ORMAT TECHNOLOGIES, INC.
Form 10-Q
May 10, 2012
Table of Contents

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

þ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended March 31, 2012

or

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from to

Commission file number: 001-32347

ORMAT TECHNOLOGIES, INC.

(Exact name of registrant as specified in its charter)

DELAWARE	**88-0326081**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification Number)*

6225 Neil Road, Reno, Nevada 89511-1136

(Address of principal executive offices)

Registrant s telephone number, including area code:

(775) 356-9029

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 þ No ¨

Indicate by check mark 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 (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes þ No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ¨	Accelerated filer þ	Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company ¨

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

As of the date of this filing, the number of outstanding shares of common stock of Ormat Technologies, Inc. is 45,430,886 par value of $0.001 per share.

Table of Contents

ORMAT TECHNOLOGIES, INC.

FORM 10-Q

FOR THE QUARTER ENDED MARCH 31, 2012

Table of Contents

Certain Definitions

Unless the context otherwise requires, all references in this quarterly report to Ormat , the Company , we , us , our company , Ormat Techno or our refer to Ormat Technologies, Inc. and its consolidated subsidiaries.

3

Table of Contents

PART I UNAUDITED FINANCIAL INFORMATION

ITEM 1. *CONDENSED CONSOLIDATED FINANCIAL STATEMENTS*

ORMAT TECHNOLOGIES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

	March 31, 2012	December 31, 2011
	(In thousands)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 84,580	$ 99,886
Marketable securities	15,719	18,521
Restricted cash, cash equivalents and marketable securities (all related to VIEs)	75,145	75,521
Receivables:		
Trade	43,545	51,274
Related entity	307	287
Other	8,058	9,415
Due from Parent	123	260
Inventories	17,200	12,541
Costs and estimated earnings in excess of billings on uncompleted contracts	8,618	3,966
Deferred income taxes	2,315	1,842
Prepaid expenses and other	19,863	18,672
Total current assets	275,473	292,185
Unconsolidated investments	3,732	3,757
Deposits and other	22,940	22,194
Deferred charges	40,066	40,236
Property, plant and equipment, net ($1,438,586 and $1,477,580 related to VIEs, respectively)	1,505,543	1,518,532
Construction-in-process ($299,126 and $271,859 related to VIEs, respectively)	413,998	370,551
Deferred financing and lease costs, net	28,054	28,482
Intangible assets, net	37,963	38,781
Total assets	$ 2,327,769	$ 2,314,718
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	$ 98,993	$ 105,112
Billings in excess of costs and estimated earnings on uncompleted contracts	32,155	33,104
Current portion of long-term debt:		
Limited and non-recourse (all related to VIEs):		
Senior secured notes	22,247	21,464
Other loans	13,612	13,547
Full recourse	20,647	20,543
Total current liabilities	187,654	193,770
Long-term debt, net of current portion:		
Limited and non-recourse (all related to VIEs:)		
Senior secured notes	340,374	341,157
Other loans	99,921	100,585
Full recourse:		
Senior unsecured bonds (plus unamortized premium based upon 7% of $1,667)	249,964	250,042
Other loans	60,273	63,623

Revolving credit lines with banks	227,642	214,049
Liability associated with sale of tax benefits	64,383	69,269
Deferred lease income	68,321	68,955
Deferred income taxes	59,399	54,665
Liability for unrecognized tax benefits	6,409	5,875
Liabilities for severance pay	21,674	20,547
Asset retirement obligation	21,697	21,284
Other long-term liabilities	4,021	4,253
Total liabilities	1,411,732	1,408,074
Commitments and contingencies		
Equity:		
The Company s stockholders equity:		
Common stock, par value $0.001 per share; 200,000,000 shares authorized; 45,430,886 shares issued and outstanding	46	46
Additional paid-in capital	727,403	725,746
Retained earnings	180,226	172,331
Accumulated other comprehensive income	518	595
	908,193	898,718
Noncontrolling interest	7,844	7,926
Total equity	916,037	906,644
Total liabilities and equity	$ 2,327,769	$ 2,314,718

The accompanying notes are an integral part of these condensed consolidated financial statements.

