ORMAT TECHNOLOGIES, INC.
Form 10-Q
May 10, 2006
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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 March 31, 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

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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 ''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.

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PART I — FINANCIAL INFORMATION

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

	March 31, 2006 (Unaudited)	December 31, 2005
	(in thousands)	
Assets		
Current assets:		
Cash and cash equivalents	$ 19,094	$ 26,976
Marketable securities	9,070	43,560
Restricted cash, cash equivalents and marketable securities	39,569	36,732
Receivables:		
Trade	35,079	33,515
Related entities	3,077	524
Other	2,311	2,629
Inventories, net	6,191	5,224
Costs and estimated earnings in excess of billings on uncompleted contracts	1,290	8,883
Deferred income taxes	3,675	1,663
Prepaid expenses and other	3,509	3,256
Total current assets	122,865	162,962
Unconsolidated investments	40,241	47,235
Deposits and other	13,349	13,489
Deferred income taxes	4,685	5,376
Property, plant and equipment, net	541,061	491,835
Construction-in-process	155,778	128,256
Deferred financing and lease costs, net	17,764	17,412
Intangible assets, net	47,210	47,915
Total assets	$ 942,953	$ 914,480
Liabilities and Stockholders' Equity		
Current liabilities:		
Short-term bank credit	$ —	$ 3,996

Accounts payable and accrued expenses	58,350	50,048
Billings in excess of costs and estimated earnings on uncompleted contracts	5,198	12,657
Current portion of long-term debt:		
Limited and non-recourse	8,054	2,888
Full recourse	1,000	1,000
Senior secured notes (non-recourse)	23,754	23,754
Due to Parent, including current portion of notes payable to Parent	33,080	32,003
Total current liabilities	129,436	126,346
Long-term debt, net of current portion:		
Limited and non-recourse	28,972	11,252
Full recourse	2,000	2,000
Senior secured notes (non-recourse)	324,645	324,645
Notes payable to Parent, net of current portion	133,162	140,162
Other liabilities	—	1,309
Deferred lease income	80,897	81,569
Deferred income taxes	25,403	22,004
Liabilities for severance pay	11,858	11,409
Asset retirement obligation	12,339	11,461
Total liabilities	748,712	732,157
Minority interest in net assets of subsidiaries	4,798	64
Commitments and contingencies (Notes 5, 6 and 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	124,066	124,008
Unearned stock-based compensation	—	(153)
Retained earnings	62,769	55,824
Accumulated other comprehensive income	2,577	2,549
Total stockholders' equity	189,443	182,259
Total liabilities and stockholders' equity	$ 942,953	$ 914,480

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 March 31,	
	2006	2005

	(in thousands, except per share amounts)	
Revenues:		
Electricity:		
Energy and capacity	$ 25,165	$ 24,509
Lease portion of energy and capacity	17,897	15,943
Lease income	671	—
Total electricity	43,733	40,452
Products:		
Related party	3,503	—
Other	13,085	13,444
Total products	16,588	13,444
Total revenues	60,321	53,896
Cost of revenues:		
Electricity:		
Energy and capacity	17,174	16,273
Lease portion of energy and capacity	8,382	7,339
Lease expense	1,311	—
Total electricity	26,867	23,612
Products	10,532	10,683
Total cost of revenues	37,399	34,295
Gross margin	22,922	19,601
Operating expenses:		
Research and development expenses	773	380
Selling and marketing expenses	2,695	2,208
General and administrative expenses	4,684	3,627
Operating income	14,770	13,386
Other income (expense):		
Interest income	1,115	810
Interest expense:		
Parent	(2,226)	(2,775)
Other	(5,227)	(7,523)
Foreign currency translation and transaction losses	(8)	(83)
Other non-operating income	103	40
Income before income taxes and equity in income of investees	8,527	3,855
Income tax provision	(1,914)	(1,480)
Equity in income of investees	1,279	1,533
Net income	7,892	3,908
Other comprehensive income (loss), net of related taxes:		
Gain (loss) in respect of derivative instruments designated for cash flow hedge (net of related tax of $(54,000) and $154,000, respectively)	(90)	254
Unrealized gain on marketable securities available-for-sale (net of related tax of $72,000 and $38,000, respectively)	118	62
Comprehensive income	$ 7,920	$ 4,224
Earnings per share – basic and diluted	$ 0.25	$ 0.12
Weighted average number of shares used in computation of earnings per share:		
Basic	31,563	31,563
Diluted	31,697	31,572

