OLD SECOND BANCORP INC
Form 10-Q
May 08, 2006

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended March 31, 2006

OR

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For transition period from to

Commission File Number 0 -10537

OLD SECOND BANCORP, INC.

(Exact name of Registrant as specified in its charter)

Delaware	**36-3143493**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

37 South River Street, Aurora, Illinois 60507

(Address of principal executive offices) (Zip Code)

(630) 892-0202

(Registrant s telephone number, including area code)

Indicate by check mark 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 o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act.

Large accelerated filer o Accelerated filer x Non-accelerated filer o

Indicate by check mark whether the registrant is a shell company (as defined in Exchange Act Rule 12b-2). Yes o No x

Indicate the number of shares outstanding of each of the issuer s classes of common stock as of the latest practicable date: As of May 1, 2006, the Registrant had outstanding 13,559,075 shares of common stock, $1.00 par value per share.

OLD SECOND BANCORP, INC.

Form 10-Q Quarterly Report

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements

Old Second Bancorp, Inc. and Subsidiaries

Consolidated Balance Sheets

(In thousands, except share data)

	March 31, 2006	December 31, 2005
Assets		
Cash and due from banks	$ 46,116	$ 65,010
Interest bearing deposits with banks	115	105
Cash and cash equivalents	46,231	65,115
Securities available for sale	454,345	470,379
Federal Home Loan Bank and Federal Reserve Bank Stock	8,806	8,470
Loans held for sale	10,817	11,397
Loans	1,739,046	1,704,382
Allowance for loan losses	15,891	15,329
Net loans	1,723,155	1,689,053
Premises and equipment, net	43,368	42,485
Other real estate owned	251	251
Mortgage servicing rights, net	2,458	2,271
Goodwill, net	2,130	2,130
Core deposit intangible assets, net	266	355
Bank owned life insurance	42,099	41,627
Accrued interest and other assets	30,473	34,297
Total assets	$ 2,364,399	$ 2,367,830
Liabilities		
Deposits:		
Demand	$ 249,324	$ 264,124
Savings, NOW, and money market	769,821	795,028
Time	985,334	876,126
Total deposits	2,004,479	1,935,278
Securities sold under repurchase agreements	45,180	57,625
Other short-term borrowings	105,433	171,825
Junior subordinated debentures	31,625	31,625
Note payable	3,200	3,200
Accrued interest and other liabilities	17,800	16,015
Total liabilities	2,207,717	2,215,568
Stockholders Equity		
Preferred stock, no par value; authorized 300,000 shares; none issued		
Common stock, $1.00 par value; authorized 20,000,000 shares; issued 16,631,303 in 2006 and 16,592,301 in 2005; outstanding 13,559,075 in 2006 and 13,520,073 in 2005	16,631	16,592
Additional paid-in capital	14,605	13,746
Retained earnings	181,167	176,824
Accumulated other comprehensive loss	(5,383)	(4,562)
Treasury stock, at cost, 3,072,228 shares in 2006 and 2005	(50,338)	(50,338)
Total stockholders equity	156,682	152,262
Total liabilities and stockholders equity	$ 2,364,399	$ 2,367,830

See accompanying notes to consolidated financial statements.

Old Second Bancorp, Inc. and Subsidiaries

Consolidated Statements of Income

(In thousands, except share data)

	(unaudited) Three Months Ended March 31, 2006	2005
Interest and Dividend Income		
Loans, including fees	$ 28,977	$ 23,014
Loans held for sale	95	173
Securities:		
Taxable	3,184	2,750
Tax-exempt	1,232	1,124
Federal funds sold	3	
Interest bearing deposits with banks	1	
Total interest and dividend income	33,492	27,061
Interest Expense		
Savings, NOW, and money market deposits	3,678	2,279
Time deposits	9,129	5,690
Repurchase agreements	487	211
Other short-term borrowings	1,402	609
Junior subordinated debentures	617	617
Note payable	44	23
Total interest expense	15,357	9,429
Net interest income	18,135	17,632
Provision for loan losses	444	(37)
Net interest income after provision for loan losses	17,691	17,669
Noninterest Income		
Trust income	1,734	1,649
Service charges on deposits	1,956	1,800
Gain on sale of loans	971	1,378
Secondary mortgage fees	153	184
Mortgage servicing income	98	16
Securities gains (losses), net	227	(4)
Bank owned life insurance	472	219
Other income	1,464	1,230
Total noninterest income	7,075	6,472
Noninterest Expense		
Salaries and employee benefits	9,531	9,120
Occupancy expense, net	1,092	611
Furniture and equipment expense	1,282	1,266
Amortization of core deposit intangible assets	89	89
Advertising expense	464	380
Other expense	3,690	3,533
Total noninterest expense	16,148	14,999
Income before income taxes	8,618	9,142
Provision for income taxes	2,513	2,953
Net income	$ 6,105	$ 6,189
Share and per share information:		
Ending number of shares	13,559,075	13,496,111
Average number of shares	13,529,648	13,452,126
Diluted average number of shares	13,708,648	13,594,802

Basic earnings per share	$	0.45	$	0.46
Diluted earnings per share	$	0.45	$	0.46
Dividends paid per share	$	0.13	$	0.12

See accompanying notes to consolidated financial statements.

Old Second Bancorp, Inc. and Subsidiaries

Consolidated Statements of Cash Flows

Three Months Ended March 31, 2006 and 2005

(In thousands)

	(Unaudited) 2006	(Unaudited) 2005
Cash flows from operating activities		
Net income	$ 6,105	$ 6,189
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	908	818
Amortization of mortgage servicing rights	98	8
Provision for loan losses	444	(37)
Origination of loans held for sale	(64,985)	(85,731)
Proceeds from sale of loans held for sale	65,961	90,629
Gain on sale of loans held for sale	(681)	(755)
Increase in cash surrender value of bank owned life insurance	(472)	(219)
Change in current income taxes receivable	2,202	2,704
Change in accrued interest receivable and other assets	2,521	(5,238)
Change in accrued interest payable and other liabilities	1,778	3,956
Net premium amortization on securities	743	1,046
Securities losses (gains), net	(227)	4
Amortization of core deposit intangible assets	89	89
Tax benefit from stock options exercised		398
Net cash provided (used) by operating activities	14,484	13,861
Cash flows from investing activities		
Proceeds from matured or called securities available for sale	23,661	24,750
Proceeds from sales of securities held for sale	227	
Purchases of securities available for sale	(10,090)	(57,149)
Purchase of FHLB stock	(336)	(80)
Net change in loans	(34,546)	(81,006)
Net purchases of premises and equipment	(1,791)	(2,261)
Net cash used in investing activities	(22,875)	(115,746)
Cash flows from financing activities		
Net change in deposits	69,201	37,730
Net change in repurchase agreements	(12,445)	(7,385)
Net change in other borrowings	(66,392)	60,825
Proceeds from exercise of stock options	641	891
Tax benefit from stock options exercised	257	
Dividends paid	(1,755)	(1,611)
Net cash (used in) provided by financing activities	(10,493)	90,450
Net change in cash and cash equivalents	(18,884)	(11,435)
Cash and cash equivalents at beginning of period	65,115	58,662
Cash and cash equivalents at end of period	$ 46,231	$ 47,227
Supplemental cash flow information		
Income taxes paid	$ 310	$
Interest paid	14,315	9,136

See accompanying notes to consolidated financial statements.

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Old Second Bancorp, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

(Table amounts in thousands, except per share data, unaudited)

Note 1 Summary of Significant Accounting Policies

The accounting policies followed in the preparation of interim financial statements are consistent with those used in the preparation of annual financial information. The interim financial statements reflect all normal and recurring adjustments, which are necessary, in the opinion of management, for a fair statement of results for the interim period presented. Results for the period ended March 31, 2006 are not necessarily indicative of the results that may be expected for the year ending December 31, 2006. These interim financial statements should be read in conjunction with the audited financial statements and notes included in Old Second Bancorp, Inc. s (the Company) 2005 Form 10-K. Unless otherwise indicated, amounts in the tables contained in the notes are in thousands. Certain items in prior periods have been reclassified to conform to the current presentation.

The Company s consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States and follow general practices within the banking industry. Application of these principles requires management to make estimates, assumptions, and judgments that affect the amounts reported in the financial statements and accompanying notes. These estimates, assumptions, and judgments are based on information available as of the date of the financial statements. Future changes in information may affect these estimates, assumptions, and judgments, which, in turn, may affect amounts reported in the financial statements.

All significant accounting policies are presented in Note A to the consolidated financial statements included in the Company s annual report on Form 10-K for the year ended December 31, 2005. These policies, along with the disclosures presented in the other financial statement notes and in this discussion, provide information on how significant assets and liabilities are valued in the financial statements and how those values are determined.

