ORMAT TECHNOLOGIES, INC.
Form 10-Q/A
December 22, 2005

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q/A
Amendment No. 1

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2005

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

980 Greg Street, Sparks, Nevada 89431
(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 an accelerated filer (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 31,562,496, par value $0.001 per share.

EXPLANATORY NOTE

Ormat Technologies, Inc. is filing this amendment on Form 10-Q/A to its Form 10-Q for the quarterly period ended June 30, 2005 originally filed on August 12, 2005, to correct an error contained in the statement of cash flows for the six months ended June 30, 2005 as discussed in "Management's Discussion and Analysis of Financial Condition and Results of Operations - Historical Cash Flows for the Six Months Ended June 30, 2005". Accordingly, the Company's historical financial statements for the six months ended June 30, 2005 should no longer be relied upon. The error relates to the classification of a prepaid lease payment of $67.7 million prepaid, net of deferred costs received in May 2005, incorrectly reported as cash flows provided by financing activities rather than cash flows provided by operating activities resulting in an understatement of cash flows from operating activities and an overstatement of cash flows from financing activities by the same amount. The components of cash flows and the explanation thereof in the "Management's Discussion and Analysis of Financial Condition and Results of Operations - Historical Cash Flows for the Six Months Ended June 30, 2005" have been corrected accordingly. No other financial statement items were affected by the error referred to above. This Form 10-Q/A does not otherwise amend the Form 10-Q, except for disclosure in Item 4. This amendment does not reflect events occurring after the filing of the Form 10-Q.

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ORMAT TECHNOLOGIES, INC

FORM 10-Q/A FOR THE QUARTER ENDED JUNE 30, 2005

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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 "Senior Secured Notes" refers to the 8¼% Senior Secured Notes due 2020 that were issued in February 2004 by Ormat Funding Corp., one of our subsidiaries.

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PART I — FINANCIAL INFORMATION

ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

ORMAT TECHNOLOGIES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

	June 30 2005	December 31, 2004
	(in thousands, except share and per share amounts)	
Assets		
Current assets:		
Cash and cash equivalents	$ 47,224	$ 36,750
Marketable securities	57,756	89,166
Restricted cash, cash equivalents and marketable securities	34,908	3,676
Receivables:		
Trade	35,344	26,913
Related entities	863	2,413
Other	2,146	1,816
Inventories, net	9,141	6,046
Costs and estimated earnings in excess of billings on uncompleted contracts	3,457	3,164
Deferred income taxes	1,235	1,001
Prepaid expenses and other	2,141	2,377
Total current assets	194,215	173,322
Restricted cash, cash equivalents and marketable securities	8,950	19,339
Unconsolidated investments	48,362	48,818

Deposits and other	12,677	13,759
Deferred income taxes	4,345	3,044
Property, plant and equipment, net	455,893	466,826
Construction-in-process	104,085	60,177
Deferred financing and lease costs, net	18,557	15,873
Intangible assets, net	47,540	48,930
Total assets	$ 894,624	$ 850,088
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable and accrued expenses	$ 49,819	$ 37,565
Billings in excess of costs and estimated earnings on uncompleted contracts	10,844	6,139
Current portion of long-term debt:		
Limited and non-recourse	9,082	8,295
Full recourse	1,000	24,361
Senior secured notes (non-recourse)	7,814	6,090
Due to Parent, including current portion of notes payable to Parent	37,520	40,531
Total current liabilities	116,079	122,981
Long-term debt, net of current portion:		
Limited and non-recourse	154,836	159,370
Full recourse	2,000	3,000
Senior secured notes (non-recourse)	178,692	183,399
Notes payable to Parent, net of current portion	155,198	171,809
Other liabilities	1,349	1,389
Deferred lease income	70,713	—
Deferred income taxes	19,913	18,368
Liabilities for severance pay	11,202	11,129
Asset retirement obligation	11,045	10,665
Total liabilities	721,027	682,110
Minority interest in net assets of subsidiaries	64	64
Commitments and contingencies (Note 10)		
Stockholders' equity:		
Common stock, par value $0.001 per share; 200,000,000 shares authorized; 31,562,496 shares issued and outstanding	31	31
Additional paid-in capital	124,008	124,008
Unearned stock-based compensation	(194)	(244)
Retained earnings	50,549	44,441
Accumulated other comprehensive loss	(861)	(322)
Total stockholders' equity	173,533	167,914
Total liabilities and stockholder's equity	$ 894,624	$ 850,088

