ORMAT TECHNOLOGIES, INC.
Form 10-Q
August 07, 2006
Table of Contents

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2006

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, Suite 300, 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 No

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 Accelerated filer Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

As of the date of this filing, the number of outstanding shares of common stock of Ormat Technologies, Inc. is 35,587,496, par value $0.001 per share.

ORMAT TECHNOLOGIES, INC

FORM 10-Q FOR THE QUARTER ENDED JUNE 30, 2006

Certain Definitions

Unless the context otherwise requires, all references in this quarterly report to ‘‘Ormat’’, ‘‘the Company’’, ‘‘we’’, ‘‘us’’,’’our company’’, ‘‘Ormat Technologies’’ or ‘‘our’’ refer to Ormat Technologies, Inc. and its consolidated subsidiaries. The ‘‘OFC Senior Secured Notes’’ refers to the 8¼% Senior Secured Notes due 2020 that were issued in February 2004 by our subsidiary, Ormat Funding Corp. The ‘‘OrCal Senior Secured Notes’’ refers to the 6.21% Senior Secured Notes due 2020 that were issued in December 2005 by our subsidiary, OrCal Geothermal Inc.

Table of Contents

PART I — FINANCIAL INFORMATION

ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
ORMAT TECHNOLOGIES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

	June 30, 2006 (Unaudited)	December 31, 2005
	(in thousands)	
Assets		
Current assets:		
Cash and cash equivalents	$ 24,736	$ 26,976
Marketable securities	83,823	43,560
Restricted cash, cash equivalents and marketable securities	36,126	36,732
Receivables:		
Trade	36,879	33,515
Related entities	1,642	524
Other	2,620	2,629
Inventories, net	5,117	5,224
Costs and estimated earnings in excess of billings on uncompleted contracts	2,493	8,883
Deferred income taxes	4,246	1,663
Prepaid expenses and other	5,397	3,256
Total current assets	203,079	162,962
Unconsolidated investments	38,189	47,235
Deposits and other	14,386	13,489
Deferred income taxes	7,108	5,376
Property, plant and equipment, net	594,732	491,835
Construction-in-process	132,443	128,256
Deferred financing and lease costs, net	16,862	17,412
Intangible assets, net	46,505	47,915
Total assets	$1,053,304	$914,480
Liabilities and Stockholders' Equity		
Current liabilities:		
Short-term bank credit	$ —	$ 3,996
Accounts payable and accrued expenses	44,008	50,048
Billings in excess of costs and estimated earnings on uncompleted contracts	9,827	12,657
Current portion of long-term debt:		
Limited and non-recourse	8,503	2,888
Full recourse	1,000	1,000

Senior secured notes (non-recourse)	24,091	23,754
Due to Parent, including current portion of notes payable to Parent	31,181	32,003
Total current liabilities	118,610	126,346
Long-term debt, net of current portion:		
Limited and non-recourse	26,560	11,252
Full recourse	1,000	2,000
Senior secured notes (non-recourse)	315,280	324,645
Notes payable to Parent, net of current portion	123,572	140,162
Other liabilities	—	1,309
Deferred lease income	80,226	81,569
Deferred income taxes	25,758	22,004
Liabilities for severance pay	12,668	11,409
Asset retirement obligation	12,578	11,461
Total liabilities	716,252	732,157
Minority interest in net assets of subsidiaries	5,373	64
Commitments and contingencies (Notes 5, 6 and 10)		
Stockholders' equity:		
Common stock, par value $0.001 per share; 200,000,000 shares authorized; 35,587,496 and 31,562,496 shares issued and outstanding, respectively	35	31
Additional paid-in capital	259,545	124,008
Unearned stock-based compensation	—	(153)
Retained earnings	69,741	55,824
Accumulated other comprehensive income	2,358	2,549
Total stockholders' equity	331,679	182,259
Total liabilities and stockholders' equity	$1,053,304	$914,480

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

4

Table of Contents

ORMAT TECHNOLOGIES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2006	2005	2006	2005
	(in thousands, except per share amounts)		(in thousands, except per share amounts)	
Revenues:				
Electricity:				
Energy and capacity	$28,857	$25,457	$ 54,022	$ 49,966
Lease portion of energy and capacity	19,238	16,650	37,135	32,593

Lease income	672	287	1,343	287
Total electricity	48,767	42,394	92,500	82,846
Products:				
Related party	—	604	3,503	604
Other	15,319	13,027	28,404	26,471
Total products	15,319	13,631	31,907	27,075
Total revenues	64,086	56,025	124,407	109,921
Cost of revenues:				
Electricity:				
Energy and capacity	20,368	19,782	37,542	36,055
Lease portion of energy and capacity	9,258	7,394	17,640	14,733
Lease expense	1,310	615	2,621	615
Total electricity	30,936	27,791	57,803	51,403
Products	9,580	11,427	20,112	22,110
Total cost of revenues	40,516	39,218	77,915	73,513
Gross margin	23,570	16,807	46,492	36,408
Operating expenses:				
Research and development expenses	890	714	1,663	1,094
Selling and marketing expenses	2,826	1,651	5,521	3,859
General and administrative expenses	4,404	2,975	9,088	6,602
Operating income	15,450	11,467	30,220	24,853
Other income (expense):				
Interest income	2,347	1,075	3,462	1,885
Interest expense:				
Parent	(2,135)	(2,487)	(4,361)	(5,262)
Other	(7,645)	(8,127)	(14,875)	(16,169)
Less – amount capitalized	2,039	1,112	4,042	1,631
Foreign currency translation and transaction gains (losses)	(69)	39	(77)	(44)
Other non-operating income	204	72	307	112
Income before income taxes, minority interest, and equity in income of investees	10,191	3,151	18,718	7,006
Income tax provision	(2,156)	(1,154)	(4,070)	(2,634)
Minority interest in earnings of subsidiaries	(571)	—	(571)	—
Equity in income of investees	931	2,097	2,210	3,630
Net income	8,395	4,094	16,287	8,002
Other comprehensive income (loss), net of related taxes:				
Amortization of unrealized gain in respect of derivative instruments designated for cash flow hedge	(91)	(828)	(181)	(574)
Change in unrealized gains or losses on marketable securities available-for-sale	(128)	(27)	(10)	35
Comprehensive income	$ 8,176	$ 3,239	$ 16,096	$ 7,463
Earnings per share – basic and diluted	$ 0.24	$ 0.13	$ 0.49	$ 0.25
Weighted average number of shares used in computation of earnings per share:				
Basic	35,105	31,563	33,343	31,563
Diluted	35,254	31,579	33,475	31,576