Table of Contents

ORMAT TECHNOLOGIES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND

COMPREHENSIVE INCOME (LOSS)

(Unaudited)

	Three Months Ended March 31, 2012	2011
	(In thousands, except per share data)	
Revenues:		
Electricity	$ 82,247	$ 78,268
Product	50,105	19,552
Total revenues	132,352	97,820
Cost of revenues:		
Electricity	57,931	65,937
Product	34,627	16,890
Total cost of revenues	92,558	82,827
Gross margin	39,794	14,993
Operating expenses:		
Research and development expenses	1,048	2,207
Selling and marketing expenses	4,922	2,660
General and administrative expenses	7,314	7,007
Write-off of unsuccessful exploration activities	768	
Operating income	25,742	3,119
Other income (expense):		
Interest income	388	135
Interest expense, net	(14,878)	(13,080)
Foreign currency translation and transaction gains	14	517
Income attributable to sale of tax benefits	2,517	2,139
Other non-operating expense, net	(161)	(797)
Income (loss), before income taxes and equity in losses of investees	13,622	(7,967)
Income tax provision	(5,457)	(586)
Equity in losses of investees	(140)	(412)
Net income (loss)	8,025	(8,965)
Net income attributable to noncontrolling interest	(130)	(10)
Net income (loss) attributable to the Company s stockholders	$ 7,895	$ (8,975)
Comprehensive income (loss):		
Net income (loss)	8,025	(8,965)
Other comprehensive income (loss), net of related taxes:		
Amortization of unrealized gains in respect of derivative instruments designated for cash flow hedge	(47)	(53)

Change in unrealized gains or losses on marketable securities available-for-sale		(30)		(23)
Comprehensive income (loss)		7,948		(9,041)
Comprehensive income attributable to noncontrolling interest		(130)		(10)
Comprehensive income (loss) attributable to the Company s stockholders	$	7,818	$	(9,051)
Earnings (loss) per share attributable to the Company s stockholders basic and diluted	$	0.17	$	(0.20)
Weighted average number of shares used in computation of earnings (loss) per share attributable to the Company s stockholders:				
Basic		45,431		45,431
Diluted		45,437		45,431
Dividend per share declared	$		$	0.05

The accompanying notes are an integral part of these condensed consolidated financial statements.

5

Table of Contents

ORMAT TECHNOLOGIES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF EQUITY

(Unaudited)

	The Company s Stockholders Equity							
	Common Stock							
	Shares	**Amount**	**Additional Paid-in Capital**	**Retained Earnings**	**Accumulated Other Comprehensive Income**	**Total**	**Noncontrolling Interest**	**Total Equity**
	(In thousands, except per share data)							
Balance at December 31, 2010	45,431	$ 46	$ 716,731	$ 221,311	$ 1,044	$ 939,132	$ 6,095	$ 945,227
Stock-based compensation			1,727			1,727		1,727
Increase in noncontrolling interest due to sale of equity interest in OPC LLC			2,343			2,343	2,070	4,413
Cash dividend declared, $0.05 per share				(2,290)		(2,290)		(2,290)
Net income (loss)				(8,975)		(8,975)	10	(8,965)
Other comprehensive income (loss), net of related taxes:								
Amortization of unrealized gains in respect of derivative instruments designated for cash flow hedge (net of related tax of $32)					(53)	(53)		(53)
Change in unrealized gains or losses on marketable securities available-for-sale (net of related tax of $14)					(23)	(23)		(23)
Balance at March 31, 2011	45,431	$ 46	$ 720,801	$ 210,046	$ 968	$ 931,861	$ 8,175	$ 940,036
Balance at December 31, 2011	45,431	$ 46	$ 725,746	$ 172,331	$ 595	$ 898,718	$ 7,926	$ 906,644
Stock-based compensation			1,657			1,657		1,657
Cash paid to non-controlling interest							(212)	(212)
Net income				7,895		7,895	130	8,025
Other comprehensive income (loss), net of related taxes:								
Amortization of unrealized gains in respect of derivative instruments designated for cash flow hedge (net of related tax of $29)					(47)	(47)		(47)
Change in unrealized gains or losses on marketable securities available-for-sale (net of related tax of $0)					(30)	(30)		(30)
Balance at March 31, 2012	45,431	$ 46	$ 727,403	$ 180,226	$ 518	$ 908,193	$ 7,844	$ 916,037

The accompanying notes are an integral part of these condensed consolidated financial statements.