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

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

	Three Months Ended June 30, 2005	Three Months Ended June 30, 2004	Six Months Ended June 30, 2005	Six Months Ended June 30, 2004
	(in thousands, except per share amounts)		(in thousands, except per share amounts)	
Revenues:				
Electricity:				
Energy and capacity	$ 25,458	$ 24,682	$ 49,967	$ 48,048
Lease portion of energy and capacity	16,650	12,074	32,593	22,167
Total electricity	42,108	36,756	82,560	70,215
Products	13,631	15,345	27,075	29,491
Total revenues	55,739	52,101	109,635	99,706
Cost of revenues:				
Electricity:				
Energy and capacity	20,111	14,863	36,384	29,440
Lease portion of energy and capacity	7,394	6,359	14,733	11,172
Total electricity	27,505	21,222	51,117	40,612
Products	11,427	11,794	22,110	23,122
Total cost of revenues	38,932	33,016	73,227	63,734
Gross margin	16,807	19,085	36,408	35,972
Operating expenses:				
Research and development expenses	714	900	1,094	1,202
Selling and marketing expenses	1,651	2,092	3,859	3,946
General and administrative expenses	2,975	2,887	6,602	5,219
Operating income	11,467	13,206	24,853	25,605
Other income (expense):				
Interest income	1,075	187	1,885	431
Interest expense	(9,502)	(10,952)	(19,800)	(19,475)
Foreign currency translation and transaction gains (losses)	39	(76)	(44)	(397)
Other non-operating income	72	169	112	145
Income before income taxes, minority interest, and equity in income of investees	3,151	2,534	7,006	6,309
Income tax provision	(1,154)	(478)	(2,634)	(1,957)
Minority interest in earnings of subsidiaries	—	—	—	(108)
Equity in income of investees	2,097	1,486	3,630	2,035
Net income	4,094	3,452	8,002	6,279
Other comprehensive income (loss), net of related taxes:				
Loss in respect of derivative instruments designated for cash flow hedge (net of tax of $508,000 and $354,000 for the three and six-month periods ended June 30, 2005, respectively)	(828)	—	(574)	—
Unrealized gain (loss) on marketable securities available-for-sale (net of tax of	(27)	—	35	—

$(15,000) and $23,000 for the three and six-month periods ended June 30, 2005, respectively)								
Comprehensive income	$	3,239	$	3,542	$	7,463	$	6,279
Basic and diluted income per share:								
Net income	$	0.13	$	0.15	$	0.25	$	0.27
Weighted average number of shares outstanding		31,563		23,227		31,563		23,227

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

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ORMAT TECHNOLOGIES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(Unaudited)

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Unearned stock-based compensation	Retained Earnings	Accumulated Other Comprehensive Loss	Total
	(in thousands, except per share amounts)						
Balance at December 31, 2004	31,563	$ 31	$124,008	$ (244)	$44,441	$ (322)	$167,914
Amortization of unearned stock-based compensation	—	—	—	50	—	—	50
Cash dividend declared, $0.06 per share	—	—	—	—	(1,894)	—	(1,894)
Net income (unaudited)	—	—	—	—	8,002	—	8,002
Other comprehensive income, net of related taxes:							
Loss in respect of derivative instruments designated for cash flow hedge (net of tax of $354,000)	—	—	—	—	—	(574)	(574)
Unrealized gain on marketable securities available-for-sale (net of tax $23,000)	—	—	—	—	—	35	35
Balance at June 30, 2005	31,563	$ 31	$124,008	$ (194)	$50,549	$ (861)	$173,533