In November 2005, the Financial Accounting Standards Board (FASB) issued FASB Staff Position FAS 115-1, The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments (FSP FAS 115-1). FSP FAS 115-1 was issued to address the steps in determining when an investment is considered impaired, whether the impairment is other-than-temporary, and the measurement of an impairment loss. FSP FAS 115-1 discusses accounting considerations subsequent to the recognition of an other-than-temporary impairment and requires certain quantitative and qualitative disclosures about unrealized losses that have not been recognized as other-than-temporary impairments. FSP FAS 115-1 clarifies that an investor should recognize an impairment loss when the impairment loss is deemed other-than-temporary, even if the decision to sell has not been made. FSP FAS 115-1 replaces the impairment evaluation guidance set forth in paragraphs 10-18 of Emerging Issues Task Force Issue No. 03-1 (EITF 03-1) and amends existing other-than-temporary impairment guidance, including that provided in FASB Statement No. 115, Accounting for Debt and Equity Securities, and APB 18, The Equity Method of Accounting for Investments in Common Stock. FSP FAS 115-1 is effective for reporting periods beginning after December 15, 2005. In addition to the guidance under FSP FAS 115-1, the disclosure requirements under EITF 03-1 remain in effect. The

adoption of FSP FAS 115-1 has not had a material impact on the Company s financial position, results of operations, or liquidity.

In December 2004, the FASB issued Statement 123 (revised 2004), Share-Based Payment (SFAS No. 123R). SFAS No. 123R is a revision of SFAS No. 123, Accounting for Stock Based Compensation, supersedes APB 25 and amends FASB Statement No. 95, Statement of Cash Flows. SFAS No. 123R established standards for the accounting for transactions in which an entity (i) exchanges its equity instruments for goods or services or (ii) incurs liabilities in exchange for goods or services that are based on the fair value of the entity s equity instruments or that may be settled by the issuance of the equity instruments. SFAS No. 123R eliminates the ability to account for stock-based compensation using APB 25 and requires that such transactions be recognized as compensation cost in the income statement based on their fair values on the date of the grant. The statement also requires that the benefits of tax deductions in excess of recognized compensation expense be reported as a financing cash flow, rather than as an operating cash flow as required under existing accounting rules. In April 2005, the Securities and Exchange Commission (SEC) delayed the required effective date of SFAS No. 123R to the beginning of the first annual period beginning after June 15, 2005. The Company adopted SFAS No. 123R on January 1, 2006 using the modified prospective method. The Company has not restated the financial results for any prior periods. Under the modified prospective method, compensation costs were recognized in the financial statements beginning January 1, 2006 based on the requirements of SFAS No. 123R for all share-based payments granted after that date, and based on the requirements of SFAS No. 123 for all unvested awards granted prior to 2006.

In May 2005, the FASB issued Statement 154 (SFAS 154), Accounting Changes and Error Corrections a replacement of APB Opinion No. 20 and FASB Statement No. 3. This Statement is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. Early adoption is permitted for accounting changes and corrections of errors made in fiscal years beginning after the date this Statement is issued. The Company had no accounting changes or corrections of errors in the periods being reported.

In February 2006, the FASB issued Statement 155 (SFAS 155), Accounting for Certain Hybrid Financial Instruments an amendment of FASB Statements No. 133 and 140. This Statement is effective for all financial instruments acquired, issued, or subject to a remeasurement event occurring after the beginning of fiscal years beginning after September 15, 2006. Earlier adoption was permitted as of the beginning of 2006, provided an entity has not yet issued financial statements, including financial statements for any interim period, for that fiscal year. The Company did not elect early adoption, and is evaluating the potential impact in future periods.

In March 2006, the FASB issued Statement (SFAS 156), Accounting for Servicing of Financial Assets an amendment of FASB Statement No. 140. This Statement is effective as of the beginning of fiscal years beginning after September 15, 2006. Earlier adoption is permitted as of the beginning of an entity s fiscal year, provided the entity has not yet issued financial statements, including interim financial statements, for any period of that fiscal year. The Company did not elect early adoption, and is evaluating the potential impact in future periods.

Note 2 Securities

Securities available for sale are summarized as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
March 31, 2006:				
U.S. Treasuries	$ 11,012	$	$ 516	$ 10,496
U.S. Government agencies	306,914	10	6,260	300,664
States and political subdivisions	145,701	857	3,373	143,185
	$ 463,627	$ 867	$ 10,149	$ 454,345
December 31, 2005:				
U.S. Treasuries	$ 11,010	$	$ 273	$ 10,737
U.S. Government agencies	318,560	51	4,940	313,671
States and political subdivisions	148,371	932	3,332	145,971
	$ 477,941	$ 983	$ 8,545	$ 470,379

Note 3 Loans

Major classifications of loans were as follows:

	March 31, 2006	December 31, 2005
Commercial and industrial	$ 164,329	$ 168,314
Real estate commercial	634,974	590,328
Real estate construction	342,786	361,859
Real estate residential	566,874	550,823
Installment	32,141	35,236
	1,741,104	1,706,560
Unearned origination fees	(2,058)	(2,178)
	$ 1,739,046	$ 1,704,382

Note 4 Allowance for Loan Losses

Changes in the allowance for loan losses as of March 31, are summarized as follows:

	2006	2005
Balance, January 1	$ 15,329	$ 15,495
Provision for loan losses	444	(37)
Loans charged-off	(46)	(353)
Recoveries	164	309
Balance, end of period	$ 15,891	$ 15,414

Note 5 Mortgage Servicing Rights

Changes in capitalized mortgage servicing rights during the quarter ended March 31, were as follows:

	2006	2005
Balance at beginning of period	$ 2,271	$ 377
Additions	285	524
Less: amortization	(98)	(8)
Balance at end of period	2,458	893
Changes in the valuation allowance for servicing assets were as follows:		
Balance at beginning of period		60
Provisions for impairment		
Less: recoveries		
Balance at end of period		60
Net balance	$ 2,458	$ 833

Note 6 Deposits

Major classifications of deposits as of March 31, 2006, and December 31, 2005 were as follows:

	2006	2005
Demand	$ 249,324	$ 264,124
Savings	123,816	117,849
NOW accounts	240,164	244,727
Money market accounts	405,841	432,452
Certificates of deposit of less than $100,000	608,238	554,618
Certificates of deposit of $100,000 or more	377,096	321,508
	$ 2,004,479	$ 1,935,278

Note 7 Other Short Term Borrowings and Note Payable

The following table is a summary of other short term borrowings as of March 31, 2006 and December 31, 2005:

	2006	2005
Federal funds sold and other short term borrowing	$ 74,619	$ 169,575
FHLB advances	30,000	
Treasury tax and loan notes	814	2,250
	$ 105,433	$ 171,825

The Company enters into sales of securities under agreements to repurchase (repurchase agreements). These repurchase agreements are treated as financings. The dollar amounts of securities underlying the agreements remain in the asset accounts. Securities sold under agreements to repurchase consisted of U.S. government agencies at March 31, 2006 and December 31, 2005, and are held in third party pledge accounts.

The Company borrowings at the FHLB are limited to the lesser of 35% of total assets or 60% of the book value of certain mortgage loans. In addition, these notes were collateralized by FHLB stock of $7.3 million at December 31, 2005, and $7.7 million as of March 31, 2006. The maturity date of the outstanding FHLB advances as of March 31, 2006, was April 28, 2006.

At March 31, 2006 and December 31, 2005, respectively, the period to date average balance of short-term borrowings totaled $164.7 million at a weighted average rate of 4.7% and $160.6 million at a weighted average rate of 3.5%.

The Company is a Treasury Tax & Loan (TT&L) depository for the Federal Reserve Bank (FRB), and as such, it accepts TT&L deposits. The Company is allowed to hold these deposits for the FRB until they are called. The interest rate is the federal funds rate less 25 basis points. Securities with a face value greater than or equal to the amount borrowed are pledged as a condition of borrowing TT&L deposits. As of March 31, 2006 and December 31, 2005, the TT&L deposits were $814,000 and $2.3 million, respectively.

The Company had a $20 million line of credit available with Marshall & Ilsley under which there was a $3.2 million outstanding balance as of December 31, 2005 and March 31, 2006. A revolving business note dated April 30, 2005 secures the line of credit and is guaranteed by the Company. The note provides that any outstanding principal will bear interest at the Company s option, at the rate of either 1.00% over the previous month average (Federal Reserve targeted rate) federal funds rate or 0.90% over the adjusted interbank rate with a minimum interest rate of 2.20%. This borrowing is for general corporate purposes, including funding loans held for sale at the Old Second Mortgage Company subsidiary.

Note 8 Junior Subordinated Debentures

The Company completed the sale of $27.5 million of cumulative trust preferred securities by its unconsolidated subsidiary, Old Second Capital Trust I in June 2003. An additional $4.1 million of cumulative trust preferred securities was sold in the first week of July 2003. The costs associated with the tender offer of the cumulative trust preferred securities are being amortized over 30 years. Cash distributions on the securities are payable quarterly at an annual rate of 7.80% and are included in interest expense in the consolidated financial statements.