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 STOCKHOLDERS' EQUITY
(Unaudited)

	Common Stock		Additional Paid-in Capital	Unearned Stock-based Compensation	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
	Shares	Amount					
			(in thousands, except per share data)				
Balance at December 31, 2005	31,563	$ 31	$124,008	$ (153)	$55,824	$2,549	$182,259
Reversal of deferred stock based compensation	—	—	(153)	153	—	—	—
Share based compensation	—	—	641	—	—	—	641
Cash dividend declared, $0.07 per share	—	—	—	—	(2,370)	—	(2,370)
Issuance of shares of common stock in a follow-on public offering	4,025	4	135,049				135,053
Net income	—	—	—	—	16,287	—	16,287
Other comprehensive income, net of related taxes:							
Amortization of unrealized gain in respect of derivative instruments, net of related tax benefit	—	—	—	—	—	(181)	(181)
Change in unrealized gains or losses on marketable securities available-for-sale, net of related tax	—	—	—	—	—	(10)	(10)
Balance at June 30, 2006	35,588	$ 35	$259,545	$ —	$69,741	$2,358	$331,679

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 CASH FLOWS

(Unaudited)

	Six Months Ended June 30, 2006	Six Months Ended June 30, 2005
	(in thousands)	
Cash flows from operating activities:		
Net income	$ 16,287	$ 8,002
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	20,763	18,264
Accretion of asset retirment obligation	462	380
Share-based compensation	641	—
Amortization of deferred lease income	(1,343)	(287)
Minority interest in earnings of subsidiaries	571	—
Equity in income of investees	(2,210)	(3,630)
Distributions from unconsolidated investments	2,039	3,187
Unrealized gain in respect of derivative instruments, net	(301)	—
Loss (gain) on severace pay fund asset	(380)	152
Deferred income tax benefit	(556)	(221)
Changes in operating assets and liabilities, net of acquisitions:		
Receivables	(2,077)	(8,761)
Costs and estimated earnings in excess of billings on uncompleted contracts	6,390	(293)
Inventories	107	(3,095)
Prepaid expenses and other	(2,059)	236
Deposits and other	50	(410)
Accounts payable and accrued expenses	(5,682)	7,154
Due from/to related entities, net	(1,372)	1,550
Billings in excess of costs and estimated earnings on uncompleted contracts	(2,830)	4,705
Other liabilities	(20)	(40)
Proceeds from operating lease transaction	—	78,600
Deferred lease transaction costs	—	(3,272)
Liability for severance pay	1,259	707
Due to Parent	(812)	—
Net cash provided by operating activities	28,927	102,928
Cash flows from investing activities:		
Distributions from unconsolidated investments	2,000	1,020
Marketable securities, net	(40,251)	31,455
Net change in restricted cash, cash equivalents and marketable securities	4,010	(20,828)
Capital expenditures	(80,015)	(48,773)
Cash paid for acquisitions, net of cash received	(15,362)	—
Increase in severance pay fund asset, net	(266)	(224)
Repayment from unconsolidated investment	62	441
Net cash used in investing activities	(129,822)	(36,909)
Cash flows from financing activities:		
Due to Parent, net	(16,600)	(19,622)
Repayments of short-term and long-term debt	(16,708)	(31,091)
Deferred debt issuance costs	(720)	(438)

Proceeds from follow-on public offering, net of issuance costs	135,053	—
Cash dividends paid	(2,370)	(4,394)
Net cash provided by (used in) financing activities	98,655	(55,545)
Net increase (decrease) in cash and cash equivalents	(2,240)	10,474
Cash and cash equivalents at beginning of period	26,976	36,750
Cash and cash equivalents at end of period	$ 24,736	$ 47,224
Supplemental non-cash investing and financing activities:		
Increase (decrease) in accounts payable related to purchases of property, plant and equipment	$ (1,352)	$ 2,655
Increase in asset retirement cost and asset retirement obligation	$ 655	$ —
Acquisition – See Note 5		

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 – BASIS OF PRESENTATION

These unaudited condensed consolidated interim 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 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 accounting principles generally accepted in the United States of America 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 June 30, 2006, consolidated results of operations for the three and six-month periods ended June 30, 2006 and 2005 and consolidated cash flows for the six-month periods ended June 30, 2006 and 2005.

The financial data and other information disclosed in these notes to the condensed consolidated interim financial statements related to these periods are unaudited. The results for the three and six-month periods ended June 30, 2006 are not necessarily indicative of the results to be expected for the year ending December 31, 2006.

These condensed consolidated interim 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, 2005. The condensed consolidated balance sheet data as of December 31, 2005 is derived from the audited consolidated financial statements for the year ended December 31, 2005, but does not include all disclosures required by accounting principles generally accepted in the United States of America.

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

Certain comparative figures have been reclassified to conform to the current periods' presentation.

Concentration of Credit Risk

Financial instruments that potentially subject the Company to a concentration of credit risk consist principally of temporary cash investments 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 June 30, 2006 and December 31, 2005, the Company had deposits totaling $17,882,000 and $9,889,000, respectively, in six U.S. financial institutions that were federally insured up to $100,000 per account. At June 30, 2006 and December 31, 2005, the Company’s deposits in foreign countries of approximately $16,686,000 and $11,935,000, respectively. The Company's uninsured balance of cash investments at June 30, 2006 and December 31, 2005 is $110,117,000 and $85,44,000, respectively.

At June 30, 2006 and December 31, 2005, accounts receivable related to operations in foreign countries amounted to approximately $14,180,000 and $11,017,000, respectively. At June 30, 2006 and December 31, 2005 accounts receivable from the Company’s major customers that have generated 10% or more of its revenues amounted to approximately 57% and 59% of the Company’s accounts receivable, respectively.

Southern California Edison Company (‘‘SCE’’) accounted for 31.1% and 38.6% of the Company’s total revenues for the three months ended June 30, 2006 and 2005, respectively, and 29.1% and 36.1% of the Company’s total revenues for the six months ended June 30, 2006 and 2005, respectively. SCE is also the power purchaser and revenue source for the Company’s Mammoth project, which is accounted for separately under the equity method of accounting.

Table of Contents

ORMAT TECHNOLOGIES, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Sierra Pacific Power Company accounted for 12.5% and 14.0% of the Company’s total revenues for the three months ended June 30, 2006 and 2005, respectively, and 14.3% and 15.4% of the Company’s total revenues for the six months ended June 30, 2006 and 2005, respectively.

Hawaii Electric Light Company accounted for 16.2% and 12.7% of the Company’s total revenues for the three months ended June 30, 2006 and 2005, respectively, and 17.1% and 13.5% of the Company’s total revenues for the six months ended June 30, 2006 and 2005, respectively.