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

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

	Six Months Ended June 30, 2005 (as restated)	2004
	(in thousands)	
Cash flows from operating activities:		
Net income	$ 8,002	$ 6,279
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	18,264	14,258
Minority interest in earnings of subsidiaries	—	108
Equity in income of investees	(3,630)	(2,035)
Distributions from unconsolidated investments	3,187	5,182
Deferred income tax provision (benefit)	(221)	1,592
Changes in operating assets and liabilities, net of acquisitions:		
Receivables	(8,761)	(4,568)
Costs and estimated earnings in excess of billings on uncompleted contracts	(293)	(1,664)
Inventories	(3,095)	(3,744)
Prepaid expenses and other	236	16
Deposits and other	(410)	1,526
Accounts payable and accrued expenses	7,154***	4,771
Due from/to related entities, net	1,550	446
Billings in excess of costs and estimated earnings on uncompleted contracts	4,705	199
Other liabilities	(40)	—
Deferred rental income	(287)	
Liability for severance pay	859	142
Asset retirement obligation	380	152
Proceeds from operating lease transaction	78,600*	—
Deferred lease costs	(3,272)*	—
Net cash provided by operating activities	102,928*	22,660
Cash flows from investing activities:		
Distributions from unconsolidated investments	1,020	—
Marketable securities, net	31,455	—
Net change in restricted cash, cash equivalents and marketable securities	(20,828)	(50,724)
Capital expenditures	(48,773)	(6,615)
Decrease of cash resulting from deconsolidation of OLCL	—	(1,800)
Increase in severance pay fund asset, net	(224)	(217)
Repayment from joint ventures	441	485
Cash paid for acquisitions, net of cash received	—	(174,258)

Net cash used in investing activities	(36,909)	(233,129)
Cash flows from financing activities:		
Due to Parent, net	(19,622)	36,848
Proceeds from issuance of long-term debt	—	210,000
Repayments of short-term and long-term debt	(31,091)	(10,408)
Deferred debt issuance costs	(438)**	(9,448)
Payment for interest rate caps	—	(3,820)
Deferred stock offering costs	—	(349)
Cash dividends paid	(4,394)	—
Net cash provided by (used in) financing activities	(55,545)**	222,766
Net increase in cash and cash equivalents	10,474	12,297
Cash and cash equivalents at beginning of period	36,750	8,873
Cash and cash equivalents at end of period	$ 47,224	$ 21,170
Supplemental non-cash investing and financing activities:		
Conversion of amounts due to Parent to notes payable to Parent	$ —	$ 20,000
Accounts payable related to purchases of property, plant and equipment	2,655	1,306

*Net cash provided by operating activities has been increased by $67,728, due to a correction of an error in classification of proceeds from operating lease transaction (See Note 1).

**Net cash provided by (used in) financing activities has been decreased by $67,728 due to a correction of an error in classification of proceeds from operating lease transaction. (See Note 1).

***The change in accounts payable and accrued expenses has been decreased by $7,600 due to a reclassification to the proceeds from the operating lease transaction.

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

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, 2005, consolidated results of operations for the three and six-month periods ended June 30, 2005 and 2004, and condensed consolidated cash flows for the six-month periods ended June 30, 2005 and 2004.

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, 2005 are not necessarily indicative of the results to be expected for the year ending December 31, 2005.

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/A for the year ended December 31, 2004. The condensed consolidated balance sheet as of December 31, 2004 is derived from the audited consolidated financial statements for the year ended December 31, 2004.

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

Restatement

These financial statements have been amended to correct an error contained in the statement of cash flows for the six months ended June 30, 2005. The error relates to the classification of a prepaid lease payment of $67.7 million payment, net of deferred costs, received in May 2005, incorrectly included in cash flows provided by financing activities rather than cash flows provided by operating activities resulting in an understatement of cash flows from operating activities and an overstatement of cash flows from financing activities by the same amount. No other items were affected by the error referred to above.

Hereafter is a table showing the erroneous and the corrected cash flows for the six months ended June 30, 2005:

	As Reported	Correction (in thousands)	As Restated
Cash flows from operating activities	$ 35,200	$ 67,728	$ 102,928
Cash flows from investing activities	(36,909)	—	(36,909)
Cash flows from financing activities	12,183	(67,728)	(55,545)
Net increase in cash and cash equivalents	$ 10,474	$ —	$ 10,474

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, 2005 and December 31,

2004, the Company had deposits totaling $13,937,000 and $30,988,000, respectively, in five U.S. financial institutions that were federally insured up to $100,000 per account. At June 30, 2005 and December 31, 2004, the Company's deposits in foreign countries of approximately $6,400,000 and $9,184,000, respectively, were not insured.

At June 30, 2005 and December 31, 2004, accounts receivable related to operations in foreign countries amounted to approximately $13,193,000 and $7,963,000, respectively. At June 30, 2005 and December 31, 2004, accounts receivable from the Company's major customers that have generated 10% or more of its revenues amounted to approximately 72% and 80% of the Company's accounts receivable, respectively.