6

ORMAT TECHNOLOGIES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Three Months Ended March 31, 2012	2011
	(In thousands)	
Cash flows from operating activities:		
Net income (loss)	$ 8,025	$ (8,965)
Adjustments to reconcile net income or loss to net cash provided by operating activities:		
Depreciation and amortization	24,744	23,370
Amortization of premium from senior unsecured bonds	(78)	
Accretion of asset retirement obligation	413	387
Stock-based compensation	1,657	1,727
Amortization of deferred lease income	(671)	(671)
Income attributable to sale of tax benefits, net of interest expense	(869)	(542)
Equity in losses of investees	140	412
Impairment of auction rate securities		207
Write-off of unsuccessful exploration activities	768	
Loss on severance pay fund asset	(641)	(614)
Premium from issuance senior unsecured bonds		1,975
Deferred income tax provision	4,460	145
Liability for unrecognized tax benefits	534	(1,137)
Deferred lease revenues	37	(269)
Changes in operating assets and liabilities, net of amounts acquired:		
Receivables	9,086	(14,367)
Costs and estimated earnings in excess of billings on uncompleted contracts	(4,652)	2,615
Inventories	(4,659)	(2,016)
Prepaid expenses and other	(1,191)	1,138
Deposits and other	(169)	(132)
Accounts payable and accrued expenses	4,877	(3,184)
Due from/to related entities, net	(20)	(29)
Billings in excess of costs and estimated earnings on uncompleted contracts	(949)	12,223
Liabilities for severance pay	1,127	1,281
Other long-term liabilities	(232)	(257)
Due from/to Parent	137	(231)
Net cash provided by operating activities	41,874	13,066
Cash flows from investing activities:		
Marketable securities, net	2,772	(22,965)
Net change in restricted cash, cash equivalents and marketable securities	376	(29,920)
Capital expenditures	(65,430)	(55,052)
Investment in unconsolidated companies	(115)	
Increase in severance pay fund asset, net of payments made to retired employees	64	13
Net cash used in investing activities	(62,333)	(107,924)
Cash flows from financing activities:		
Proceeds from issuance of senior unsecured bonds		107,447
Proceeds from the sale of limited liability company interest in OPC LLC		24,878
Proceeds from revolving credit lines with banks	182,641	79,334
Repayment of revolving credit lines with banks	(169,048)	(150,300)
Repayments of long-term debt	(3,845)	(2,434)
Cash paid to non-controlling interest	(4,229)	(2,616)
Deferred debt issuance costs	(366)	(1,301)
Cash dividends paid		(2,290)

Net cash provided by financing activities	5,153	52,718
Net change in cash and cash equivalents	(15,306)	(42,140)
Cash and cash equivalents at beginning of period	99,886	82,815
Cash and cash equivalents at end of period	$ 84,580	$ 40,675
Supplemental non-cash investing and financing activities:		
Decrease in accounts payable related to purchases of property, plant and equipment	$ (11,509)	$ (5,947)
Accrued liabilities related to financing activities	$ 513	$ 325

The accompanying notes are an integral part of these condensed consolidated financial statements.

Table of Contents

ORMAT TECHNOLOGIES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 1 GENERAL AND BASIS OF PRESENTATION

These unaudited condensed consolidated financial statements of Ormat Technologies, Inc. and its subsidiaries (the Company) have been prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) and pursuant to the rules and regulations of the Securities and Exchange Commission (SEC) for interim financial statements. Accordingly, they do not contain all information and notes required by U.S. GAAP for annual financial statements. In the opinion of management, the unaudited condensed consolidated interim financial statements reflect all adjustments, which include normal recurring adjustments, necessary for a fair statement of the Company s consolidated financial position as of March 31, 2012, the consolidated results of operations and comprehensive income (loss), and the consolidated cash flows for the three-month periods ended March 31, 2012 and 2011.

The financial data and other information disclosed in the notes to the condensed consolidated financial statements related to these periods are unaudited. The results for the three-month period ended March 31, 2012 are not necessarily indicative of the results to be expected for the year ending December 31, 2012.

These condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company s annual report on Form 10-K for the year ended December 31, 2011. The condensed consolidated balance sheet data as of December 31, 2011 was derived from the audited consolidated financial statements for the year ended December 31, 2011, but does not include all disclosures required by U.S. GAAP.

Dollar amounts, except per share data, in the notes to these financial statements are rounded to the closest $1,000.

Concentration of credit risk

Financial instruments that potentially subject the Company to a concentration of credit risk consist principally of temporary cash investments, marketable securities and accounts receivable.

The Company places its temporary cash investments with high credit quality financial institutions located in the United States (U.S.) and in foreign countries. At March 31, 2012 and December 31, 2011, the Company had deposits totaling $14,292,000 and $39,569,000, respectively, in seven U.S. financial institutions that were federally insured up to $250,000 per account. At March 31, 2012 and December 31, 2011, the Company s deposits in foreign countries amounted to approximately $62,367,000 and $57,838,000, respectively.

At March 31, 2012 and December 31, 2011, accounts receivable related to operations in foreign countries amounted to approximately $14,971,000 and $21,453,000, respectively. At March 31, 2012 and December 31, 2011, accounts receivable from the Company s major customers that have generated 10% or more of its revenues amounted to approximately 51% and 58% of the Company s accounts receivable, respectively.

Southern California Edison Company (SCE) accounted for 19.7% and 27.0% of the Company s total revenues for the three months ended March 31, 2012 and 2011, respectively.

Sierra Pacific Power Company and Nevada Power Company (subsidiaries of NV Energy, Inc.) accounted for 12.9% and 16.2% of the Company s total revenues for the three months ended March 31, 2012 and 2011, respectively.

ORMAT TECHNOLOGIES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Hawaii Electric Light Company accounted for 9.3% and 10.6% of the Company s total revenues for the three months ended March 31, 2012 and 2011, respectively.

Kenya Power and Lighting Co. Ltd. accounted for 7.3% and 8.9% of the Company s total revenues for the three months ended March 31, 2012 and 2011, respectively.

The Company performs ongoing credit evaluations of its customers financial condition. The Company has historically been able to collect on all of its receivable balances, and accordingly, no provision for doubtful accounts has been made.

NOTE 2 NEW ACCOUNTING PRONOUNCEMENTS

New accounting pronouncements effective in the three-month period ended March 31, 2012

Accounting for Fair Value Measurement

In May 2011, the Financial Accounting Standards Board (FASB) issued additional authoritative guidance regarding fair value measurements and disclosures. Required disclosures are expanded under the new guidance, especially for fair value measurements that are categorized within Level 3 of the fair value hierarchy, for which quantitative information about the unobservable inputs, the valuation processes used by the entity, and the sensitivity of the measurement to the unobservable inputs are required. In addition, entities are required to disclose the categorization by level of the fair value hierarchy for items that are not measured at fair value in the statement of financial position but for which the fair value is required to be disclosed. The adoption of this guidance by the Company on January 1, 2012 did not have a material impact on the Company s consolidated financial statements.

Update on Presentation of Comprehensive Income in the Financial Statements

In June 2011, the FASB issued authoritative guidance requiring entities to present net income and other comprehensive income in a single continuous statement of comprehensive income or in two separate, but consecutive, statements. The new guidance does not change the components that are recognized in net income and the components that are recognized in other comprehensive income. The guidance originally required entities to present reclassifications between net income and other comprehensive income at the financial statement line item level; however, in December 2011, the FASB deferred this requirement. The adoption of this guidance by the Company on January 1, 2012 did not have a material impact on the Company s consolidated financial statements.

New accounting pronouncements effective in future periods

Update on Disclosures about Offsetting Assets and Liabilities

In December 2011, the FASB issued new accounting guidance that revises the manner in which entities disclose the offsetting of assets and liabilities. The new guidance requires entities to disclose both gross information and net information about both instruments and transactions eligible for offset in the balance sheet and instruments and transactions subject to an agreement similar to a master netting arrangement. The amendment is applicable retrospectively effective for fiscal years, and interim periods within those years, beginning on or after January 1, 2013. The adoption of this amendment is not expected to have a material effect on the Company s consolidated financial statements.