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		Additional Paid-in Capital	Unearned Stock-based Compensation	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
	Shares	Amount		(in thousands)			
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	—	—	211	—	—	—	211
Cash dividend declared, $0.03 per share	—	—	—	—	(947)	—	(947)
Net income	—	—	—	—	7,892	—	7,892
Other comprehensive income, net of related taxes:							
Amortization of unrealized loss in respect of derivative instruments (net of related tax benefit of $54,000)	—	—	—	—	—	(90)	(90)
Unrealized gain on marketable securities available-for-sale (net of related tax of $72,000)	—	—	—	—	—	118	118
Balance at March 31, 2006	31,563	$ 31	$124,066	$ —	$62,769	$ 2,577	$189,443

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)

	Three Months Ended March 31,	
	2006	2005
	(in thousands)	
Cash flows from operating activities:		
Net income	$ 7,892	$ 3,908
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	10,201	9,312
Accretion of asset retirement obligation	223	188
Share-based compensation	211	—
Amortization of deferred lease income	(671)	—
Equity in income of investees	(1,279)	(1,533)
Distributions from unconsolidated investments	1,158	325
Amortization of unrealized loss in respect of derivative instruments, net	(90)	—
Deferred income tax provision (benefit)	1,846	(28)
Changes in operating assets and liabilities, net of acquisition:		
Receivables	(352)	(3,133)
Costs and estimated earnings in excess of billings on uncompleted contracts	7,593	(2,156)
Inventories	(967)	(475)
Prepaid expenses and other	(171)	621
Deposits and other	230	(224)
Accounts payable and accrued expenses	6,751	15,235
Due from/to related entities, net	(2,807)	(126)
Billings in excess of costs and estimated earnings on uncompleted contracts	(7,459)	(63)
Other liabilities	(20)	(20)
Liability for severance pay	489	693
Due to Parent	1,077	—
Net cash provided by operating activities	23,855	22,524
Cash flows from investing activities:		
Marketable securities, net	34,492	60,122
Net change in restricted cash, cash equivalents and marketable securities	759	(11,027)
Capital expenditures	(39,702)	(19,159)
Cash paid for acquisition, net of cash received	(15,362)	—
Increase in severance pay fund asset, net	(40)	(116)
Repayment from unconsolidated investments	31	254
Net cash provided by (used in) investing activities	(19,822)	30,074
Cash flows from financing activities:		

Due to Parent, net		(7,000)		(16,427)
Repayments of short-term and long-term debt		(4,717)		(24,062)
Deferred debt issuance costs		(198)		(1,912)
Cash dividends paid		—		(2,500)
Net cash used in financing activities		(11,915)		(44,901)
Net increase (decrease) in cash and cash equivalents		(7,882)		7,697
Cash and cash equivalents at beginning of period		26,976		36,750
Cash and cash equivalents at end of period	$	19,094	$	44,447
Supplemental non-cash investing and financing activities:				
Increase (decrease) in accounts payable related to purchases of property, plant and equipment	$	(1,280)	$	1,718
Increase in asset retirement cost and asset retirement obligation	$	655	$	—
Accrued liabilities related to follow-on offering	$	887	$	—
Cash dividend declared	$	947	$	947
Acquisition – see Note 5.				

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

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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 (or ‘‘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 March 31, 2006 and consolidated results of operations and cash flows for the three-month periods ended March 31, 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-months ended March 31, 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.

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 March 31, 2006 and December 31, 2005, the Company had deposits totaling $10,972,000 and $9,889,000, respectively, in six U.S. financial institutions that were federally insured up to $100,000 per account. At March 31, 2006 and December 31, 2005, the Company's deposits in foreign countries of approximately $7,890,000 and $11,935,000, respectively, were not insured.

At March 31, 2006 and December 31, 2005, accounts receivable related to operations in foreign countries amounted to approximately $14,599,000 and $11,017,000, respectively. At March 31, 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 59% of the Company's accounts receivable.

Southern California Edison Company (''SCE'') accounted for 27.5% and 33.4% of the Company's total revenues for the three months ended March 31, 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.

Sierra Pacific Power Company accounted for 16.3% and 16.9% of the Company's total revenues for the three months ended March 31, 2006 and 2005, respectively.

Hawaii Electric Light Company accounted for 18.1% and 14.3% of the Company's total revenues for the three months ended March 31, 2006 and 2005, respectively.

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

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’’), and FASB Interpretation 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 hereunder. 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 will be effective for inventory costs incurred during fiscal years beginning after June 15, 2005 (January 1, 2006 for the Company). The provisions of SFAS No. 151 shall be 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.

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

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

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.

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 on November 10, 2004 and on November 9, 2005 and whose dilutive effect on the earnings per share for the three-month periods ended March 31, 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.

