dollars and our functional currency is the U.S. dollar, our main foreign exchange exposure, if any, results from changes in the exchange rate between the U.S. dollar and the British pound sterling, the Euro and the Australian dollar.

We maintain cash accounts that are denominated in British pounds, Euros and Australian dollars. These foreign-denominated cash accounts had a balance of $14.3 million as of October 31, 2007, compared to our total cash account balances of $109.7 million as of October 31, 2007. These foreign currency balances are translated at each month end to our functional currency, the U.S. 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 six months ended October 31, 2007 were recorded in Euros, British pounds or Australian dollars. If the foreign currency exchange rates had fluctuated by 10% as of October 31, 2007, our foreign exchange gain would have changed by approximately $1.4 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 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.

Item 4. ***CONTROLS AND PROCEDURES***

Evaluation of Disclosure Controls and Procedures

Disclosure controls and procedures are our controls and other procedures that are designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934 (the Exchange Act), is recorded, processed, summarized and reported within the time periods specified in the SEC s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

As of the end of the period covered by this report, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Exchange Act Rule 13a-15(b). Based upon that evaluation, as of October 31, 2007, our Chief Executive Officer along with the Chief Financial Officer concluded that our disclosure controls and procedures are effective in timely alerting them to material information relating to the Company required to be included in our periodic SEC filings.

Changes in Internal Control over Financial Reporting

No change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) occurred during the fiscal quarter ended October 31, 2007 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II OTHER INFORMATION

Item 1. ***LEGAL PROCEEDINGS***

We are subject to legal proceedings, claims and litigation arising in the ordinary course of business. While the outcome of these matters is currently not determinable, we do not expect that the ultimate costs to resolve these matters will have a material adverse effect on our financial position, results of operations or cash flows.

Item 1A. ***RISK FACTORS***

The discussion of our business and operations should be read together with the risk factors contained in Item 1A of our Annual Report on Form 10-K for the year ended April 30, 2007. These risk factors describe various risks and uncertainties to which we are or may become subject. These risks and uncertainties have the potential to affect our business, financial condition, results of operations, cash flows, strategies or prospects in a material and adverse manner. There have been no material changes in our risk factors from those disclosed in our Annual Report on Form 10-K filed with the SEC on July 30, 2007.

Item 2. ***UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS***

Use of Proceeds

On April 30, 2007, we sold 5,000,000 shares of our common stock in our initial public offering in the United States at a price of $20.00 per share, pursuant to a registration statement on Form S-1 (File No. 333-138595), which was declared effective by the SEC on April 24, 2007. The managing underwriters in the offering were UBS Securities LLC, Banc of America Securities LLC, and Bear, Stearns & Co., Inc. The underwriting discounts and commissions and offering expenses payable by us aggregated $10.1 million, resulting in net proceeds to us of $89.9 million.

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From the effective date of the registration statement through October 31, 2007, we used approximately $0.2 million to construct demonstration wave power stations, approximately $1.1 million to fund the continued development and commercialization of our PowerBuoy system and approximately $0.6 million to expand our sales and marketing capabilities. We have invested the balance of the net proceeds from the offering in short-term, investment grade, interest-bearing instruments, in accordance with our investment policy. We have not used any of the net proceeds from the offering to make payments, directly or indirectly, to any director or officer of ours, or any of their associates, to any person owning 10 percent or more of our common stock or to any affiliate of ours. There has been no material change in our planned use of the balance of the net proceeds from the offering as described in our final prospectus filed with the SEC pursuant to Rule 424(b) under the Securities Act.

Item 3. ***DEFAULTS UPON SENIOR SECURITIES***

None.

Item 4. ***SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS***

The Company s annual meeting of shareholders was held on October 5, 2007. At the annual meeting, the shareholders voted on the following proposals:

Election of Directors

Each nominee for director was elected by a vote of shareholders as follows:

Name	For	Withheld
Seymour S. Preston III	6,901,285	49,227
Eric A. Ash	6,900,392	50,120
Thomas J. Meaney	6,909,042	41,470
George W. Taylor	6,905,767	44,745
Charles F. Dunleavy	6,904,767	45,745

Ratification of the Selection of KPMG LLP as Independent Registered Public Accounting Firm

	For	Against	Abstain
Ratification of KPMG LLP	6,922,669	11,946	15,897

Item 5. ***OTHER INFORMATION***

None.

Item 6. ***EXHIBITS***

10.1 Modification of Contract, dated September 13, 2007, modifying Contract Number N00014-02-C-0053, between the Office of Naval Research, U.S. Navy and Ocean Power Technologies, Inc., as modified.

10.2 Modification of Contract, dated September 26, 2007, modifying Contract Number N00014-05-C-0384, between the Office of Naval Research, U.S. Navy and Ocean Power Technologies, Inc., as modified.

31.1 Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

31.2 Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

32.1 Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

32.2 Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

OCEAN POWER TECHNOLOGIES, INC.
(Registrant)

By: /s/ George W. Taylor
George W. Taylor
Chief Executive Officer
(Principal Executive Officer)

Date: December 17, 2007

By: /s/ Charles F. Dunleavy
Charles F. Dunleavy
Chief Financial Officer
(Principal Financial Officer)

Date: December 17, 2007

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