Note 9 Long-Term Incentive Plan

The Long-Term Incentive Plan (the Incentive Plan) authorizes the issuance of up to 1,333,000 shares of the Company s common stock, including the granting of qualified stock options (Incentive Stock Options), nonqualified stock options, restricted stock and stock appreciation rights. Stock based awards may be granted to selected directors and officers or employees at the discretion of the board of directors. The Incentive Plan requires the exercise price of any incentive stock option issued to an employee to be at least equal to the fair market value of Company common stock on the date the option is granted. All stock options were granted for a term of ten years. Vesting of stock options granted in 2004 and prior years was accelerated to immediately vest all options as of December 20, 2005. The accelerated vesting eliminated the future compensation expense that the Company would otherwise recognize with respect to these options, in accordance with Statement of Financial Accounting Standards No. 123 (revised 2004) Share Based Payment , (SFAS No. 123) issued by the Financial

Accounting Standards Board, effective for reporting periods beginning after January 1, 2006. Options granted in 2005 were immediately vested and restricted stock vests three years from the grant date.

Nonqualified stock options may be granted to directors based upon a formula. These and other awards under the Incentive Plan may be granted subject to a vesting requirement and would become fully vested upon a merger or change in control of the Company. There were no stock options granted in the first quarter of 2006.

A summary of activity in the Incentive Plan and options outstanding is included below:

	Quarter-ended March 31, 2006			
	Shares	**Weighted Average Exercise Price**	**Weighted Average Remaining Contractual Life**	**Aggregate Intrinsic Value (In thousands)**
Beginning outstanding	655,613	$ 21.71		
Granted				
Exercised	(39,002)	15.16		
Expired				
Ending outstanding	616,611	$ 22.13	83 Months	$ 6,795

All options were exercisable at the end of the period. The total intrinsic value of options exercised during the first quarter of 2006 and 2005 was $647,000 and $1,476,000, respectively.

The following pro forma information presents net income and earnings per share had the fair value method of SFAS No. 123 been used to measure compensation cost for stock option plans in the first quarter of 2005.

Net income as reported	$ 6,189
Pro forma net income	6,056
Basic earnings per share as reported	0.46
Pro forma basic earnings per share	0.45
Diluted earnings per share as reported	0.46
Pro forma diluted earnings per share	0.45

Restricted stock was granted beginning December 20, 2005 under the Incentive Plan. These shares are subject to forfeiture until certain restrictions have lapsed including employment for a specific period. The fair value of the restricted stock grant was $640,000 on the date of grant. Compensation expense for restricted shares is recognized on a straight-line basis over the vesting period. Included in the determination of net income as reported for the three-month period ending March 31, 2006 is compensation expense for restricted shares of $51,000, with a related tax benefit is $18,000. As of March 31, 2006, the total compensation cost related to nonvested awards not yet recognized was $551,000. The Company expects to recognize this cost over a remaining period of thirty-three months.

The following table is a summary of restricted stock activity.

	Shares	**Weighted Average Grant-Date Fair Value**
Nonvested shares at December 31, 2004		
Granted	20,406	$ 31.34
Vested		
Forfeited		
Nonvested shares at December 31, 2005	20,406	$ 31.34
Granted		
Vested		
Forfeited		
Nonvested shares at March 31, 2006	20,406	$ 31.34

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Note 10 Earnings Per Share

Earnings per share is included below as of March 31, (share data not in thousands):

	2006	2005
Basic earnings per share:		
Weighted-average common shares outstanding	13,529,648	13,452,126
Net income available to common stockholders	$ 6,105	$ 6,189
Basic earnings per share	$ 0.45	$ 0.46
Diluted earnings per share:		
Weighted-average common shares outstanding	13,529,648	13,452,126
Dilutive effect of restricted shares	20,406	
Dilutive effect of stock options	158,594	142,676
Diluted average common shares outstanding	13,708,648	13,594,802
Net income available to common stockholders	$ 6,105	$ 6,189
Diluted earnings per share	$ 0.45	$ 0.46
Number of antidilutive options excluded from the diluted earnings per share calculation	137,000	137,000
Number of antidilutive restricted shares exclude from the diluted earnings per share calculation		

Note 11 Other Comprehensive Loss

Other comprehensive loss is included below:

	Three Months Ended March 31, 2006	2005
Change in net holding losses on available		
for sale securities arising during the period	$ (1,493)	$ (5,081)
Related tax benefit	809	2,022
Net unrealized losses	(684)	(3,059)
Less: Reclassification adjustment for the net		
gains (losses) realized during the period		
Realized gains	227	
Realized losses		(4)
Net realized gains (losses)	227	(4)
Income tax benefit (expense) on net realized gains	(90)	2
Net realized gains (losses) after tax	137	(2)
Total other comprehensive loss	$ (821)	$ (3,057)

Note 12 Retirement Plans

The Company has a tax-qualified noncontributory defined benefit retirement plan covering substantially all full-time and regular part-time employees of the Company. Generally, benefits are based on years of service and compensation. Certain participants in the defined benefit plan are also covered by an unfunded supplemental retirement plan. The purpose of the supplemental retirement plan is to extend full retirement benefits to individuals without regard to statutory limitations under tax-qualified plans.

As of December 31, 2005, the defined benefit and supplemental retirement plans were terminated. Prior to December 31, 2005 all amounts due were paid to participants of the supplemental executive retirement plan (SERP). Following receipt of all regulatory approvals, all accrued benefits will be distributed to the participants of the defined benefit plan either in one lump sum payment or by the purchase of an annuity contract. The liabilities are expected to exceed assets at the time of distribution of all benefits by approximately $1,000,000. A contribution of the shortfall amount is required to be made before the defined benefit plan is liquidated, which is anticipated to be in the third quarter of 2006.

	Three Months Ended March 31,		
	Pension Benefits		**SERP**
	2006	**2005**	**2005**
Service cost	$	$ 425	$ 19
Interest cost	181	233	23
Expected return on plan assets	(178)	(217)	
Amortization of transition obligation / (asset)			
Amortization of prior service cost		(1)	4
Recognized net actuarial (gain) / loss		71	15
Net periodic benefit cost	$ 3	$ 511	$ 61
Key Assumptions:			
Discount rate	5.25 %	5.50 %	5.50 %
Long-term rate of return on assets	5.00 %	7.50 %	7.50 %
Salary increases	0.00 %	5.00 %	5.00 %

The Company maintains tax-qualified contributory and non-contributory profit sharing plans covering substantially all full-time and regular part-time employees. The expense of these plans was $595,000 and $400,000 in the first quarters of 2006 and 2005, respectively.

Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations

Overview

Old Second Bancorp, Inc. (the Company) is a financial services company with its main headquarters located in Aurora, Illinois. The Company has offices located in Kane, Kendall, DeKalb, DuPage, LaSalle, and Will counties in Illinois. The Company provides financial services through its three subsidiary banks at its twenty-eight banking locations. Old Second Mortgage, which also conducts business as Maple Park Mortgage , provides mortgage-banking services at its three offices. Old Second Financial, Inc. provides insurance products. The Old Second National Bank of Aurora, the Company s lead subsidiary bank, also engages in trust operations.

Results of Operations

Net income for the first quarter of 2006 was $6.11 million, or $0.45 diluted earnings per share, compared with $6.19 million, or $0.46 diluted earnings per share in the first quarter of 2005. A $444,000 provision for loan losses and a decline in the net interest margin were the primary factors in the decline. The return on equity decreased from 18.20% in the first three months of 2005, to 15.92% for the same period of 2006.

In comparing the first quarters of 2006 and 2005, there were several nonrecurring items that had an impact on earnings. In the first quarter of 2005, there was a reduction of $250,000 in the estimated accrual for real estate taxes, or one cent per share after income taxes. In the first quarter of 2006, an income tax adjustment of $175,000 and a securities gain of $227,000, added a combined two cents per share after income taxes.

Net Interest Income

Net interest income increased $503,000, or 2.9%, to $18.14 million in the first quarter of 2006, compared with $17.63 million in the first quarter of 2005. The increase resulted from higher average earning assets, partially offset by a lower net interest margin. Average earning assets grew 8.45%, while the net interest margin declined from 3.67% in the first quarter of 2005 to 3.49% in the first quarter of 2006. During the quarter ended March 31, 2006, there was an increased pressure on the Company s net interest margin because of market-driven pressure to increase the rates paid on deposits and decrease the yield received on loans. Additionally, the change in funding mix from lower-cost deposits to certificates of deposit also negatively impacted the Company s net interest margin. The average tax-equivalent yield on earning assets increased from 5.57% to 6.34%, or 77 basis points. At the same time, the cost of interest-bearing and noninterest-bearing funds increased from 1.92% to 2.86%, or 94 basis points. A significant increase in certificates of deposit contributed to the increased cost of funds.