The Company performs ongoing credit evaluations of its customers’ financial condition. The Company requires its customer in Nicaragua to provide a cash security arrangement for its payment obligations. 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

SFAS No. 123R (Revised 2004) – Share-Based Payments

In December 2004, the Financial Accounting Standards Board (''FASB'') issued the revised Statement of Financial Accounting Standards (''SFAS'') No. 123, Share-Based Payment (''SFAS No. 123R''), which addresses the accounting for share-based payment transactions in which a company obtains employee services in exchange for: (i) equity instruments of the company, or (ii) liabilities that are based on the fair value of the company's equity instruments or that may be settled by the issuance of such equity instruments. SFAS No. 123R eliminates the ability to account for employee share-based payment transactions using Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees (''APB No. 25''), FASB Interpretation (''FIN'') No. 44, Accounting for Certain Transactions Involving Stock Compensation, and other related interpretations and requires instead that such transactions be accounted for using the grant date fair value based method. SFAS No. 123R is applicable to the Company for the fiscal year ending December 31, 2006. SFAS No. 123R applies to all awards granted or modified after the Statement's effective date. In addition, compensation cost for the unvested portion of previously granted awards that remain outstanding on the Statement's effective date shall be recognized on or after the effective date, as the related services are rendered, based on the awards' grant date fair value as previously calculated for the pro forma disclosure under SFAS No. 123.

The cumulative effect of adopting SFAS No. 123R as of its adoption date by the Company (January 1, 2006), based on the awards outstanding as of December 31, 2005, is not material. The Company applies the modified prospective application transition method, as permitted under SFAS No. 123R. Under such transition method, upon the adoption of SFAS No. 123R on January 1, 2006, the Company's consolidated financial statements for periods prior to the effective date have not been restated.

SFAS No. 151 – Inventory Costs

In November 2004, the FASB issued SFAS No. 151, Inventory Costs — An Amendment of ARB 43, Chapter 4. SFAS No. 151 amends the guidance in ARB No. 43, Chapter 4, Inventory Pricing, to clarify the accounting for abnormal amounts of idle facility expense, freight, handling costs, and wasted material. This Statement requires that those items be recognized as current period charges. In addition, SFAS No. 151 requires that allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. SFAS No. 151 is effective for inventory cost incurred during the fiscal year beginning after June 15, 2005 (January 1, 2006 for the Company). The provisions of SFAS No. 151 are applied prospectively. The adoption by the Company of SFAS No. 151, effective January 1, 2006, did not have any impact on its results of operations and financial position.

Table of Contents

ORMAT TECHNOLOGIES, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

SFAS No. 154 – Accounting Changes and Error Corrections

In June 2005, the FASB issued SFAS No. 154, Accounting Changes and Error Corrections. SFAS No. 154 replaces APB Opinion No. 20, Accounting Changes and FAS No. 3, Reporting Accounting Changes in Interim Financial Statements. SFAS No. 154 requires that a voluntary change in accounting principle be applied retrospectively with all prior period financial statements presented on the new accounting principle. SFAS No. 154 also requires that a change in method of depreciating or amortizing a long-lived non-financial asset be accounted for prospectively as a change in estimate, and correction of errors in previously issued financial statements should be termed a restatement. SFAS No.

154 is effective for accounting changes and correction of errors made in fiscal years beginning after December 15, 2005 (January 1, 2006 for the Company). The adoption by the Company of SFAS No. 154, effective January 1, 2006, did not have any impact on its results of operations and financial position.

EITF Issue No. 04-5 – Determining Whether a General Partner, or the General Partners as a Group, Controls a Limited Partnership or Similar Entity When the Limited Partners Have Certain Rights

In June 2005, the FASB issued Emerging Issues Task Force (‘‘EITF’’) Issue No. 04-5, Determining Whether a General Partner, or the General Partners as a Group, Controls a Limited Partnership or Similar Entity When the Limited Partners Have Certain Rights. EITF Issue No. 04-5 provides guidance in determining whether a general partner controls a limited partnership and therefore should consolidate the limited partnership. EITF Issue No. 04-5 states that the general partner in a limited partnership is presumed to control that limited partnership and that the presumption may be overcome if the limited partners have either: (i) the substantive ability to dissolve or liquidate the limited partnership or otherwise remove the general partner without cause, or (ii) substantive participating rights. The effective date for applying the guidance in EITF Issue No. 04-5 was: (i) June 29, 2005 for all new limited partnerships and existing limited partnerships for which the partnership agreement was modified after that date, and (ii) no later than the beginning of the first reporting period in fiscal years beginning after December 15, 2005 (January 1, 2006 for the Company), for all other limited partnerships. The adoption by the Company of EITF Issue No. 04-5, effective January 1, 2006, did not have any impact on the Company’s consolidated financial statements.

SFAS No. 155 – Accounting for Certain Hybrid Financial Instruments

In February 2006, the FASB issued SFAS No. 155, Accounting for Certain Hybrid Financial Instruments. SFAS No. 155 replaces SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities and SFAS No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities. SFAS No. 155 permits fair value measurement for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation. It clarifies which interest-only strips and principal-only strips are not subject to the requirements of SFAS No. 133. SFAS No. 155 also establishes a requirement to evaluate interests in securitized financial assets to identify interests that are freestanding derivatives or that are hybrid financial instruments that contain an embedded derivative requiring bifurcation. It also clarifies that concentrations of credit risk in the form of subordination are not embedded derivatives and amends SFAS No. 140 to eliminate the prohibition on a qualifying special-purpose entity from holding a derivative financial instrument that pertains to a beneficial interest other than another derivative financial instrument. SFAS No. 155 shall be effective for all financial instruments acquired or issued after the beginning of an entity’s first year that begins after September 2006 (January 1, 2007 for the Company). The Company does not expect SFAS No. 155 to have a material impact on its results of operations and financial position in future periods.

Table of Contents

ORMAT TECHNOLOGIES, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

FIN No. 48 – Accounting for Uncertainty in Income Taxes, an Interpretation of FASB Statement No. 109

In June 2006, the FASB issued FIN No. 48, Accounting for Uncertainty in Income Taxes, an Interpretation of FASB Statement No. 109. FIN No. 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 No. 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return and also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. FIN No. 48 is effective for fiscal years beginning after December 15, 2006 (January 1, 2007 for the Company). The Company is currently assessing the impact of FIN No. 48 and has not yet determined the impact that its adoption will have on its results of operations and financial position.