Southern California Edison Company accounted for 38.8% and 42.4% of the Company's total revenues for the three months ended June 30, 2005 and 2004, respectively, and 36.2% and 41.6% of the Company's total revenues for the six months ended June 30, 2005 and 2004, respectively. Southern California Edison Company is also the power purchaser and revenue source for the Company's Mammoth project, which is accounted for under the equity method of accounting.

Sierra Pacific Power Company accounted for 14.1% and 14.3% of the Company's total revenues for the three months ended June 30, 2005 and 2004, respectively, and 15.5% and 13.1 % of the Company's total revenues for the six months ended June 30, 2005 and 2004, respectively.

Following the acquisition of the Puna project in June 2004, Hawaii Electric Light Company became one of the Company's key customers, accounting for 12.7% and 13.5% or the Company's total revenues for the three and six-month periods ended June 30, 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 – STOCK-BASED COMPENSATION

The Company accounts for stock-based compensation in respect of options issued to its employees based on the provisions of Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees ("APB No. 25"), and Financial Accounting Standards Board ("FASB") Interpretation No. 44, Accounting for Certain Transactions Involving Stock Compensation, and other related interpretations which state that no compensation expense is required to be recorded for stock options or other stock-based awards to employees that are granted with an exercise price equal to or above the estimated fair value per share of common stock on the grant date. In the event that stock options are granted at a price lower than the fair market value at that date, the difference between the fair market value of the common stock and the exercise price of the stock options is recorded as unearned stock-based compensation. Unearned compensation is amortized to compensation expense over the vesting period applicable to the stock option. The Company has adopted the disclosure requirements of Statement of Financial Accounting Standards ("SFAS") No. 123, Accounting for Stock-Based Compensation, as it relates to stock options granted to employees, which requires pro forma net income be disclosed based on the fair value of the options granted at the date of the grant.

Had compensation cost for the options granted to employees of the Company been determined based on the fair value method prescribed by SFAS No. 123, using the Black-Scholes option pricing model, the Company's pro forma net income and net income per share would have been as follows:

	Three Months Ended June 30, 2005	Three Months Ended June 30, 2004	Six Months Ended June 30, 2005	Six Months Ended June 30, 2004
	(in thousands, except per share amounts)			
Net income:				
As reported	$ 4,094	$ 3,542	$ 8,002	$ 6,279
Add: Total stock-based employee compensation expense included in reported net income, net of tax	25	6	50	12
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)	(51)	(167)	(113)
Pro forma net income	$ 4,021	$ 3,497	$ 7,862	$ 6,178
Basic and diluted net income per share:				
As reported	$ 0.13	$ 0.15	$ 0.25	$ 0.27
Pro forma	$ 0.13	$ 0.15	$ 0.25	$ 0.27

NOTE 3 – REFINANCING OF THE PUNA PROJECT

On May 19, 2005, the Company's subsidiary in Hawaii, Puna Geothermal Ventures ("PGV") completed a refinancing of the cost of its June 2004 acquisition of the Puna geothermal power plant located on the Big Island of Hawaii (the "Puna Project"). The refinancing was concluded with financing parties by means of the lease transactions described below.

Pursuant to a 31-year head lease (the "Head Lease"), PGV leased its geothermal power plant to an unrelated company (the "Lessor") in return for a prepaid lease payment in the amount of $71 million (the "Deferred Lease Income"). PGV's rights in the geothermal resource and the related power purchase agreement will not be leased to the Lessor as part of the Head Lease but will be part of the Lessor's security package. PGV simultaneously leased-back the Puna facilities from the Lessor 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 that PGV has with Hawaii Electric Light Company Inc. ("HELCO"). The Head Lease and the Project Lease are non-recourse lease obligations to the Company.

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 $4.2 million will be amortized, using the straight-line method, over the 23-year term of the Project Lease. The net annual lease expenses will be $2.6 million (which is net of the $2.3 million annual amortization of the Deferred Lease Income).

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

Future minimum lease payments under the Project Lease, as of June 30, 2005, are as follows:

	(dollars in thousands)	
Six months ending December 31, 2005	$	2,021
Year ending December 31:		
2006		6,218
2007		6,000
2008		6,641
2009		5,912
2010		5,284
Thereafter		79,138
Total	$	111,214

A secondary stage of the lease transaction is anticipated to refinance two new geothermal wells that PGV plans to drill during the remainder of 2005 (for production and injection). Upon the completion of the drilling of such wells and meeting certain other operation conditions, the Lessor and PGV will supplement the Head Lease and Project Lease agreements to include the additional wells in a manner similar to the original Head Lease and Project Lease. The total amount to be received is approximately $11.8 million. In May 2005, the Company received an advance of $7.6 million related to the anticipated refinancing.