Management, in order to evaluate and measure performance, uses certain non-GAAP performance measures and ratios. These include taxable-equivalent net interest income (including its individual components) and net interest margin (including its individual components). Management believes that these measures and ratios provide users of the financial information with a more accurate view of the performance of the interest-earning assets and interest-bearing liabilities and of the Company s operating efficiency for comparison purposes. Other financial holding companies may define or calculate these measures and ratios differently. See the table below for supplemental data and the corresponding reconciliation to GAAP financial measures for the three months ended March 31, 2006 and 2005.

The following table sets forth certain information relating to the Company s average consolidated balance sheets and reflects the yield on average earning assets and cost of average liabilities for the periods indicated. The rates are determined by dividing the related interest by the average balance of assets or liabilities. Average balances are derived from daily balances.

ANALYSIS OF AVERAGE BALANCES,

TAX EQUIVALENT INTEREST AND RATES

Quarters ended March 31, 2006 and 2005

(Dollar amounts in thousands unaudited)

	2006 Average Balance	**Interest**	**Rate**	**2005 Average Balance**	**Interest**	**Rate**
Assets						
Interest bearing deposits with banks	$ 1,411	$ 1	0.29 %	$ 890	$	%
Federal funds sold	267	3	4.56			
Securities:						
Taxable	332,004	3,184	3.89	329,272	2,750	3.39
Non-taxable (tax equivalent)	140,375	1,895	5.47	129,053	1,729	5.43
Total securities	472,379	5,079	4.36	458,325	4,479	3.96
Loans and loans held for sale	1,715,854	29,129	6.88	1,560,042	23,234	6.04
Total interest earning assets	2,189,911	34,212	6.34	2,019,257	27,713	5.57
Cash and due from banks	51,619			54,077		
Allowance for loan losses	(15,617)			(15,471)		
Other noninterest-bearing assets	119,026			84,591		
Total assets	$ 2,344,939			$ 2,142,454		
Liabilities and Stockholders Equity						
Interest bearing transaction accounts	$ 654,556	3,541	2.19	$ 662,322	2,167	1.33
Savings accounts	118,792	137	0.47	124,718	112	0.36
Time deposits	952,228	9,129	3.89	799,521	5,690	2.89
Interest bearing deposits	1,725,576	12,807	3.01	1,586,561	7,969	2.04
Repurchase agreements	51,376	487	3.84	39,639	211	2.16
Other short-term borrowings	113,373	1,402	5.02	85,250	609	2.90
Junior subordinated debentures	31,625	617	7.80	31,625	617	7.80
Note payable	3,200	44	5.58	2,700	23	3.45
Total interest bearing liabilities	1,925,150	15,357	3.24	1,745,775	9,429	2.19
Noninterest bearing deposits	250,135			244,364		
Accrued interest and other liabilities	14,177			14,417		
Stockholders equity	155,477			137,898		
Total liabilities and stockholders equity	$ 2,344,939			$ 2,142,454		
Net interest income (tax equivalent)		$ 18,855			$ 18,284	
Net interest income (tax equivalent) to total earning assets			3.49 %			3.67 %
Interest bearing liabilities to earning assets	87.91 %			86.46 %		

Notes: Nonaccrual loans are included in the above stated average balances. Tax equivalent basis is calculated using a marginal tax rate of 35%. Loan fees, included in interest on loans and loans held for sale, were $705,000 and $964,000 in the first quarter of

2005 and 2006, respectively.

Yields on certain asset categories and the net interest margin of the Company and its banking subsidiaries are reviewed on a fully taxable-equivalent basis (FTE). In this non-GAAP presentation, net interest income is adjusted to reflect tax-exempt interest income on an equivalent before-tax basis. This measure ensures comparability of net interest income arising from both taxable and tax-exempt sources.

	Three Months Ended March 31,	
	2006	**2005**
Interest income (GAAP)	$ 33,492	$ 27,061
Taxable-equivalent adjustment:		
Loans	57	47
Investments	663	605
Interest income - FTE	34,212	27,713
Interest expense (GAAP)	15,357	9,429
Net interest income - FTE	$ 18,855	$ 18,284
Net interest income - (GAAP)	$ 18,135	$ 17,632
Average interest earning assets	$ 2,189,911	$ 2,019,257
Net interest margin (GAAP)	3.36 %	3.54 %
Net interest margin - FTE	3.49 %	3.67 %

Provision for Loan Losses

After releasing $37,000 from the allowance for loan losses in the first quarter of 2005, the Company provided an additional $444,000 to the allowance for loan losses in 2006. Provisions for loan losses are made to provide for probable and estimable losses inherent in the loan portfolio. The provision reflects a number of factors, including the size of the loan portfolio, the amount of past due accruing loans (90 days or more), the amount of non-accrual loans and management s overall view on current credit quality. The increased size of the portfolio, reflecting growth of $34.7 million during the quarter, was a principal factor in evaluating the provision for loan losses. Net charge-offs were $44,000 in the first quarter of 2005 and net recoveries were $118,000 in the first quarter of 2006.

The allowance for loan losses represents management s estimate of probable credit losses inherent in the loan portfolio. Determining the amount of the allowance for loan losses requires significant judgment and the use of estimates related to the amount and timing of expected future cash flows on impaired loans, estimated losses on pools of homogeneous loans based on historical loss experience, and consideration of current economic trends and conditions, all of which may be susceptible to significant change. The loan portfolio also represents the largest asset type on the consolidated statement of condition.

One measure of the adequacy of the allowance for loan losses is the ratio of the allowance to total loans. The allowance for loan losses as a percentage of total loans was 0.91% as of March 31, 2006, compared to 0.90% as of December 31, 2005 and 0.97% as of March 31, 2005. In management s judgment, an adequate allowance for estimated losses has been established; however, there can be no assurance that such losses will not exceed the estimated amounts in the future.

Nonperforming loans were $7.0 million as of March 31, 2006, and $6.5 million as of March 31, 2005. The ratio of the allowance for loan losses to nonperforming loans was 227% as of March 31, 2006, compared with 237% as of March 31, 2005. Nonperforming loans include loans in nonaccrual status, renegotiated loans, and loans past due ninety days or more and still accruing. Nonaccrual loans remained steady, at $3.8 million as of December 31, 2005 and March 31, 2006.

Past due and nonaccrual loans for the periods ended March 31, 2006 and December 31, 2005 were as follows:

	March 31, 2006	**December 31, 2005**
Nonaccrual loans	$ 3,802	$ 3,845
Interest income recorded on nonaccrual loans	8	334
Interest income which would have been accrued on nonaccrual loans	53	636
Loans 90 days or more past due and still accruing interest	3,194	2,752

Noninterest Income

Noninterest income was $7.1 million during the first quarter of 2006 and $6.5 million during the first quarter of 2005, an increase of $603,000, or 9.3%. Mortgage banking income, including gains on sales of mortgage loans, secondary market fees, and servicing income, was $1.2 million, down $356,000 from the first quarter of 2005. This decline was primarily associated with an increase in interest rates, which reduced volume of mortgage loans originated for sale. All other noninterest income categories increased. Securities gains were $227,000 in the first quarter of 2006, compared with a loss of $4,000 in 2005. Service charges on deposits increased $156,000, or 8.7%, to $1,956,000, which is in line with deposit growth. Service charges on deposits generally reach a seasonal low in the first quarter of the year. Bank owned life insurance (BOLI) increased from $219,000 to $472,000 as a result of a $20 million BOLI purchase in the fourth quarter of 2005. Other income increased from $1,230,000 to $1,464,000, or 19.0%, including an increase of $134,000 in ATM and debit card fees.

Noninterest Expense

Noninterest expense was $16.1 million during the first quarter of 2006, an increase of $1.1 million, or 7.7%, from $15.0 million in the first quarter of 2005. Salaries and benefits, the largest component of noninterest expense, was $9.5 million during the first quarter of 2006, an increase of $411,000, or 4.5%, from $9.1 million in the first quarter of 2005. The increase in salaries and benefits was primarily related to increased staffing due to branch expansion, and annual merit increases. As of quarter-end, there were 556 full-time equivalent employees in 2006, as compared with 546 one year earlier.

Net occupancy and furniture and equipment expenses increased $497,000 from the first quarter of 2005 to the first quarter of 2006, or 26.5%. This was due, in part, to a reduction of $250,000 in the estimated accrual for real estate taxes in the first quarter of 2005. As the Company has expanded into and developed new markets, related facility expenses have increased. Three new branches have opened since the beginning of 2005, including the most recent addition in Batavia, Illinois.

Other expense increased $157,000, or 4.4%, from $3.5 million in the first quarter of 2005 to $3.7 million in the first quarter of 2006. Increases in loan expenses and marketing costs were partially offset by a reduction in consulting expenses.

Income Taxes

The Company s provision for Federal and State of Illinois income taxes was $2.5 million and $3.0 million for the first quarters of 2006 and 2005 respectively. The first quarter average effective income tax rate for 2006 and 2005 was 29.2% and 32.3%, respectively. A change in tax advisors during the first quarter of 2006 resulted in the identification of an opportunity to reduce the income tax provision by $175,000.