NOTE 3 – EARNINGS PER SHARE

Basic earnings per share is computed by dividing income available to common stock shareholders 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 options which were granted in November 2004, in November 2005 and in April 2006 and whose dilutive effect on the earnings per share for the three and six-month periods ended June 30, 2006 and 2005 is immaterial. The stock options granted to employees of the Company in Ormat Industries Ltd. (the ''Parent'') stock are not dilutive to the Company's earnings per share.

NOTE 4 – INVENTORIES

Inventories consist of the following:

	June 30, 2006	December 31, 2005
	(in thousands)	
Raw materials and purchased parts for assembly	$ 1,616	$ 1,521
Self-manufactured assembly parts and finished products	3,501	3,703
Total	$ 5,117	$ 5,224

NOTE 5 – ACQUISITIONS AND UNCONSOLIDATED INVESTMENTS

Unconsolidated investments in power plant projects consist of the following:

	June 30, 2006	December 31, 2005
	(in thousands)	
Orzunil:		
Investment	$ —	$ 3,807
Advances	—	3,712
	—	7,519
Mammoth	32,411	34,240
OLCL	5,778	5,476
Total	$ 38,189	$ 47,235

The unconsolidated power plants are making, from time to time, distributions to their owners. Such distributions are deducted from the investments in such power plants.

Table of Contents

ORMAT TECHNOLOGIES, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

The Zunil Project

Prior to March 13, 2006, The Company had a 21.0% ownership interest in Orzunil I de Electricidad, Limitada (‘‘Orzunil’’), a limited responsibility company incorporated in Guatemala and established for the purpose of generating power by means of a geothermal power plant in the Province of Quetzaltenango in Guatemala. The Company operates and maintains the geothermal power plant and the power purchaser supplies geothermal fluid to the power plant.

On March 13, 2006, the Company acquired a 50.8% ownership interest in Orzunil and increased its then existing 21.0% ownership interest to 71.8%. The purchase price was $15.4 million, including acquisition costs of approximately $0.6 million.

The Company’s 21.0% ownership interest in Orzunil prior to the abovementioned acquisition was accounted for under the equity method of accounting as the Company had the ability to exercise significant influence, but not control, over Orzunil. As a result of the acquisition of the additional 50.8% interest in Orzunil, the financial statements of Orzunil have been consolidated effective March 13, 2006. The unrelated entities’ 28.2% interest in Orzunil has been reflected as ‘‘Minority interest in net assets of subsidiaries’’ in the Company’s consolidated balance sheet.

The abovementioned acquisition has been accounted for under the purchase method of accounting and the acquired assets are being depreciated over their estimated useful lives of 13.5 years. The purchase price has been allocated based on management’s preliminary estimates as follows:

	(in thousands)
Cash and cash equivalents	$ 8
Restricted cash	3,408
Accounts receivable assumed	1,360
Property, plant and equipment	47,420
Accounts payable and other liabilities assumed	(1,241)
Long-term loans assumed (including current portion)	(23,607)
Minority interest	(4,734)
	22,614
Less: the Company's investment prior to acquisition	(7,244)
Total purchase price allocation	$ 15,370

Due to hurricane activity, access roads and piping from the wells to the power plant in the Zunil Project were damaged and as a result, the Project was not in operation from October 14, 2005 to March 10, 2006. Orzunil has filed an insurance claim in respect of the damage, which is currently under discussion with the insurance company. Orzunil has already received advance payments against the claim. The Company believes that the final resolution of the claim will not have a material impact on its results of operations.

On April 27, 2006 and June 15, 2006, the Company signed agreements to purchase from each of CDC Group plc (''CDC'') (whose interest has been managed by Globeleq, Inc.) and International Finance Corporation (''IFC''), both of which are the Zunil Project's senior lenders, a 14.1% partnership interest in Orzunil (for a total of 28.2%), which when completed will increase its existing 71.8% ownership interest in Orzunil to 100%. The total purchase price of both acquisitions is $6.5 million, of which 50% has been paid and the remainder will be paid upon final completion of the acquisitions, as described below.

On July, 20, 2006, the first stage for consummation of the above acquisitions was completed. At this time, the Company holds proxies to act as owner of the acquired interests. The only items pending for completion of the second and final stage of these acquisitions is a statutory publication

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Table of Contents

ORMAT TECHNOLOGIES, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

period (which has already commenced), and final registration of the ownership transfers at the authorized Guatemalan registry, against which the remaining balance of 50% of the total purchase prices will be paid. Final completion is expected to occur before the end of the third quarter of 2006.

The revenues of Orzunil and the Company's share in the net income of Orzunil for the three months ended June 30, 2006 was $3,637,000 and $667,000, respectively.

The Mammoth Project

The Company has a 50% interest in the Mammoth Project, which is comprised of three geothermal power plants, located near the city of Mammoth, California. The purchase price was less than the underlying net equity of Mammoth by approximately $9.3 million. As such, the basis difference will be amortized over the remaining useful life of the property, plant and equipment and the power purchase agreements, which range from 12 to 17 years. The Company operates and maintains the geothermal power plants under an operating and maintenance (''O&M'') agreement. The Company's 50% ownership interest in Mammoth is accounted for under the equity method of accounting as the Company has the ability to exercise significant influence, but not control, over Mammoth.

The condensed financial position and results of operations of Mammoth are summarized below:

	June 30, 2006	December 31,

		2005
	(in thousands)	
Condensed balance sheets:		
Current assets	$ 3,312	$ 7,430
Non-current assets	82,868	82,550
Current liabilities	1,375	1,114
Non-current liabilities	3,773	3,708
Partners' Capital	81,032	85,158

	Six Months Ended June 30,	
	2006	2005
	(in thousands)	
Condensed statements of operations:		
Revenues	$ 6,920	$ 7,880
Gross margin	(14)	2,465
Net income (loss)	(125)	2,369
Company's equity in income (loss) of Mammoth:		
50% of Mammoth net income (loss)	$ (63)	$ 1,184
Plus amortization of basis difference	297	297
	234	1,481
Less income taxes	(89)	(563)
Total	$ 145	$ 918

The Leyte Project

The Company holds an 80% interest in Ormat Leyte Co. Ltd. (‘‘OLCL’’). OLCL is a limited partnership established for the purpose of developing, financing, operating, and maintaining a geothermal power plant in Leyte Provina, the Philippines. Upon the adoption of FIN No. 46R on March 31, 2004, the Company concluded that OLCL should not be consolidated. As a result of such conclusion, the Company’s 80% ownership interest in OLCL is accounted for under the equity method of accounting.