Reserve accounts

As required under the terms of the refinancing 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 sheet as of June 30, 2005 in restricted cash accounts, as mentioned below:

PGV maintains accounts to fund the full amount of the next rent payment according to the payment schedule.

PGV maintains an account to fund well field work that is not included in the annual budget, including the drilling of new wells (except for the 2005 wells which have separate accounts as described below). The reserve should be met on a monthly basis, in amounts equal to 1/12 of a scheduled annual contribution.

PGV maintains accounts, which are deposited with the indenture trustee until December 30, 2005 to serve as make-whole payments, in case the secondary stage does not occur. As of June 30, 2005, the balance of such accounts is approximately $1.4 million.

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 abovementioned 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

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

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 4 – NEW ACCOUNTING PRONOUNCEMENTS

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

In December 2004, the FASB issued the revised SFAS No. 123, Share-Based Payments ("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 APB No. 25 and requires instead that such transactions be accounted for using the grant date fair value based method. On April 14, 2005, the SEC adopted a new rule amending the compliance dates for SFAS No. 123R. In accordance with the new rule, the accounting provisions of SFAS No. 123R will be applicable to the Company for the fiscal year ending December 31, 2006. Early adoption of SFAS No. 123R is encouraged. SFAS No. 123R applies to all awards granted or modified after its effective date. In addition, compensation cost for the unvested portion of previously granted awards that remain outstanding on SFAS No. 123R's 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.

The Company estimates that the cumulative effect of adopting SFAS No. 123R as of its effective date by the Company (January 1, 2006), based on the awards outstanding as of June 30, 2005, will be immaterial. This estimate does not include the impact of additional awards, which may be granted, or forfeitures, which may occur subsequent to June 30, 2005 and prior to the Company's adoption of SFAS No. 123R. The Company expects that upon adoption of SFAS No. 123R, it will apply the modified prospective application transition method, as permitted thereunder. Under such transition method, upon the adoption of SFAS No. 123R, the Company's consolidated financial statements for periods prior to the effective date will not be restated. The Company does not expect SFAS No. 123R to have a material impact on its results of operations and financial position in future periods.

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 will be effective for inventory costs incurred during fiscal years beginning after June 15, 2005 (January 1, 2006 for the Company). Earlier application of SFAS No. 151 is permitted. The provisions of SFAS No. 151 shall be applied prospectively. The Company does not expect SFAS No. 151 to have a material impact on its results of operations and financial position in future periods.

SFAS No. 153 – Exchange of Nonmonetary Assets

In December 2004, the FASB issued SFAS No. 153, Exchanges of Nonmonetary Assets – An Amendment of APB Opinion No. 29. SFAS No. 153 amends APB Opinion No. 29, Accounting for Nonmonetary Transactions. The amendments made by SFAS No. 153 are based on the principle that

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exchanges of nonmonetary assets should be measured based on the fair value of the assets exchanged. Further, the amendments eliminate the exception for nonmonetary exchanges of similar productive assets and replace it with a general exception for exchanges of nonmonetary assets that do not have commercial substance. The provisions in SFAS No. 153 are effective for nonmonetary asset exchanges occurring in fiscal periods beginning after June 15, 2005 (July 1, 2005 for the Company). Early application of SFAS No. 153 is permitted. The provisions of SFAS No. 153 shall be applied prospectively. The Company does not expect SFAS No. 153 to have a material impact on its results of operations and financial position in future periods.

FIN No. 47 – Accounting for Conditional Retirement Obligations, an Interpretation of FASB Statement No. 143

In March of 2005, FASB issued FASB Interpretation No. 47, Accounting for Conditional Retirement Obligations, an Interpretation of FASB Statement No. 143 ("FIN No. 47"), which requires companies to recognize a liability for the fair value of a legal obligation to perform asset-retirement activities that are conditional on a future event, if the amount can be reasonably estimated. FIN No. 47 is effective no later than the end of fiscal years ending after December 15, 2005 (December 31, 2005 for the Company). Retrospective application for interim financial information is permitted but is not required. Early adoption of FIN No. 47 is encouraged. The Company does not expect FIN No. 47 to have a material impact on its results of operations and financial position in future periods.

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 Company does not expect SFAS No. 154 to have a material impact on its results of operations and financial position in future periods.