Financial Condition

Assets

Total assets were $2.36 billion as of March 31, 2006, compared with $2.37 billion as of December 31, 2005. Loans grew $34.7 million during the first quarter of 2006, while cash and due from banks declined $18.9 million and securities available for sale declined $15.7 million.

Loans

Total loans were $1.74 billion as of March 31, 2006, an increase of $34.7 million from $1.70 billion as of December 31, 2005. The largest increase was in commercial real estate, which increased $44.6 million, or 7.6% in the quarter. Construction loans declined $19.1 million, as the result of payoffs received during the quarter. Residential loans increased by $16.1 million. The loan portfolio generally reflects the profile of the communities in which the Company operates. Because the Company is located in growing areas, real estate lending (including commercial, residential, and construction) is a significant portion of the portfolio. These categories comprised 88.8% of the portfolio as of March 31, 2006 and 88.1% of the portfolio as of December 31, 2005.

Securities and Bank Owned Life Insurance

Securities totaled $463.2 million as of March 31, 2006, a decline of $15.6 million from $478.8 million as of December 31,2005. This decline was due, in part, to the sale of securities in order to purchase bank-owned life insurance (BOLI). During December 2005, the Company purchased an additional $20 million in BOLI. The net unrealized gains, net of deferred taxes, in the portfolio increased from a net unrealized loss of $4.6 million as of December 31, 2005 to a net unrealized loss of $5.4 million as of March 31, 2006.

Deposits and Borrowings

Total deposits increased $69.2 million during the first quarter of 2006, to $2.00 billion as of March 31, 2006. Demand deposits decreased $14.8 million, to $249.3 million. Savings deposits increased $6.0 million, from $117.8 million to $123.8 million. Time deposits increased $109.2 million, or 12.5%, from $876.1 million to $985.3 million. Money market accounts declined from $432.5 million to $405.8 million in the first quarter.

Generally, depositors shifted somewhat from transaction accounts to certificates of deposits in the first quarter. While this had the effect of moving funds out of interest sensitive deposits into more stable pricing, this deposit shift resulted in a higher cost of funds and a negative impact on the net interest margin. The net interest margin declined from 3.67% in the first quarter of 2005 to 3.49% in the first quarter of 2006. In comparing the first quarter of 2006 to the first quarter of 2005, the average cost of funds increased 95 basis points.

Securities sold under repurchase agreements, which are typically of short-term duration, decreased from $57.6 million as of December 31, 2005, to $45.2 million as of March 31, 2006. Other short-term borrowings decreased from $171.8 million to $105.4 million due a decline in Federal Funds purchased of $95.0 million. Advances from the Federal Home Loan Bank of Chicago were $30.0 million as of March 31, 2006, while there were no advances as of December 31, 2005. The Company is currently maintaining liquid assets and delivering consistent growth in core deposits to provide funding for loan growth.

Capital

The Company and its three subsidiary banks are subject to regulatory capital requirements administered by federal banking agencies. Capital adequacy guidelines provide for five classifications, the highest of which is well capitalized. The Company and its subsidiary banks were categorized as well capitalized as of March 31, 2006. The accompanying table shows the capital ratios of the Company and Old Second National Bank, the Company s lead subsidiary bank, as of March 31, 2006 and December 31, 2005.

Capital levels and minimum required levels:

		Minimum Required		Minimum Required	(7,071,669)	
Compensation related to stock option grants issued to employees			44,000			44,000
Compensation related to stock option grants issued for services			85,139			85,139
Shares issued for amounts received in prior years	2,732	3	49,997			50,000
Proceeds from exercise of stock options	17,166	17	122,686			122,703
Balance, April 30, 2006	5,171,119	5,171	59,725,777	(28,632,153)	(32,091)	31,066,704
Net loss				(9,638,765)		(9,638,765)
Foreign currency translation adjustment					(8,639)	(8,639)
Total comprehensive loss						(9,647,404)
Compensation			1,082,181			1,082,181

related to stock option grants issued to employees						
Compensation related to stock option grants issued for services			70,235			70,235
Adjustment for reverse stock split rounding	(9)					
Sale of common stock, net of issuance costs	5,000,000	5,000	89,898,819			89,903,819
Proceeds from exercise of stock options	15,144	15	65,659			65,674
Balance, April 30, 2007	10,186,254	$ 10,186	150,842,671	(38,270,918)	(40,730)	112,541,209

See accompanying notes to consolidated financial statements.

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OCEAN POWER TECHNOLOGIES, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

	Year Ended April 30,		
	2005	**2006**	**2007**
Cash flows from operating activities:			
Net loss	$ (428,634)	(7,078,911)	(9,638,765)
Adjustments to reconcile net loss to net cash used in operating activities:			
Foreign exchange (gain) loss	(1,507,145)	978,242	(1,523,527)
Depreciation and amortization	140,984	233,132	269,075
Loss on disposal of equipment			24,572
Compensation expense related to stock option grants	184,674	129,139	1,152,416
Realization of deferred credits		(75,000)	
Deferred rent			10,825
Changes in operating assets and liabilities:			
Accounts receivable	(621,499)	668,424	(827,287)
Unbilled receivables	(268,216)	611,037	(95,896)
Other current assets	(239,274)	161,505	(99,436)
Accounts payable	404,491	(632,778)	1,233,484
Accrued expenses	708,022	(121,840)	2,126,616
Unearned revenues	(246,890)	(2,383)	(14,405)
Other current liabilities		57,803	(85,470)
Net cash used in operating activities	(1,873,487)	(5,071,630)	(7,467,798)
Cash flows from investing activities:			
Purchases of certificates of deposit	(58,050,287)	(62,677,400)	(55,187,304)
Maturities of certificates of deposit	33,573,254	87,397,606	47,279,314
Restricted cash			(983,376)
Purchases of equipment	(435,488)	(330,047)	(107,271)
Payments of patent costs	(125,414)	(57,396)	(217,763)
Investments in joint ventures and other noncurrent assets	(78,399)	(30,747)	(122,001)
Net cash (used in) provided by investing activities	(25,116,334)	24,302,016	(9,338,401)
Cash flows from financing activities:			
Sale of common stock, net of issuance costs			90,773,935
Proceeds from exercise of stock options	233,650	122,703	65,674
Net cash provided by financing activities	233,650	122,703	90,839,609
Effect of exchange rate changes on cash and cash equivalents	1,500,740	(980,694)	1,514,854
Net (decrease) increase in cash and cash equivalents	(25,255,431)	18,372,395	75,548,264
Cash and cash equivalents, beginning of period	38,840,245	13,584,814	31,957,209

Cash and cash equivalents, end of period	$ 13,584,814	31,957,209	107,505,473
Supplemental disclosure of noncash investing and financing activities:			
Issuance of shares in connection with amounts received in prior years	$	50,000	
Capitalized patent costs financed through accounts payable			30,343
Stock issuance costs financed through accounts payable and accrued expenses			870,116

See accompanying notes to consolidated financial statements.

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OCEAN POWER TECHNOLOGIES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(1) Background

Ocean Power Technologies, Inc. (the Company) was incorporated on April 19, 1984 in the State of New Jersey, commenced active operations in 1994 and re-incorporated in the State of Delaware in April 2007. The Company develops and is commercializing proprietary systems that generate electricity by harnessing the renewable energy of ocean waves. The Company markets and sells its products in the United States and internationally.

(2) Summary of Significant Accounting Policies

(a) Consolidation

The accompanying consolidated financial statements include the accounts of the Company and its majority owned subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation.

In addition, the Company evaluates its relationships with other entities to identify whether they are variable interest entities as defined by Financial Accounting Standards Board (FASB) Interpretation No. 46(R), *Consolidation of Variable Interest Entities* (FIN 46R), and to assess whether it is the primary beneficiary of such entities. If the determination is made that the Company is the primary beneficiary, then that entity is included in the consolidated financial statements in accordance with FIN 46R.

(b) Use of Estimates

The preparation of the consolidated financial statements requires management of the Company to make a number of estimates and assumptions relating to the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the period. Significant items subject to such estimates and assumptions include the recoverability of the carrying amount of property and equipment and patents; valuation allowances for receivables and deferred income tax assets; and percentage of completion of customer contracts for purposes of revenue recognition. Actual results could differ from those estimates.

(c) Revenue Recognition

The Company recognizes revenue on government and commercial contracts under the percentage-of-completion method. The percentage of completion is determined by relating the costs incurred to date to the estimated total costs. The cumulative effects resulting from revisions of estimated total contract costs and revenues are recorded in the period in which the facts requiring revision become known. Upon anticipating a loss on a contract, the Company recognizes the full amount of the anticipated loss in the current period. During the years ended April 30, 2005 and 2007, the Company recorded provisions of approximately $21,000 and $1,290,000, respectively, related to anticipated losses on contracts. Reserves related to loss contracts in the amounts of approximately $785,000 and $1,780,000 are included in accrued expenses in the accompanying consolidated balance sheets as of April 30, 2006 and 2007, respectively.