Table of Contents

ORMAT TECHNOLOGIES, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

The condensed financial position and results of operations of OLCL are summarized below:

	June 30, 2006	December 31, 2005
	(in thousands)	

Condensed balance sheets:		
Current assets	$ 7,483	$ 7,972
Non-current assets	8,222	11,267
Current liabilities	5,795	6,083
Non-current liabilities	1,270	3,810
Stockholders' equity	8,640	9,346

	Six Months Ended June 30,	
	2006	2005
	(in thousands)	
Condensed statements of operations:		
Revenues	$ 6,854	$ 7,313
Gross margin	3,431	3,937
Net income	1,842	2,207
Company's equity in income of OLCL:		
80% of OLCL net income	$ 1,474	$ 1,766
Plus amortization of deferred revenue on intercompany profit ($1.3 million unamortized balance at June 30, 2006)	866	526
Total	$ 2,340	$ 2,292

NOTE 6 — LONG-TERM DEBT

Long-term debt consists of obligations payable under the following agreements:

	June 30, 2006	December 31, 2005
	(in thousands)	
Limited and non-recourse agreements:		
Non-recourse agreement:		
Senior loans:		
International Finance Corporation Loan A	$ 7,485	$ —
International Finance Corporation Loan B	5,043	—
Commonwealth Development Corporation Loan	9,440	—
Junior subordinated loans	398	—
Limited recourse agreement:		
Credit facility agreement	12,697	14,140
	35,063	14,140
Less current portion	(8,503)	(2,888)
Total	$ 26,560	$ 11,252
Full recourse agreements with a bank	$ 2,000	$ 3,000
Less current portion	(1,000)	(1,000)
Total	$ 1,000	$ 2,000
Senior Secured Notes (non recourse):		
Ormat Funding Corp. (‘‘OFC’’)	$ 178,694	$ 183,399
OrCal Geothermal Inc. (‘‘OrCal’’)	160,677	165,000
	339,371	348,399
Less current portion	(24,091)	(23,754)

Total	$ 315,280	$ 324,645

Table of Contents

ORMAT TECHNOLOGIES, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Senior Loans

International Finance Corporation (‘‘IFC’’) Loan A

Orzunil, a 71.8% owned subsidiary of the Company, has a senior loan agreement with IFC, which is a minority shareholder of Orzunil (see also Note 5). The loan matures on November 15, 2011, and is payable in 47 quarterly installments ranging from $192,000 to $430,000. The loan has a fixed annual interest rate of 11.775%.

International Finance Corporation (‘‘IFC’’) Loan B

Orzunil has another senior loan agreement with IFC. The loan matures on May 15, 2008, and is payable in 32 quarterly installments ranging from $436,000 to $690,000. The loan has a fixed annual interest rate of 11.730%.

Commonwealth Development Corporation (‘‘CDC’’) Loan

Orzunil has a senior loan agreement with CDC, which is also a minority shareholder of Orzunil (see also Note 5). The loan matures on August 15, 2010, and is payable in 42 quarterly installments ranging from $348,000 to $675,000. The loan has a fixed annual interest rate of 10.300%.

There are various restrictive covenants under these Senior Loans, which include limitations on Orzunil's ability to make distributions to its shareholders.

Due to hurricane activity, access roads and piping from the wells to the power plant in the Zunil Project were damaged and as a result, the Project was not in operation from October 14, 2005 to March 10, 2006 (see Note 5). As a result, Orzunil did not meet the ‘‘Debt Service Coverage Ratio’’ and with the consent of its Senior Lenders, Orzunil used cash on deposit in certain restricted accounts under these Senior Loans for purposes of working capital and a debt service payment installment.

Junior Subordinated Loans

Orzunil has junior subordinated loans from its shareholders. The loans are uncollateralized and non-interest bearing and shall be repaid once subordinated loans granted to Orzunil by the Company are repaid.

OFC Senior Secured Notes

On February 13, 2004, OFC, a wholly owned subsidiary, issued $190.0 million, 8¼% Senior Secured Notes (the ‘‘OFC Senior Secured Notes’’) in an offering subject to Rule 144A and Regulation S of the Securities Act of 1933, as amended, and received net cash proceeds of approximately $179.7 million, after deduction of issuance costs of approximately $10.3 million which have been included in deferred financing costs in the balance sheets. The OFC Senior Secured Notes have a final maturity date of December 30, 2020. Principal and interest on the OFC Senior Secured Notes are payable in semi-annual payments which commenced on June 30, 2004. The OFC Senior Secured Notes are fully and unconditionally guaranteed by all of the wholly owned subsidiaries of OFC, and secured (with certain exceptions) by all real property, contractual rights, revenues and bank accounts, intercompany notes and certain insurance policies of OFC and its subsidiaries. There are various restrictive covenants under the OFC Senior Secured Notes, which include limitations on additional indebtedness and payment of dividends. As of June 30, 2006, OFC did not meet the ''Debt Service Coverage Ratio'' and therefore it is restricted from payment of dividends until it meets such ratio. Management believes that as of June 30, 2006, the Company was in compliance with all other covenants contained in the indenture governing the OFC Senior Secured Notes.

Table of Contents

ORMAT TECHNOLOGIES, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

OFC may redeem the OFC Senior Secured Notes, in whole or in part, at any time at a redemption price equal to the principal amount of the OFC Senior Secured Notes to be redeemed plus accrued interest, premium and liquidated damages, if any, plus a ''make-whole'' premium. Upon certain events, as defined in the indenture governing the OFC Senior Secured Notes, OFC may be required to redeem a portion of the OFC Senior Secured Notes at a redemption price ranging from 100% to 101% of the principal amount of the OFC Senior Secured Notes being redeemed plus accrued interest, premium and liquidated damages, if any.

A registration statement on Form S-4 relating to the OFC Senior Secured Notes was filed with and declared effective by the SEC on February 9, 2005. Pursuant to the registration statement, OFC made an offer to the holders of the OFC Senior Secured Notes to exchange them for publicly registered exchange notes with substantially identical terms until March 11, 2005. On March 16, 2005 the exchange offer was completed.

On April 26, 2006, OFC successfully consummated a consent solicitation relating to the OFC Senior Secured Notes that was launched on April 17, 2006. On that same date, OFC executed a supplement to the Indenture governing the OFC Senior Secured Notes to amend and/ or waive certain provisions in the Indenture dealing with public reporting and information requirements of OFC. On May 1, 2006, OFC filed with the SEC Form 15 notification of the suspension of its obligation to file reports with the SEC under the Securities Act of 1934.