Table of Contents

ORMAT TECHNOLOGIES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

NOTE 3 INVENTORIES

Inventories consist of the following:

	March 31, 2012	December 31, 2011
	(Dollars in thousands)	
Raw materials and purchased parts for assembly	$ 10,057	$ 6,058
Self-manufactured assembly parts and finished products	7,143	6,483
Total	$ 17,200	$ 12,541

NOTE 4 UNCONSOLIDATED INVESTMENTS

Unconsolidated investments, mainly in power plants, consist of the following:

	March 31, 2012	December 31, 2011
	(Dollars in thousands)	
Sarulla	$ 2,330	$ 2,215
Watts & More Ltd.	1,402	1,542
	$ 3,732	$ 3,757

The Sarulla Project

The Company is a 12.75% member of a consortium which is in the process of developing a geothermal power project in Indonesia with expected generating capacity of approximately 330 MW. The project is located in Tapanuli Utara, North Sumatra, Indonesia and will be owned and operated by the consortium members under the framework of a Joint Operating Contract with PT Pertamina Geothermal Energy. The project will be constructed in three phases over five years, with each phase utilizing the Company s 110 MW to 120 MW combined cycle geothermal plants in which the steam first produces power in a backpressure steam turbine and is subsequently condensed in a vaporizer of a binary plant, which produces additional power. The consortium is still negotiating certain contractual amendments for facilitation of project financing and for signing the resulting amended energy sales contract, and intends to proceed with the project after those amendments have become effective.

The Company s share in the results of operations of the Sarulla project was not significant for each of the periods presented in these condensed consolidated financial statements.

Watts & More Ltd.

In October 2010, the Company invested $2.0 million in Watts & More Ltd. (W&M), an early stage start-up company, engaged in the development of energy harvesting and system balancing solutions for electrical sources and, in particular, solar photovoltaic systems. The Company holds approximately 28.6% of W&M s shares.

Table of Contents

ORMAT TECHNOLOGIES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

The Company s share in the results of operations of W&M was not significant for each of the periods presented in these condensed consolidated financial statements.

NOTE 5 FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value measurement guidance clarifies that fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. It establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under the fair value measurement guidance are described below:

Level 1 Unadjusted quoted prices in active markets that are accessible at the measurement date for identical assets or liabilities;

Level 2 Quoted prices in markets that are not active, or inputs that are observable, either directly or indirectly, for substantially the full term of the asset or liability;

Level 3 Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (supported by little or no market activity).

The following table sets forth certain fair value information at March 31, 2012 and December 31, 2011 for financial assets and liabilities measured at fair value by level within the fair value hierarchy, as well as cost or amortized cost. As required by the fair value measurement guidance, assets and liabilities are classified in their entirety based on the lowest level of inputs that is significant to the fair value measurement.

	Cost or Amortized Cost at March 31, 2012	Fair Value at March 31, 2012			
		Total	Level 1	Level 2	Level 3
		(Dollars in thousands)			
Assets					
Current assets:					
Cash equivalents (including restricted cash accounts)	$ 43,371	$ 43,371	$ 43,371	$	$
Marketable Securities	15,453	15,719	15,719		
Derivatives[(1)]		296		296	
	$ 58,824	$ 59,386	$ 59,090	$ 296	$

11

Table of Contents

ORMAT TECHNOLOGIES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

	Cost or Amortized Cost at December 31, 2011	Fair Value at December 31, 2011			
		Total	Level 1	Level 2	Level 3
		(Dollars in thousands)			
Assets					
Current assets:					
Cash equivalents (including restricted cash accounts)	$ 61,649	$ 61,649	$ 61,649	$	$
Marketable Securities	18,284	18,521	18,521		
Liabilities:					
Current liabilities:					
Derivatives(2)		(890)		(890)	
	$ 79,933	$ 79,280	$ 80,170	$ (890)	$

(1) Amounts relating to derivatives which represent currency forward contracts which are valued primarily based on observable inputs, including forward and spot prices for currencies which are netted against contracted rates and then multiplied against notational amounts, and are included within receivables others in the balance sheet with the corresponding gain or loss being recognized within foreign currency translation and transaction gains (losses) in the condensed consolidated statement of operations and comprehensive income (loss).