NOTE 5 – INCOME PER SHARE

Basic income 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 on November 10, 2004 and whose dilutive effect on the net income per share for the three and six-month periods ended June 30, 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 income per share.

ORMAT TECHNOLOGIES, INC. AND SUBSIDIARIES
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(Unaudited)

NOTE 6 – INVENTORIES

Inventories consist of the following:

	June 30, 2005	December 31, 2004
	(in thousands)	
Raw materials and purchased parts for assembly	$ 3,642	$ 1,664
Self-manufactured assembly parts and finished products	5,499	4,382
Total	$ 9,141	$ 6,046

NOTE 7 – UNCONSOLIDATED INVESTMENTS

Unconsolidated investments in power plant projects consist of the following:

	June 30, 2005	December 31, 2004
	(in thousands)	
Orzunil:		
Investment	$ 3,812	$ 3,391
Advances	4,099	4,478
	7,911	7,869
Mammoth	35,279	36,361

OLCL		5,172		4,588
Total	$	48,362	$	48,818

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.

The Zunil Project

The Company has a 21% ownership interest in Orzunil I de Electricidad, Limitada ("Orzunil"), a limited responsibility company incorporated in Guatemala and established for the purpose of generation and co-generation of 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. The Company's 21% ownership interest in Orzunil is accounted for under the equity method of accounting as the Company has the ability to exercise significant influence, but not control, over Orzunil.

The Company's equity in income of Orzunil was not significant for each of the periods presented in these condensed financial statements.

The Mammoth Project

The Company has a 50% interest in the Mammoth Project, which is comprised of three geothermal power plants. A $9.3 million basis difference is 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.

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ORMAT TECHNOLOGIES, INC. AND SUBSIDIARIES
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The condensed financial position and results of operations of Mammoth are summarized below:

	June 30, 2005		December 31, 2004	
	(in thousands)			
Condensed balance sheets:				
Current assets	$	10,588	$	11,088
Non-current assets		81,715		83,944
Current liabilities		780		924
Non-current liabilities		3,820		3,774
Partners' Capital		87,703		90,334

	Six Months Ended June 30, 2005		2004	
	(in thousands)			
Condensed statements of operations:				
Revenues	$	7,880	$	7,690
Gross margin		2,465		1,771
Net income		2,369		1,778
Company's equity in income of Mammoth:				
50% of Mammoth net income	$	1,184	$	889
Plus amortization of basis difference		297		297
		1,481		1,186
Less income taxes		(563)		(438)
Total	$	918	$	748

The Leyte Project ("OLCL")

The Company holds an 80% interest in OLCL (which owns the Leyte Project). Upon the adoption of FIN No. 46R, however, the balance sheet of OLCL was deconsolidated as of March 31, 2004, and the income and cash flow statements were deconsolidated effective April 1, 2004.

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

	June 30, 2005		December 31, 2004	
	(in thousands)			
Condensed balance sheets:				
Current assets	$	7,924	$	7,178
Non-current assets		13,836		16,864
Current liabilities		6,215		6,035
Non-current liabilities		6,349		8,889
Stockholders' equity		9,196		9,118

	Six Months Ended June 30, 2005	Period from April 1, 2004 to June 30, 2004

	(in thousands)			
Condensed statements of operations:				
Revenues		7,313		3,184
Gross margin		3,937		1,477
Net income		2,207		877
Company's equity in income of OLCL:				
80% of OLCL net income		1,766		702
Plus amortization of deferred revenue on intercompany profit				
($2.4 million unamortized balance at June 30, 2005)		526		263
Total	$	2,292	$	965

OLCL's operating results for all periods prior to March 31, 2004 have been accounted for on the consolidated method of accounting. Effective April 1, 2004, the Company's ownership interest in OLCL is being accounted for using the equity method of accounting.

NOTE 8 – LONG-TERM DEBT

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

		June 30, 2005		December 31, 2004
		(in thousands)		
Limited and non-recourse agreements:				
Non-recourse agreements:				
Beal Bank Credit Agreement	$	148,334	$	150,637
Limited recourse agreement:				
Credit facility agreement		15,584		17,028
		163,918		167,665
Less current portion		(9,082)		(8,295)
Total	$	154,836	$	159,370
Full recourse agreements with banks:				
Loan one	$	3,000	$	4,000
Loan three		—		3,333
Bridge loan two		—		20,000
Other		—		28
		3,000		27,361
Less current portion				