(Unaudited)

NOTE 4 – INVENTORIES

Inventories consist of the following:

	March 31, 2006	December 31, 2005
	(in thousands)	
Raw materials and purchased parts for assembly	$ 1,631	$ 1,521
Self-manufactured assembly parts and finished products	4,560	3,703
Total	$ 6,191	$ 5,224

NOTE 5 – ACQUISITION AND UNCONSOLIDATED INVESTMENTS

Unconsolidated investments in power plant projects consist of the following:

	March 31, 2006	December 31, 2005
	(in thousands)	
Orzunil:		
Investment	$ —	$ 3,807
Advances	—	3,712
	—	7,519
Mammoth	34,631	34,240
OLCL	5,610	5,476
Total	$ 40,241	$ 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.

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 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.

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% 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.

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

The abovementioned acquisition has been accounted for under the purchase method of accounting and the acquired assets and intangibles 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 and other current assets assumed		976
Property, plant and equipment		47,804
Accounts payable and other short-term 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 a recent hurricane, 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 an advance payment 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, the Company signed an agreement to purchase from an unrelated third party, CDC Group plc, a 14.1% partnership interest in Orzunil, which when completed will increase its existing 71.8% ownership interest in Orzunil to 85.9%. The purchase price is $3,250,000. The closing of the acquisition, which is expected to take place by the end of the second quarter of 2006, is subject to the approval of Orzunil members including the International Finance Corporation (''IFC''), which is also one of the project's senior lenders.

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.

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

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

	March 31, 2006	December 31, 2005
	(in thousands)	
Condensed balance sheets:		
Current assets	$ 8,514	$ 7,430
Non-current assets	82,828	82,550
Current liabilities	1,909	1,114
Non-current liabilities	3,728	3,708
Partners' capital	85,705	85,158

	Three Months Ended March 31,	
	2006	2005
	(in thousands)	
Condensed statements of operations:		
Revenues	$ 3,685	$ 3,967
Gross margin	605	1,212
Net income	548	1,164
Company's equity in income of Mammoth:		
50% of Mammoth net income	$ 274	$ 582
Plus amortization of basis difference	148	148
	422	730
Less income taxes	(160)	(277)
Total	$ 262	$ 453

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.

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

	March 31, 2006	December 31, 2005
	(in thousands)	
Condensed balance sheets:		
Current assets	$ 7,760	$ 7,972
Non-current assets	9,779	11,267
Current liabilities	6,241	6,083
Non-current liabilities	2,540	3,810
Stockholders' equity	8,758	9,346

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	Three Months Ended March 31, 2006	2005
	(in thousands)	
Condensed statements of operations:		
Revenues	$ 3,373	$ 3,137
Gross margin	1,677	1,468
Net income	859	762
Company's equity in income of OLCL:		
80% of OLCL net income	$ 687	$ 610
Plus amortization of deferred revenue on intercompany profit ($1.6 million unamortized balance at March 31, 2006)	604	263
Total	$ 1,291	$ 873

NOTE 6 – LONG-TERM DEBT

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

	March 31, 2006	December 31, 2005
	(in thousands)	
Limited and non-recourse agreements:		
Non-recourse agreement:		
Senior loans:		
International Finance Corporation Loan A	$ 7,730	$ —

International Finance Corporation Loan B		5,600		—
Commonwealth Development Corporation Loan		9,879		—
Junior subordinated loans		398		—
Limited recourse agreement:				
Credit facility agreement		13,419		14,140
		37,026		14,140
Less current portion		(8,054)		(2,888)
Total	$	28,972	$	11,252
Full recourse agreements with a bank	$	3,000	$	3,000
Less current portion		(1,000)		(1,000)
Total	$	2,000	$	2,000
Senior Secured Notes (non recourse):				
Ormat Funding Corp. (''OFC'')	$	183,399	$	183,399
OrCal Geothermal Inc. (''OrCal'')		165,000		165,000
		348,399		348,399
Less current portion		(23,754)		(23,754)
Total	$	324,645	$	324,645

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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. The loan matures on November 15, 2011, and shall be repaid 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 shall be repaid in 32 quarterly installments ranging from $436,000 to $690,000. The loan has a fixed annual interest rate of 11.73%.

Commonwealth Development Corporation (''CDC'') Loan

Orzunil has a senior loan agreement with CDC, which is also a minority shareholder of Orzunil. The loan matures on August 15, 2010, and shall be repaid in 42 quarterly installments ranging from $348,000 to $675,000. The loan has a fixed annual interest rate of 10.3%.