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 of unbilled receivables, and to the extent that such billings exceed costs incurred plus applicable profit margin, they

are recorded as unearned revenues.

(d) Cash Equivalents

Cash equivalents consist of investments in short-term financial instruments with maturities of three months or less from the date of purchase. Cash and cash equivalents include $31,506,000 and $13,254,000 of certificates of deposit with an initial term of less than three months at April 30, 2006 and 2007, respectively, and $93,000,000 invested in a money market fund as of April 30, 2007.

OCEAN POWER TECHNOLOGIES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

(e) Restricted Cash and Credit Facility

As of April 30, 2007, the Company had $983,376 in cash restricted under the terms of a security agreement (the Agreement) between Ocean Power Technologies, Inc and Barclays Bank. Under the Agreement, this cash is on deposit at Barclays Bank and serves as security for letters of credit which are expected to be issued by Barclays Bank on behalf of Ocean Power Technologies Ltd., under a 800,000 credit facility established by Barclays Bank for Ocean Power Technologies Ltd. The credit facility is for the issuance of letters of credit and bank guarantees, and carries a fee of 1% per annum of the amount of any such obligations issued by Barclays Bank. The credit facility does not have an expiration date, and is cancelable at the discretion of the bank.

(f) Property and Equipment

Property and equipment is stated at cost, less accumulated depreciation and amortization. Depreciation and amortization is calculated using the straight-line method over the estimated useful lives (three to seven years) of the assets. Leasehold improvements are amortized using the straight-line method over the shorter of the estimated useful life of the asset or the remaining lease term. Expenses for maintenance and repairs are charged to operations as incurred. Depreciation was $112,070, $213,374 and $247,515 for the years ended April 30, 2005, 2006 and 2007, respectively.

(g) Foreign Exchange Gains and Losses

The Company has invested in certain certificates of deposit and has maintained cash accounts that are denominated in British pound sterling, Euros and Australian dollars. Such certificates of deposit and cash accounts had a balance of approximately $16,724,000 and $15,646,000 as of April 30, 2006 and 2007, respectively. Such positions may result in realized and unrealized foreign exchange gains or losses from exchange rate fluctuations, which are included in foreign exchange gain (loss) on the accompanying consolidated statements of operations.

(h) Patents

External costs related to the filing of patents, including legal and filing fees, are capitalized. Amortization is calculated using the straight-line method over the life of the patents (17 years). Expenses for the development of technology are charged to operations as incurred. Amortization expense was $28,914, $19,758 and $21,560 for the years ended April 30, 2005, 2006 and 2007, respectively. Amortization expense for the next five fiscal years related to amounts capitalized for patents as of April 30, 2007 is estimated to be approximately $22,000 per year.

(i) Long-Lived Assets

In accordance with Statement of Financial Accounting Standards (SFAS) No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, long-lived assets, such as property and equipment, and purchased intangible assets subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of the asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of the asset exceeds its estimated future cash flows, then an impairment charge is

recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset. Assets to be disposed of would be separately presented in the consolidated balance sheet and reported at the lower of the carrying amount or fair value less costs to sell, and are no longer depreciated. The assets and liabilities of a disposal group classified as held for sale would be presented separately in the appropriate asset and liability sections of the consolidated balance sheet. The Company reviewed its long-lived assets for indicators of impairment in accordance with SFAS No. 144 and determined that no impairment review was necessary for the years ended April 30, 2005, 2006 and 2007.

(j) Concentration of Credit Risk

Financial instruments that potentially subject the Company to concentration of credit risk consist principally of cash balances, bank certificates of deposit and trade receivables. The Company invests its excess cash in highly

OCEAN POWER TECHNOLOGIES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

liquid investments (principally short-term bank deposits and a money market fund) and does not believe that it is exposed to any significant risks related to its cash accounts, money market fund or certificates of deposit.

The table below shows the percentage of the Company s revenues derived from customers whose revenues accounted for at least 10% of the Company s consolidated revenues for the periods indicated:

Customer	Years Ended April 30, 2005	2006	2007
US Navy	57%	61%	54%
Iberdrola and Total	4%	9%	35%
Lockheed Martin	32%	22%	

The loss of, or a significant reduction in revenues from, any of these customers could significantly impact the Company s financial position or results of operations. The Company does not require collateral from its customers.

(k) Net Loss per Common Share

Basic and diluted net loss per share for all periods presented is computed by dividing net loss by the weighted average number of shares of common stock outstanding during the period. Due to the Company s net losses, potentially dilutive securities, consisting of outstanding stock options, were excluded from the diluted loss per share calculation due to their anti-dilutive effect.

In computing diluted net loss per share, 1,116,281, 1,205,030, and 1,303,574 options to purchase shares of common stock were excluded from the computations for the years ended April 30, 2005, 2006 and 2007, respectively.

(l) Stock-Based Compensation

Prior to May 1, 2006, the Company applied the intrinsic-value-based method of accounting prescribed by Accounting Principles Board (APB) Opinion No. 25, *Accounting for Stock Issued to Employees*, and related interpretations including FASB Interpretation No. 44, *Accounting for Certain Transactions Involving Stock Compensation*, to account for its fixed plan stock options. Under this method, compensation expense was recorded only if on the date of grant the market price of the underlying stock exceeded the exercise price. SFAS No. 123, *Accounting for Stock-Based Compensation*, and SFAS No. 148, *Accounting for Stock-Based Compensation Transition and Disclosure*, established accounting and disclosure requirements using a fair-value-based method of accounting for stock-based employee compensation plans. As permitted by existing accounting standards, the Company elected to continue to apply the intrinsic-value-based method of accounting described above, and adopted only the disclosure requirements of SFAS No. 123, as amended. The following table illustrates the effect on net loss if the fair-value-based method had been applied to all outstanding and unvested awards in the periods presented:

	Years Ended April 30, 2005	2006

Net loss, as reported	$	(428,634)	(7,078,911)
Add stock-based employee compensation expense included in reported net loss		131,500	44,000
Deduct total stock-based employee compensation expense determined under fair-value-based method for all awards		(1,367,000)	(680,000)
Pro forma net loss	$	(1,664,134)	(7,714,911)
Basic and diluted net loss per share, as reported	$	(0.08)	(1.37)
Basic and diluted net loss per share, pro forma	$	(0.32)	(1.49)

In accordance with SFAS No. 123, as amended by SFAS No. 148, the fair value of option grants is estimated on the date of grant using the Black-Scholes option pricing model for pro forma disclosure purposes with the following

OCEAN POWER TECHNOLOGIES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

weighted-average assumptions used for grants: dividend yield of 0%; risk-free interest rate of 4% and 4.9% for the years ended April 30, 2005 and 2006, respectively; an expected option life of 8.9 years and 9.3 years for the years ended April 30, 2005 and 2006, respectively; and volatility of 80.8% and 72% for the years ended April 30, 2005 and 2006, respectively. These assumptions were used to determine the weighted average per share fair value of $13.92 and $10.20 for stock options granted during the years ended April 30, 2005 and 2006, respectively.

On May 1, 2006, the Company adopted the provisions of SFAS No. 123 (revised 2004), *Share-Based Payment* (SFAS No. 123R), which requires that the costs resulting from all share-based payment transactions be recognized in the consolidated financial statements at their fair values. The Company adopted SFAS No. 123R using the modified prospective application method under which the provisions of SFAS No. 123R apply to new awards and to awards modified, repurchased, or canceled after the adoption date. Additionally, compensation cost for the portion of the awards for which the requisite service had not been rendered that were outstanding as of May 1, 2006 will be recognized in the consolidated statements of operations over the remaining service period after such date based on the award s original estimated fair value. The aggregate share-based compensation expense recorded in the consolidated statements of operations for the year ended April 30, 2007 under SFAS No. 123R was approximately $1,082,000. The Company would have recorded an immaterial amount of share-based compensation expense related to employees for the year ended April 30, 2007 if it had continued to account for share-based compensation under APB Opinion No. 25. For the year ended April 30, 2007, this additional share-based compensation increased the net loss by approximately $1,073,000 and increased basic and diluted loss per share by approximately $0.20.

Valuation Assumptions for Options Granted During the Year Ended April 30, 2007

The fair value of each stock option granted during the year ended April 30, 2007 was estimated at the date of grant using the Black-Scholes option pricing model, assuming no dividends and using the weighted average valuation assumptions noted in the following table. The risk-free rate is based on the U.S. Treasury yield curve in effect at the time of grant. The expected life (estimated period of time outstanding) of the stock options granted was estimated using the simplified method as permitted by the Securities and Exchange Commission s Staff Accounting Bulletin No. 107, *Share-Based Payment.* Expected volatility was based on historical volatility for a peer group of companies for a period equal to the stock option s expected life, calculated on a daily basis.