Debt service reserve

As required under the terms of the OFC Senior Secured Notes, OFC maintains an account, which may be funded by cash or backed by letters of credit, in an amount sufficient to pay scheduled debt service amounts, including principal and interest, due under the terms of the OFC Senior Secured Notes in the following six months. This restricted cash account is classified as current on the balance sheets. As of June 30, 2006 and December 31, 2005, the balance of such account was $0.8 million and $12.3 million, respectively, in cash. In addition, as of June 30, 2006 part of the restricted cash account was funded by a letter of credit in the amount of approximately $11.5 million (see Note 10).

OrCal Senior Secured Notes

On December 8, 2005, OrCal, a wholly owned subsidiary, issued $165.0 million, 6.21% Senior Secured Notes (the ‘‘OrCal Senior Secured Notes’’) in an offering subject to Rule 144A and Regulation S of the Securities Act of 1933, as amended and received net cash proceeds of approximately $161.1 million, after deduction of issuance costs of approximately $3.9 million which have been included in deferred financing costs in the balance sheets. The OrCal Senior Secured Notes have been rated BBB− by Fitch. The OrCal Senior Secured Notes have a final maturity date of December 30, 2020. Principal and interest on the OrCal Senior Secured Notes are payable in semi-annual payments which commenced on June 30, 2006. The OrCal Senior Secured Notes are collateralized by substantially all of the assets of OrCal, including OrCal and its subsidiaries’ capital stock, all real property, contractual rights, revenues and bank accounts, intercompany notes and certain insurance policies, and are fully and unconditionally guaranteed by all of the wholly owned subsidiaries of OrCal. There are various restrictive covenants under the OrCal Senior Secured Notes, which include limitations on additional indebtedness and payment of dividends. Management believes that as of June 30, 2006, the Company was in compliance with the covenants contained in the indentures governing the OrCal Senior Secured Notes.

OrCal may redeem the OrCal Senior Secured Notes, in whole or in part, at any time at a redemption price equal to the principal amount of the OrCal Senior Secured Notes to be redeemed plus accrued interest, and a ‘‘make-whole’’ premium. Upon certain events, as defined in the indenture governing the OrCal Senior Secured Notes, OrCal may be required to redeem a portion of the OrCal

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Table of Contents

ORMAT TECHNOLOGIES, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Senior Secured Notes at a redemption price of 100% of the principal amount of the OrCal Senior Secured Notes being redeemed plus accrued interest.

Debt service reserve

As required under the terms of the OrCal Senior Secured Notes, OrCal maintains an account, with a required minimum balance, which may be funded by cash or backed by letters of credit in an amount sufficient to pay scheduled debt service amounts, including principal and interest, due under the terms of the OrCal Senior Secured Notes in the following six months. This restricted cash account is classified as current in the balance sheets. As of June 30, 2006 and December 31, 2005, the balance of such account was $10.3 million and $9.5 million, respectively, in cash.

NOTE 7 – REFINANCING OF THE PUNA PROJECT

On May 19, 2005, the Company’s wholly owned subsidiary in Hawaii, Puna Geothermal Ventures (‘‘PGV’’) completed a refinancing of the cost of the June 2004 acquisition of the Puna geothermal power plant located on the Big Island of Hawaii (the ‘‘Puna Project’’). A secondary stage of the lease transaction which refinanced two new geothermal wells that PGV drilled in the second half of 2005 (for production and injection) was completed on December 30, 2005. The refinancing was concluded with financing parties by means of the lease-leaseback transactions described below.

Pursuant to a 31-year head lease (the ‘‘Head Lease’’), PGV leased its geothermal power plant to an unrelated company in return for prepaid lease payments in the total amount of $83.0 million (the ‘‘Deferred Lease Income’’). The total costs of the leased assets as of June 30, 2006 and December 31, 2005, amounted to $57.3 million and $58.3 million, net of accumulated depreciation of $4.9 and $3.7 million, respectively. The unrelated company (the ‘‘Lessor’’) simultaneously leased-back the Puna Project to PGV under a 23-year lease (the ‘‘Project Lease’’). PGV’s rent obligations under the Project Lease will be paid solely from revenues generated by the Puna Project under a power purchase agreement between PGV and Hawaii Electric Light Company (‘‘HELCO’’). The Head Lease and the Project Lease are non-recourse lease obligations to the Company. PGV’s rights in the geothermal resource and the related power purchase agreement have not been leased to the Lessor as part of the Head Lease but are part of the Lessor’s security package.

Neither the Head Lease nor the Project Lease meet one or more of the criteria set forth in paragraph 7 of SFAS No. 13, Accounting for Leases for classification as capital leases and, therefore, are accounted for as operating leases. The Deferred Lease Income will be amortized, using the straight-line method, over the 31-year term of the Head Lease. Deferred transaction costs amounting to $4.3 million will be amortized, using the straight-line method, over the 23-year term of the Project Lease.

Depository accounts

As required under the terms of the lease agreements, there are certain reserve funds that need to be managed by the indenture trustee in accordance with certain balance requirements and which are included in the balance sheets as of June 30, 2006 and December 31, 2005 in restricted cash accounts and are classified as current as they are used to pay current payments.

Revenue account

PGV deposits all revenues received into the revenue account. Such amounts are used to pay operating expenses and fund the depository accounts as described below, but the funds are only available to PGV upon submission of draw requests by PGV to the bank. As such amounts are fully restricted to use by PGV, they have been classified as current restricted assets as the amounts are used to pay current operating expenses. As of June 30, 2006 and December 31, 2005, the balance of such account was $3.8 million and $3.5 million, respectively.

Table of Contents

ORMAT TECHNOLOGIES, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Lease rent reserve accounts

PGV maintains accounts to fund the next rent payment according to the payment schedule. As of June 30, 2006 and December 31, 2005, the balance of such accounts was $3.2 million and $2.3 million, respectively.

Well maintenance reserve account

PGV maintains a reserve account to fund well field works including the drilling of new wells. The reserve should be met on a monthly basis, in amounts equal to 1/12 of a scheduled annual contribution. As of June 30, 2006 and

December 31, 2005, the balance of such account was $0.8 million and $0.5 million, respectively.

Capital expenditure account

PGV maintains an account to fund its capital expenditures. Deposits to this account are at PGV's sole discretion, but no distributions are allowed to Ormat Nevada Inc., a wholly owned subsidiary of the Company that is the indirect parent of PGV, if the balance is less than $0.5 million. As of June 30, 2006 and December 31, 2005, the balance in this account was $0.5 million and $0, respectively.

Distribution account

PGV maintains an account to deposit its remaining cash, after making all of the necessary payments and transfers as provided for in the lease agreements, in order to make distributions to Ormat Nevada Inc. The distributions are allowed only if PGV maintains various restrictive covenants under the lease agreements, which include limitations on additional indebtedness. As of June 30, 2006 and December 31, 2005, the balance of such account was $9.9 million and $6.8 million, respectively. This amount can be distributed to Ormat Nevada Inc. currently and has been classified as current restricted assets.