(2) Amounts relating to derivatives which represent currency forward contracts which are valued primarily based on observable inputs, including forward and spot prices for currencies which are netted against contracted rates and then multiplied against notational amounts, and are included within accounts payable and accrued expenses in the balance sheet with the corresponding gain or loss being recognized within foreign currency translation and transaction gains (losses) in the condensed consolidated statement of operations and comprehensive income (loss).

The Company s financial assets measured at fair value (including restricted cash accounts) at March 31, 2012 and December 31, 2011 include investments in debt instruments (which are included in marketable securities) and money market funds (which are included in cash equivalents). Those securities are classified within Level 1 of the fair value hierarchy because they are valued using quoted market prices in an active market.

As of March 31, 2011, all of the Company s auction rate securities are associated with failed auctions. Such securities have par values totaling $4.5 million, all of which have been in a loss position since the fourth quarter of 2007. The Company s auction rate securities at December 31, 2010, were valued using Level 3 inputs. Historically, the carrying value of auction rate securities approximated fair value due to the frequent resetting of the interest rates. While the Company continued to earn interest on these investments at the contractual rates, the estimated market value of these auction rate securities no longer approximated par value. Due to the lack of observable market quotes on the Company s illiquid auction rate securities, the Company utilized valuation models that relied exclusively on Level 3 inputs including, among other things: (i) the underlying structure of each security; (ii) the present value of future principal and interest payments discounted at rates considered to reflect the uncertainty of current market conditions; (iii) consideration of the probabilities of default, auction failure, or repurchase at par for each period; (iv) assessments of counterparty credit quality; (v) estimates of the recovery rates in the event of default for each security; and (vi) overall capital market liquidity. These estimated fair values were subject to uncertainties that were difficult to predict. Therefore, such auction rate securities were classified as of December 31, 2010 as Level 3 in the fair value hierarchy. In the first quarter of 2011, the

12

Table of Contents

ORMAT TECHNOLOGIES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Company identified a buyer outside of the auction process and, in April 2011, it sold the balance of the auction rate securities for consideration of $2,822,000. Therefore, such auction rate securities have been classified as of March 31, 2011 as Level 2 in the fair value hierarchy, based on the prices which were negotiated in March 2011.

The table below sets forth a summary of the changes in the fair value of the Company s financial assets classified as Level 3 (i.e. illiquid auction rates securities) for the three months ended March 31, 2011:

	(Dollars in thousands)
Balance at beginning of period	$ 3,027
Total unrealized losses:	
Included in net income	(205)
Transferred to Level 2	(2,822)
Balance at end of period	$

There were no transfers of assets or liabilities between Level 1 and Level 2 during the three months ended March 31, 2012.

The fair value of the Company s long-term debt approximates its carrying amount, except for the following:

	Fair Value		Carrying Amount	
	March 31, 2012	December 31, 2011	March 31, 2012	December 31, 2011
	(Dollars in millions)		(Dollars in millions)	
Olkaria III Loan	$ 80.3	$ 79.2	$ 77.4	$ 77.4
Amatitlan Loan	36.6	37.2	36.2	36.8
Senior Secured Notes:				
Ormat Funding Corp. (OFC)	118.7	114.8	125.0	125.0
OrCal Geothermal Inc. (OrCal)	85.8	84.4	85.9	85.9
OFC 2 LLC (OFC 2)	125.0	131.0	151.7	151.7
Senior Unsecured Bonds	238.7	252.8	248.3	248.3
Loans from institutional investors	32.5	34.2	32.6	34.2

The fair value of OFC Senior Secured Notes is determined using observable market prices as these securities are traded. The fair value of other long-term debt is determined by a valuation model, which is based on a conventional discounted cash flow methodology and utilizes assumptions of estimated current borrowing rates. The fair value of revolving lines of credit is determined using comparison of market-based price sources that are reflective of similar credit ratings to those of the Company.

The carrying value of other financial instruments, such as revolving lines of credit, deposits, and other long-term debt approximates fair value.