Risk-free interest rate	5%
Expected dividend yield	0.0%
Expected life	5.5 years
Expected volatility	72.0%

The above assumptions were used to determine the weighted average per share fair value of $8.80 for stock options granted during the year ended April 30, 2007.

(m) Accounting for Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred

tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences and operating loss and tax credit carryforwards are expected to be recovered, settled or utilized. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

(n) Accumulated Other Comprehensive Loss

The functional currency for the Company s foreign operations is the applicable local currency. The translation from the applicable foreign currencies to U.S. dollars is performed for balance sheet accounts using the exchange

OCEAN POWER TECHNOLOGIES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

rates in effect at the balance sheet date and for revenue and expense accounts using an average exchange rate during the period. The unrealized gains or losses resulting from such translation are included in accumulated other comprehensive loss within stockholders equity.

(o) Recent Accounting Pronouncements

In June 2005, the FASB issued SFAS No. 154, *Accounting Changes and Error Corrections*, 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 No. 154 supersedes APB 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 of long-lived, non-financial assets, the change must be accounted for as a change in accounting estimate effected by a change in accounting principle. Under APB Opinion No. 20, such a change would have been reported as a change in accounting principle. SFAS No. 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. Adoption of SFAS No. 154 did not have any effect on the Company s financial position or results of operations.

In July 2006, the FASB issued FASB 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 enterprise s financial statements in accordance with SFAS No. 109, *Accounting for Income Taxes*. 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. The Company is currently analyzing the effects of FIN 48, but does not expect FIN 48 to have a material effect on its financial position or results of operations.

In September 2006, the Securities and Exchange Commission 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 was effective for the Company s year ended April 30, 2007. The adoption of SAB 108 did not have any impact on the Company s consolidated financial statements.

(3) Certificates of Deposit

Certificates of deposit with maturities in excess of 90 days from purchase are summarized as follows:

	Nominal Face Amount	**Currency**	**April 30, 2006**	**2007**
3.92% due August 11, 2006	482,156	USD	$ 482,156	
5.20% due May 17, 2007	2,496,832	GBP		4,989,420

5.22% due June 20, 2007	1,701,810	GBP		3,400,726
			$ 482,156	8,390,146

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Notes to Consolidated Financial Statements (Continued)

(4) Property and Equipment

The components of property and equipment are as follows:

	April 30, 2006	April 30, 2007
Computers and software	$ 402,037	466,734
Equipment	452,448	403,233
Office furniture and equipment	233,178	198,923
Leasehold improvements	59,358	47,494
	1,147,021	1,116,384
Less accumulated depreciation	(602,736)	(728,461)
	$ 544,285	387,923

(5) Accrued Expenses

Included in accrued expenses at April 30, 2006 and 2007 were contract reserves of approximately $785,000 and $1,780,000, respectively, and accrued employee incentive payments of approximately $353,000 and $1,051,000, respectively. Accrued expenses at April 30, 2007 also included costs associated with the initial public offering in the US of approximately $680,000.

(6) Related-Party Transactions

The Company is obligated to pay royalties to G.W. Taylor, a founding stockholder of the Company; M.Y. Epstein; and the estate of J.R. Burns (stockholders of the Company) related to U.S. patent 4404490 entitled, Power Generation from Waves Near the Surface of Bodies of Water. Royalty payments are limited to $925,000 in the aggregate, based on revenues related to certain piezoelectric-technology, if any, on the basis of 6% of future licenses sold and 4% of future product sales and development contracts. Through April 30, 2007, approximately $200,000 of royalties had been earned. During the years ended April 30, 2005, 2006 and 2007, no royalties were earned pursuant to these agreements, and no future royalties are expected to be earned. As of April 30, 2006 and 2007, approximately $26,000 was included in other current liabilities related to these agreements.

In August 1999, the Company entered into a consulting agreement with an individual for marketing services at a rate of $600 per day of services provided. The individual became a member of the board of directors in June 2006. Under this consulting agreement, the Company expensed approximately $51,000, $53,000 and $54,000 during the years ended April 30, 2005, 2006 and 2007, respectively.

Also see Note 8 for an additional related-party transaction.

(7) Debt

During the year ended April 30, 2000, the Company received an award of $250,000 from the State of New Jersey Commission on Science and Technology for the development of a wave power system that was deployed off the coast of New Jersey. Under the terms of this award, the Company must repay the amount funded, without interest, by January 15, 2012. The amounts to be repaid each year are determined as a percentage of revenues (as defined in the loan agreement) the Company receives that year from its customer contracts that meet criteria specified in the loan agreement, with any remaining amount due on January 15, 2012. Based upon the terms of the award, the Company has repaid approximately $16,000 and is required to repay an additional approximately $2,000 as of April 30, 2007. The total repayment amount of approximately $18,000 has reduced the long-term debt balance. The current payment required was included in accrued expenses in the accompanying consolidated balance sheet as of April 30, 2007.

OCEAN POWER TECHNOLOGIES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

(8) Deferred Credits

During the year ended April 30, 2003, the Company entered into an agreement under which the Company received a payment of $75,000, which was included in deferred credits until the earning process was completed. During the year ended April 30, 2006, the earning process was completed, and the nonrefundable payment of $75,000 has been included in other income in the accompanying consolidated statement of operations.

During the year ended April 30, 2001, in connection with the sale of common stock to an investor, the Company received $600,000 from the investor in exchange for an option to purchase up to 500,000 metric tons of carbon emissions credits generated by the Company during the years 2008 through 2012, at a 30% discount from the then-prevailing market rate. This amount has been recorded in deferred credits in the accompanying consolidated balance sheets as of April 30, 2006 and 2007. If by December 31, 2012 the Company does not become entitled under applicable laws to the full amount of emission credits covered by the option, the Company is obligated to return the option fee of $600,000, less the aggregate discount on any emission credits sold to the investor prior to such date. If the Company receives emission credits under applicable laws and fails to sell to the investor the credits up to the full amount of emission credits covered by the option, the investor is entitled to liquidated damages equal to 30% of the aggregate market value of the shortfall in emission credits (subject to a limit on the market price of emission credits).

(9) Common Stock

On December 7, 2006, the board of directors approved and recommended to shareholders and on January 12, 2007, the shareholders of the Company approved a one-for-ten reverse stock split, which was effective on April 20, 2007. All share data shown in the accompanying consolidated financial statements have been retroactively restated to reflect the reverse stock split and the reincorporation.

On April 30, 2007, the Company completed an initial public offering in the United States on The NASDAQ Global Market by issuing 5,000,000 shares of its common stock for a purchase price of $20.00 per share, resulting in net proceeds to the Company of $89,903,819.

During the year ended April 30, 2003, the Company sold 3,750 shares of common stock to an investor at a price of $13.30 per share, which was subject to adjustment based on the pricing of future financings, if any, during calendar year 2003. Based on the price at which the Company s common shares were sold at the time of an initial public offering on the AIM market of the London Stock Exchange in October 2003, this adjustment, in the form of a reduction of 1,397 shares issued, was resolved and recorded during the year ended April 30, 2005.

During the year ended April 30, 1998, under an agreement with a group of investors, the Company received $50,000 as an advance payment related to a potential future transaction, which was recorded in accrued expenses. During the year ended April 30, 2006, the Company repaid this amount by issuing 2,732 shares of common stock, in accordance with the terms of the agreement.

(10) Preferred Stock

In September 2003, and in connection with the AIM offering, the Company s stockholders authorized 5,000,000 shares of undesignated preferred stock with a par value of $0.001 per share. At April 30, 2006 and 2007, no shares of

preferred stock had been issued.

(11) Stock Options

Prior to August 2001, the Company maintained qualified and nonqualified stock option plans. The Company has reserved 494,594 shares of common stock for issuance under these plans. There are no options available for future grant under these plans as of April 30, 2007.

OCEAN POWER TECHNOLOGIES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

In August 2001, the Company approved the 2001 Stock Plan, which provides for the grant of incentive stock options and nonqualified stock options. A total of 1,000,000 shares are authorized for issuance under the 2001 Stock Plan. As of April 30, 2007, the Company had issued or reserved 808,980 shares for issuance under the 2001 Stock Plan. Members of the board of directors who are not full-time employees receive an annual option grant to acquire 2,500 shares. The options are granted after the annual meeting of shareholders for the year then ended. Vesting of stock options is determined by the board of directors. The contractual term of these stock options is up to ten years. After the effectiveness of the 2006 Stock Incentive Plan, no further options or other awards have been or will be granted under the 2001 Stock Plan.