In anticipation of the above refinancing, on February 25, 2005, the Company entered into a treasury rate lock agreement with a financial institution, at a locked-in treasury rate of 4.31%, with a notional amount of $52.0 million, which terminated on March 31, 2005. The rate lock was based on a 10-year treasury security that matures on February 15, 2015. On March 31, 2005, the Company received from the counterparty to the rate lock agreement an amount of $658,000. This amount net of related taxes of $250,000 is recorded as ''Gain in respect of derivative instruments designated for cash flow hedge, net of related taxes'' under ''Other comprehensive income (loss)'' and is amortized over the 23-year term of the Project Lease.

On April 20, 2005, the Company entered into a new treasury rate lock agreement with the same financial institution, at a locked-in treasury rate of 4.22%, with a notional amount of $52.0 million and originally scheduled to terminate on May 2, 2005. The new rate lock agreement's termination date was extended until May 18, 2005 at a new locked-in treasury rate of 4.25%. The rate lock was based on a 10-year treasury security that matures on February 15, 2015. There was no consideration paid by either party as a result of the extension. On May 18, 2005, the Company paid the counterparty to the new rate lock agreement the amount of $762,000. This amount net of related taxes of $290,000 is recorded as ''Loss in respect of derivative instruments designated for cash flow hedge, net of related taxes'' under ''Other comprehensive income (loss)'' and is amortized over the 23-year term of the Project Lease.

NOTE 8 – STOCK-BASED COMPENSATION

Effective January 1, 2006, the Company adopted SFAS No. 123R, using the modified prospective application transition method, which establishes accounting for share-based payment transactions in

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which a company obtains employee services in exchange for: (i) equity instruments of the company, or (ii) liabilities that are based on the fair value of the company's equity instruments or that may be settled by the issuance of such equity instruments. SFAS No. 123R eliminates the ability to account for employee share-based payment transactions using APB No. 25 and related interpretations and requires that such transactions be accounted for using the grant date fair value based method. SFAS No. 123R applies to all awards granted or modified after January 1, 2006 (the ''effective date''). In addition, compensation cost for the unvested portion of previously granted awards that remain outstanding on the effective date shall be recognized on or after such date, as the related services are rendered, based on the awards' grant date fair value as previously calculated for the pro forma disclosure under SFAS No. 123, Accounting for Stock-Based Compensation. The Company previously applied APB No. 25 and related interpretations and provided pro forma disclosure of SFAS No. 123.

Prior to the adoption of SFAS No. 123R

Prior to the adoption of SFAS 123R, the Company provided the disclosure required under SFAS 123, as amended by SFAS No. 148, Accounting for Stock-based Compensation — Transition and Disclosure.

Pro forma net income and earnings per share for the three and six months ended June 30, 2005 was as follows:

	Three months ended June 30, 2005	Six months ended June 30, 2005
	(In thousands, except per share data)	
Net income, as reported	$ 4,094	$ 8,002
Add: Total stock-based employee compensation expense included in reported net income, net of tax	25	50
Deduct: Total stock-based employee compensation expense in respect of the Company's stock options determined under fair value based method, net of tax	(11)	(23)
Deduct: Total stock-based employee compensation expense in respect of the Parent's stock options determined under fair value based method, net of tax	(87)	(167)
Pro forma net income	$ 4,021	$ 7,862
Basic and diluted earnings per share:		
As reported	$ 0.13	$ 0.25
Pro forma	$ 0.13	$ 0.25

Impact of the adoption of SFAS No. 123R

As stated above, the Company elected to adopt the modified prospective application method provided by SFAS No. 123R. Accordingly, during the three and six months ended June 30, 2006, the Company recorded stock-based compensation costs totaling the amount that would have been recognized had the fair value method been applied since the effective date. Previously reported amounts have not been restated.

As required by SFAS No. 123R, management has made an estimate of expected forfeiture and is recognizing compensation costs only for those equity awards expected to vest. The cumulative effect of initially adopting SFAS No. 123R is not material.

As of January 1, 2006, the Company had an unrecorded deferred stock-based compensation balance related to stock options of $813,000 before estimated forfeiture. In the Company's pro forma

Table of Contents

ORMAT TECHNOLOGIES, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

disclosure prior to adoption of SFAS No. 123R, the Company accounted for forfeiture upon occurrence. SFAS 123R requires forfeiture to be estimated at the time of grant and revised if necessary in subsequent periods if actual forfeiture differs from those estimates. Accordingly, as of January 1, 2006, the Company estimates that the unrecorded stock-based compensation balance related to stock options was adjusted to $772,000 after estimated forfeitures of 5%.

In April 2006, the Company granted incentive stock options to purchase 299,500 shares of the Company's common stock to employees at an exercise price of $34.13 per share, under the 2004 Incentive Compensation Plan (see below).

During the three and six months ended June 30, 2006 the Company recorded stock-based compensation related to stock options as follows:

	Three months ended June 30, 2005	Six months ended June 30, 2005
	(In thousands, except per share data)	
Cost of Revenues	$ 202	$ 272
Selling and marketing expenses	109	179
General and administrative expenses	119	190
Total stock-based compensation expense	430	641
Tax effect on stock-based compensation expense	50	50
Net effect on stock-based compensation expense	$ 380	$ 591
Effect on basic and diluted earnings per share	$ 0.01	$ 0.02

As of June 30, 2006, the unrecorded deferred stock-based compensation balance related to stock options was $4,702,000, which will be recognized over an estimated weighted average amortization period of 3.5 years.

Valuation Assumptions

The Company estimated the fair value of stock options granted since January 1, 2006, using the Black-Scholes-Merton option pricing formula. The Company's expected term represents the period that the Company's stock-based awards are expected to be outstanding. In the absence of enough historical information, the expected term was determined by the ‘‘simplified method’’ defined in Staff Accounting Bulletin No.107, giving consideration to the contractual term and vesting schedule. Since the Company does not have any traded option and was listed for trading on New York Stock Exchange only in November 2004, the Company's expected volatility was calculated based on the Company's historical volatility and for the period of time prior to the Company's listing the Company used the historical volatility of Ormat Industries Ltd. (the ‘‘Parent’’). There is a very high correlation between the stock behavior of the Company and its Parent. The dividend yield forecast is expected to be 20% of the Company's yearly net profit, which is equivalent to 0.54% yearly dividend rate. The risk free interest rate was based on the yield from U.S.

constant treasury maturities bonds with an equivalent term.