ORMAT TECHNOLOGIES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

The following table presents fair value of financial instruments as of March 31, 2012:

	Level 1	Level 2	Level 3	Total
		(Dollars in millions)		
Olkaria III Loan	$	$	$ 80.3	$ 80.3
Amatitlan Loan			36.6	36.6
Senior Secured Notes:				
Ormat Funding Corp. (OFC)		118.7		118.7
OrCal Geothermal Inc. (OrCal)			85.8	85.8
OFC 2 LLC (OFC 2)			125.0	125.0
Senior Unsecured Bonds			238.7	238.7
Loan from institutional investors			32.5	32.5
Other long-term debt			50.0	50.0
Deposits	21.1			21.1
Revolving lines of credit		227.6		227.6

NOTE 6 INTEREST EXPENSE, NET

The components of interest expense, net, are as follows:

	Three Months Ended March 31,	
	2012	2011
	(Dollars in thousands)	
Interest related to sale of tax benefits	$ 1,837	$ 1,710
Loss on interest rate lock transactions*		733
Other	16,468	12,918
Less amount capitalized	(3,427)	(2,281)
	$ 14,878	$ 13,080

* The interest rate lock transactions are related to the OFC 2 Senior Secured Notes and were not accounted for using hedge accounting.

NOTE 7 EARNINGS (LOSS) PER SHARE

Basic earnings (loss) per share attributable to the Company s stockholders (earnings (loss) per share) is computed by dividing net income or loss attributable to the Company s stockholders by the weighted average number of shares of common stock outstanding for the period. The Company does not have any equity instruments that are dilutive, except for employee stock-based awards.

Table of Contents

ORMAT TECHNOLOGIES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

The table below shows the reconciliation of the number of shares used in the computation of basic and diluted earnings (loss) per share:

	Three Months Ended March 31, 2012	Three Months Ended March 31, 2011
	(In thousands)	
Weighted average number of shares used in computation of basic earnings (loss) per share	45,431	45,431
Add:		
Additional shares from the assumed exercise of employee stock-based awards	6	
Weighted average number of shares used in computation of diluted earnings (loss) per share	45,437	45,431

In the three months ended March 31, 2011, the employee stock-based awards were anti-dilutive because of the Company s net loss, and therefore they have been excluded from the diluted earnings (loss) per share calculation.

The number of stock-based awards that could potentially dilute future earnings per share and that were not included in the computation of diluted earnings (loss) per share because to do so would have been anti-dilutive was 5,134,381 and 3,025,249 for the three months ended March 31, 2012 and 2011, respectively.

NOTE 8 BUSINESS SEGMENTS

The Company has two reporting segments: Electricity and Product Segments. These segments are managed and reported separately as each offers different products and serves different markets. The Electricity Segment is engaged in the sale of electricity from the Company s power plants pursuant to power purchase agreements (PPAs). The Product Segment is engaged in the manufacture, including design and development, of turbines and power units for the supply of electrical energy and in the associated construction of power plants utilizing the power units manufactured by the Company to supply energy from geothermal fields and other alternative energy sources. Transfer prices between the operating segments are determined based on current market values or cost plus markup of the seller s business segment.

Summarized financial information concerning the Company s reportable segments is shown in the following tables:

	Electricity	Product	Consolidated
		(Dollars in thousands)	
Three Months Ended March 31, 2012:			
Net revenues from external customers	$ 82,247	$ 50,105	$ 132,352
Intersegment revenues		12,966	12,966
Operating income	15,875	9,867	25,742
Segment assets at period end *	2,227,064	100,705	2,327,769
* Including unconsolidated investments	2,330	1,402	3,732
Three Months Ended March 31, 2011:			
Net revenues from external customers	$ 78,268	$ 19,552	$ 97,820
Intersegment revenues		13,362	13,362
Operating income (loss)	4,004	(885)	3,119
Segment assets at period end *	2,005,182	88,765	2,093,947

* Including unconsolidated investments	1,980	1,852	3,832

Table of Contents

ORMAT TECHNOLOGIES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Reconciling information between reportable segments and the Company s consolidated totals is shown in the following table:

	Three Months Ended March 31, 2012	2011
	(Dollars in thousands)	
Operating income	$ 25,742	$ 3,119
Interest income	388	135
Interest expense, net	(14,878)	(13,080)
Foreign currency translation and transaction gains	14	517
Income attributable to sale of equity interest	2,517	2,139
Other non-operating (expense), net	(161)	(797)
Total income (loss), before income taxes and equity in losses of investees	$ 13,622	$ (7,967)