On April 24, 2007, the Company s 2006 Stock Incentive Plan became effective. There are 803,215 shares reserved for issuance under this plan, which consists of 680,000 new shares plus 123,215 shares of common stock previously available under the 2001 Stock Plan. The Company s employees, officers, directors, consultants and advisors are eligible to receive awards under the 2006 Stock Incentive Plan; however, incentive stock options may only be granted to employees. The maximum number of shares of common stock with respect to which awards may be granted to any participant under the 2006 Stock Incentive Plan is 200,000 per calendar year. The 2006 Stock Incentive Plan is administered by the Company s board of directors who may delegate authority to one or more committees or subcommittees of the board of directors or to the Company s officers. If the board of directors delegates authority to an officer, the officer has the power to make awards to all of the Company s employees, except to executive officers. The board of directors will fix the terms of the awards to be granted by such officer. No award may be granted under the 2006 Stock Incentive Plan after December 7, 2016, but the vesting and effectiveness of awards granted before that date may extend beyond that date.

Transactions under these option plans during the year ended April 30, 2007 are as follows:

	Shares Under Option	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (In Years)
Outstanding April 30, 2006	1,205,030	14.19	
Forfeited	(10,026)	16.83	
Expired	(64,950)	8.42	
Exercised	(22,600)	8.55	
Granted	196,120	13.75	
Outstanding April 30, 2007	1,303,574	14.49	5.1
Exercisable April 30, 2007	974,266	14.89	4.0

The total intrinsic value of options exercised during the years ended April 30, 2005, 2006 and 2007 was approximately $313,000, $153,000 and $188,000, respectively. The total intrinsic value of outstanding and exercisable options as of April 30, 2007 was approximately $2,400,000 and $2,000,000, respectively. As of April 30, 2007, approximately 296,000 additional options were expected to vest, which had total intrinsic value of approximately $339,000 and a weighted average remaining contractual term of 8.2 years. As of April 30, 2007, there was approximately $2,400,000 of total unrecognized compensation cost related to non-vested stock options granted under the plans. This cost is expected to be recognized over a weighted-average period of 2.5 years. The Company normally issues new shares to satisfy option exercises under these plans.

Certain stock options granted during the years ended April 30, 2005 and 2006 were granted to employees with exercise prices less than the fair value of the underlying common stock on the date of grant. Additionally, certain options were granted to consultants during the years ended April 30, 2005, 2006 and 2007. The Company has charged compensation expense of $184,674, $129,139 and $70,235 related to these option grants, which has been

OCEAN POWER TECHNOLOGIES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

included in selling, general, and administrative costs in the accompanying consolidated statements of operations for the years ended April 30, 2005, 2006 and 2007, respectively.

(12) Income Taxes

The tax effects of temporary differences that give rise to significant portions of the Company s deferred tax assets and deferred tax liabilities are presented below.

	April 30,	
	2006	**2007**
Deferred tax assets:		
Federal net operating loss carryforwards	$ 6,638,000	8,218,000
Foreign net operating loss carryforwards	1,210,000	1,897,000
Research and development tax credits	505,000	761,000
Stock compensation	1,478,000	1,509,000
Unrealized foreign exchange loss		6,000
Accrued expenses	314,000	829,000
Gross deferred tax assets	10,145,000	13,220,000
Deferred tax liabilities:		
Property and equipment	(31,000)	(17,000)
Unrealized foreign exchange gain	(60,000)	
Gross deferred tax liabilities	(91,000)	(17,000)
Deferred tax assets valuation allowance	(10,054,000)	(13,203,000)
Net deferred tax assets	$	

Income tax benefit was $29,335 and $143,963 for the years ended April 30, 2005 and 2006, respectively. The effective income tax rate differed from the percentages computed by applying the U.S. Federal income tax rate of 34% to loss before income taxes as a result of the following:

	Years Ended April 30,		
	2005	**2006**	**2007**
Computed expected tax benefit	(34)%	(34)%	(34)%
Increase (reduction) in income taxes resulting from:			
State income taxes, net of federal benefit	(6)	(6)	(6)

Stock-based compensation expense			8
Federal research and development tax credits	(6)	(2)	(1)
Sale of state loss carryforwards and tax credits	(6)	(2)	
Other non-deductible expenses	9	1	1
Increase in valuation allowance	37	41	32
	(6)%	(2)%	

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. As of April 30, 2006 and 2007, based upon the level of historical taxable losses, valuation allowances of $10,054,000 and $13,203,000, respectively, were recorded in accordance with the provisions of

OCEAN POWER TECHNOLOGIES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

SFAS No. 109. The valuation allowance increased $2,697,000, $2,436,000 and $3,149,000 during the years ended April 30, 2005, 2006 and 2007, respectively.

As of April 30, 2007, the Company had net operating loss carryforwards for Federal income tax purposes of approximately $24,200,000, which begin to expire in 2009. The Company also had federal research and development credit carryforwards of approximately $761,000 as of April 30, 2007, which begin to expire in 2012. The Tax Reform Act of 1986 contains provisions that limit the utilization of net operating loss and tax credit carryforwards if there has been an ownership change, as defined. Such an ownership change, as described in Section 382 of the Internal Revenue Code, may limit the Company s ability to utilize its net operating loss and tax credit carryforwards on a yearly basis. Foreign loss before income taxes was $527,974, $982,934 and $2,289,834 for the years ended April 30, 2005, 2006 and 2007, respectively. As of April 30, 2007, foreign net operating loss carryforwards were approximately $6,300,000. These losses can be carried forward indefinitely, but the Company s ability to utilize these carryforwards may be limited in the event of an ownership change.

During the years ended April 30, 2005 and 2006, the Company sold a portion of its New Jersey state net operating loss carryforwards and research and development credits to a company for net proceeds of $29,335 and $143,963, respectively, resulting in the recognition of income tax benefits in the accompanying consolidated statements of operations.

(13) Commitments and Contingencies

(a) Operating Lease Commitments

The Company leases office, laboratory and manufacturing space in Pennington, New Jersey and office space in Warwick, United Kingdom under operating leases that expire on various dates through April 30, 2013. Rent expense under operating leases was $154,731, $295,089 and $338,113 for the years ended April 30, 2005, 2006 and 2007, respectively. Future minimum lease payments under operating leases as of April 30, 2007 are as follows:

Year ending April 30:	
2008	$ 256,857
2009	240,191
2010	206,859
2011	206,859
2012	206,859
Thereafter	206,859
	$ 1,324,484

(b) Litigation

The Company is involved from time to time in certain legal actions arising in the ordinary course of business. Management believes that the outcome of such actions will not have a material adverse effect on the Company s

financial position or results of operations.

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Notes to Consolidated Financial Statements (Continued)

(14) Quarterly Financial Data (Unaudited)

	Three Months Ended			
Fiscal Year 2007	**Jul 31**	**Oct 31**	**Jan 31**	**Apr 30**
Revenues	$ 305,186	555,561	652,884	1,017,684
Gross profit (loss)	79,221	(601,104)	(67,594)	(862,950)
Operating loss	(2,360,950)	(2,976,109)	(2,436,457)	(4,792,384)
Net loss	(1,660,954)	(2,307,200)	(1,540,296)	(4,130,315)
Basic and diluted net loss per share	$ (0.32)	(0.45)	(0.30)	(0.75)

	Three Months Ended			
Fiscal Year 2006	**Jul 31**	**Oct 31**	**Jan 31**	**Apr 30**
Revenues	$ 492,820	613,679	360,784	280,432
Gross profit (loss)	(123,615)	(276,520)	(53,562)	142,094
Operating loss	(1,401,420)	(1,984,647)	(1,866,638)	(2,474,582)
Net loss	(2,645,920)	(1,402,480)	(1,437,877)	(1,592,634)
Basic and diluted net loss per share	$ (0.51)	(0.27)	(0.28)	(0.31)

(15) Operating Segments and Geographic Information

The Company s business consists of one segment as this represents management s view of the Company s operations. The Company operates on a worldwide basis with one operating company in the US, one subsidiary in the UK and one subsidiary in Australia, which are categorized below as North America, Europe and Australia, respectively. Revenues are generally attributed to the operating unit which bills the customers.

Geographic information is as follows:

	Year Ended April 30, 2005			
	North America	**Europe**	**Australia**	**Total**
Revenues from external customers	$ 5,365,235			5,365,235
Operating loss	(3,263,815)			(3,263,815)
Long-lived assets	427,613			427,613
Total assets	41,596,387			41,596,387

Year Ended April 30, 2006		
Europe	**Australia**	**Total**

	North America			
Revenues from external customers	$ 1,747,715			1,747,715
Operating loss	(6,743,896)	(833,147)	(150,244)	(7,727,287)
Long-lived assets	487,770	56,515		544,285
Total assets	33,820,540	156,102	19,496	33,996,138

	Year Ended April 30, 2007			
	North America	Europe	Australia	Total
Revenues from external customers	$ 1,484,998	1,007,689	38,628	2,531,315
Operating loss	(10,254,579)	(2,191,703)	(119,618)	(12,565,900)
Long-lived assets	293,633	94,290		387,923
Total assets	118,074,176	1,607,549	29,821	119,711,546

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