Table of Contents

ORMAT TECHNOLOGIES, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

The Company calculated the fair value of each option on the date of grant using the following assumptions:

	Three and Six Months Ended June 30, 2006
For stock options issued by the Company:	
Risk-free interest rates	4.9%
Expected lives (in years)	6.63
Dividend yield	0.54%
Expected volatility	41%

Stock Option Plans

The 2004 Incentive Compensation Plan

On October 21, 2004, the Company's Board of Directors adopted the 2004 Incentive Compensation Plan (''2004 Incentive Plan''), which provides for the grant of the following types of awards: incentive stock options, non-qualified stock options, restricted stock, stock appreciation rights, stock units, performance awards, phantom stock, incentive bonuses and other possible related dividend equivalents to employees of the Company, directors and independent contractors. Under the 2004 Incentive Plan, a total of 1,250,000 shares of the Company's common stock have been reserved for issuance, all of which may be issued as options or as other forms of awards. Options granted to employees under the 2004 Incentive Plan cliff vest and are exercisable from the grant date as follows: 25% after 24 months, 25% after 36 months, and the remaining 50% after 48 months. Options granted to non-employee directors under the 2004 Incentive Plan cliff vest and are exercisable one year after the grant day. Vested options may be exercised for up to ten years from the date of grant. On November 9, 2005, the Company filed a registration statement on Form S-8 with the SEC with respect to the shares of common stock underlying such grants.

The following table summarizes the status of the 2004 Incentive Plan as of and for the six months ended June 30, 2006 (shares in thousands):

	Shares	Weighted Average Exercise Price

Outstanding at beginning of period	236	$ 15.54
Granted, at fair value	300	34.13
Exercised	—	—
Forfeited	(9)	15.00
Outstanding at end of period	527	26.13
Options exercisable at end of period	15	15.00
Weighted-average fair value of options granted during the period		$ 16.06

As of June 30, 2006, 723,550 shares of the Company's common stock are available for future grants.

21

Table of Contents

ORMAT TECHNOLOGIES, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

The following table summarizes information about stock options outstanding at June 30, 2006 (shares in thousands):

	Options Outstanding			Options Excercisable		
Exercise Price	Number of Shares Outstanding	Weighted Average Remaining Contractual Life in Years	Aggregate Intrinsic Value (In thousands)	Number of Shares Exerciseble	Weighted Average Remaining Contractual Life in Years	Aggregate Intrinsic Value (In thousands)
$15.00	202	8.3	$ 4,676	15	8.3	$ 347
20.10	25	8.3	451	—	—	—
34.13	300	9.8	1,206	—	—	—
	527	9.1	$ 6,333	15	8.3	$ 347

The aggregate intrinsic value in the above tables represents the total pretax intrinsic value, based on the Company's stock price of $38.15 as of June 30, 2006, which would have potentially been received by the option holders had all option holders exercised their options as of that date. The total number of in-the-money options exercisable as of June 30, 2006 was 15,000.

No options were exercised during the six months ended June 30, 2006 and 2005.

The Parent's Stock Option Plans

The Parent has four stock option plans: the 2001 Employee Stock Option Plan, the 2002 Employee Stock Option Plan, the 2003 Employee Stock Option Plan, and the 2004 Employee Stock Option Plan (collectively the ''Parent's Plans''). Options under the 2004 Employee Stock Option Plan were granted in April 2004. Under the Parent's Plans, employees of the Company were granted options to purchase the Parent's ordinary shares, which are registered and traded on the Tel-Aviv Stock Exchange. Options under the Parent's Plans cliff vest and are exercisable from the grant date as follows: 25% after 24 months, 25% after 36 months, and the remaining 50% after 48 months. Vested options may be exercised for up to five years from the date of grant. The maximum aggregate number of shares that may be optioned and sold under the Parent's Plans is determined each year by the Parent's board of directors and is equal to the number of options granted during each plan year. None of the options are exercisable or convertible into shares of the Company.

As of June 30, 2006, no shares of the Parent's ordinary shares are available for future grants.

The following table summarizes the status of the Parent's Plans as of and for the six months ended June 30, 2006 (shares in thousands):

	Shares	Weighted Average Exercise Price
Outstanding at beginning of period	1,747	$ 2.42
Exercised	(329)	1.70
Expired	(32)	2.26
Forfeited	(37)	2.98
Outstanding at end of period	1,349	2.58
Options exercisable at end of period	561	2.12

Table of Contents

ORMAT TECHNOLOGIES, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

The following table summarizes information about stock options outstanding at June 30, 2006 (shares in thousands):

	Options Outstanding			Options Excercisable		
Exercise Price	Number of Shares Outstanding	Weighted Average Remaining Contractual Life in Years	Aggregate Intrinsic Value (In thousands)	Number of Shares Exerciseble	Weighted Average Remaining Contractual Life in Years	Aggregate Intrinsic Value (In thousands)
$1.41	234	0.7	$ 1,888	234	0.7	$ 1,888
1.75	526	1.7	4,066	185	1.7	1,430
3.78	589	2.8	3,357	142	2.8	807
	1,349	2.0	$ 9,311	561	1.6	$ 4,125

The aggregate intrinsic value in the above tables represents the total pretax intrinsic value, based on the Parent's stock price of $9.48 as of June 30, 2006, which would have potentially been received by the option holders had all option holders exercised their options as of that date. The total number of in-the-money options exercisable as of June 30, 2006 was 566,244.

The total pretax intrinsic value of options exercised during the six months ended June 30, 2006 was $2,266,000 based on the Parent's average stock price of $8.50 during the six months ended June 30, 2006.

NOTE 9 – BUSINESS SEGMENTS

The Company has two reporting segments that are aggregated based on similar products, market, and operating factors: electricity and products segments. Such 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 pursuant to power purchase agreements. The products 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	Products	Consolidated
		(in thousands)	
Three months ended June 30, 2006:			
Net revenues from external customers	$ 48,767	$ 15,319	$ 64,086
Intersegment revenues	—	19,727	19,727
Operating income	12,397	3,053	15,450
Segment assets at period end	1,001,279	52,025	1,053,304
Three months ended June 30, 2005:			
Net revenues from external customers	$ 42,394	$ 13,631	$ 56,025
Intersegment revenues	—	10,625	10,625
Operating income	11,104	363	11,467
Segment assets at period end	844,130	50,494	894,624

Table of Contents

ORMAT TECHNOLOGIES, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

	Electricity	Products	Consolidated
		(in thousands)	

Six months ended June 30, 2006:			
Net revenues from external customers	$ 92,500	$ 31,907	$ 124,407
Intersegment revenues	—	35,752	35,752