NOTE 9 CONTINGENCIES

Securities Class Actions

Following the Company s public announcement that it would restate certain of its financial results due to a change in the Company s accounting treatment for certain exploration and development costs, three securities class action lawsuits were filed in the United States District Court for the District of Nevada on March 9, 2010, March 18, 2010 and April 7, 2010. These complaints assert claims against the Company and certain officers and directors for alleged violation of Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 (the Exchange Act). One complaint also asserts claims for alleged violations of Sections 11, 12(a)(2) and 15 of the Securities Act. All three complaints allege claims on behalf of a putative class of purchasers of Company common stock between May 6, 2008 or May 7, 2008 and February 23, 2010 or February 24, 2010. These three lawsuits were consolidated by the Court in an order issued on June 3, 2010 and the Court appointed three of the Company s stockholders to serve as lead plaintiffs.

Lead plaintiffs filed a consolidated amended class action complaint (CAC) on July 9, 2010 that asserts claims under Sections 10(b) and 20(a) of the Exchange Act on behalf of a putative class of purchasers of Company common stock between May 7, 2008 and February 24, 2010. The CAC alleges that certain of the Company s public statements were false and misleading for failing to account properly for the Company s exploration and development costs based on the Company s announcement on February 24, 2010 that it was going to restate certain of its financial results to change its method of accounting for exploration and development costs in certain respects. The CAC also alleges that certain of the Company s statements concerning the North Brawley project were false and misleading. The CAC seeks compensatory damages, expenses, and such further relief as the Court may deem proper.

Defendants filed a motion to dismiss the CAC on August 13, 2010. On March 3, 2011, the court granted in part and denied in part defendants motion to dismiss. The court dismissed plaintiffs allegations that the Company s statements regarding the North Brawley project were false or misleading, but did not dismiss plaintiffs allegations regarding the 2008 restatement. Defendants answered the remaining allegations in the CAC regarding the restatement on April 8, 2011 and the case has now entered the discovery phase. On July 22, 2011, plaintiffs filed a motion to certify the case as a class action on behalf of a class of purchasers of Company common stock between February 25, 2009 and February 24, 2010, and defendants filed an opposition to the motion for class certification on October 4, 2011.

ORMAT TECHNOLOGIES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Subsequently, the parties participated in a mediation where they reached an agreement in principle to settle the securities class action lawsuits. The parties thereafter filed a stipulation of settlement with the U.S. District Court for the District of Nevada on March 27, 2012 providing that the claims against the Company and its officers and directors will be dismissed with prejudice and plaintiffs will release the defendants from all claims in exchange for a cash payment of $3.1 million to be funded by the Company s insurers. The stipulation of settlement received preliminary approval by the Court on March 30, 2012. It still remains subject to final approval by the Court following notice to members of the class.

The Company and the individual defendants have steadfastly maintained that the claims raised in the securities class action lawsuits were without merit, and have vigorously contested those claims. As part of the settlement, the Company and the individual defendants continue to deny any liability or wrongdoing under the securities laws or otherwise.

Stockholder Derivative Cases

Four stockholder derivative lawsuits have also been filed in connection with the Company s public announcement that it would restate certain of its financial results due to a change in the Company s accounting treatment for certain exploration and development costs. Two cases were filed in the Second Judicial District Court of the State of Nevada in and for the County of Washoe on March 16, 2010 and April 21, 2010 and two cases were filed in the United States District Court for the District of Nevada on March 29, 2010 and June 7, 2010. All four lawsuits assert claims brought derivatively on behalf of the Company against certain of its officers and directors for alleged breach of fiduciary duty and other claims, including waste of corporate assets and unjust enrichment.

The two stockholder derivative cases filed in the Second Judicial District Court of the State of Nevada in and for the County of Washoe were consolidated by the Court in an order dated May 27, 2010 and the plaintiffs filed a consolidated derivative complaint on September 7, 2010. In accordance with a stipulation between the parties, defendants filed a motion to dismiss on November 16, 2010. On April 18, 2011, the court stayed the state derivative case pending the resolution of the securities class action lawsuits. The Company cannot make an estimate of the reasonably possible loss or range of reasonably possible loss on the state derivative case.