There are various restrictive covenants under the Senior Loans, which include limitations on distribution to its shareholders.

Junior Subordinated Loans

Orzunil has a junior subordinated loans with 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 that 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. Management believes that as of March 31, 2006, the Company was in compliance with the covenants contained in the indenture governing the OFC Senior Secured Notes.

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.

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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 sheet. As of March 31, 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 March 31, 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 will commence 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, 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.

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 Senior Secured Notes at a redemption price of 100% of the principal amount of the OrCal Senior Secured Notes being redeemed plus accrued interest. Management believes that as of March 31, 2006, the Company was in compliance with the covenants contained in the indentures governing the OrCal Senior Secured Notes.

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

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the terms of the OrCal Senior Secured Notes in the following six months. This restricted cash account is classified as current on the balance sheet. As of March 30, 2006 and December 31, 2005, the balance of such account was $13.7 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 March 31, 2006 and December 31, 2005, amounted to $57.9 and $58.3 million, net of accumulated depreciation of $4.3 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 that PGV has with 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 March 31, 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 March 31, 2006 and December 31, 2005, the balance of such account was $3.3 and $3.5 million, respectively.

Lease rent reserve accounts

PGV maintains accounts to fund the full amount of the next rent payment according to the payment schedule. As of March 31, 2006 and December 31, 2005, the balance of such accounts was $6.2 and $2.3 million, respectively.

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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 March 31, 2006 and December 31, 2005, the balance of such account was $0.6 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, if the balance is less than $0.5 million. As of March 31, 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 March 31, 2006 and December 31, 2005, the balance of such account was $3.8 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 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.
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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 months ended March 31, 2005 was as follows:

	Three months ended March 31, 2005 (In thousands, except per share amounts)	
Net income, as reported	$	3,908
Add: Total stock-based employee compensation expense included in reported net income, net of tax		25
Deduct: Total stock-based employee compensation expense in respect of the Company's stock options determined under fair value based method, net of tax		(12)
Deduct: Total stock-based employee compensation expense in respect of the Parent's stock options determined under fair value based method, net of tax		(80)
Pro forma net income	$	3,841
Basic and diluted earnings per share:		
As reported	$	0.12
Pro forma	$	0.12

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 months ended March 31, 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 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 differ 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%.

During the three months ended March 31, 2006, the Company did not grant any stock options.

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During the three months ended March 31, 2006, the Company recorded stock-based compensation related to stock options as follows:

	Three Months Ended March 31, 2006 (dollars in thousands, except per share amounts)	
Cost of Revenues	$	70
Selling and marketing expenses		70
General and administrative expenses		71
Total stock-based compensation expense	$	211
Effect on basic and diluted earnings per share	$	0.01

As of March 31, 2006, the unrecorded deferred stock-based compensation balance related to stock options was $561,000 and will be recognized over an estimated weighted average amortization period of 1.8 years.

Valuation Assumptions

The Company calculated the fair value of each option on the date of grant using the Black-Scholes option pricing model using the following assumptions:

	Year Ended December 31,		
	2005	2004	2003
For stock options issued by the Company:			
Risk-free interest rates	4.5%	3.6%	—
Expected lives (in years)	5	5	—
Dividend yield	1%	4%	—
Expected volatility	32%	40%	—
For stock options issued by the Parent:			
Risk-free interest rates	—	4.7%	4.7%
Expected lives (in years)	—	5	5
Dividend yield	—	0%	0%
Expected volatility	—	28%	31%

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:

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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 periods presented below (shares in thousands):

	Three Months Ended March 31, 2006	
	Shares	Weighted Average

		Exercise Price
Outstanding at beginning of period	236	$ 15.54
Granted, at fair value*	—	—
Exercised	—	—
Forfeited	(7)	15.00
Outstanding at end of period	229	15.56
Options exercisable at end of period	15	15.00
Weighted-average fair value of options granted during the period		$ —
* Including options granted to directors		$ —

As of March 31, 2006, 1,021,350 shares of the Company's common stock are available for future grants.

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 Plan.

The following table summarizes information about stock options outstanding at March 31, 2006 (shares in thousands):

Exercise Price	Number of Shares Outstanding	Weighted Average Remaining Contractual Life in Years	Number of Shares Exercisable	Weighted Average Remaining Contractual Life in Years
$ 15.00	204	8.6	15	8.6
20.10	25	8.6	—	—
	229	8.6	15	8.6

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The following table summarizes information about the status of the Company's nonvested shares as of March 31, 2006, and changes during the three-month period then ended (shares in thousands):

	Number of Shares	Weighted Average Grant Date Fair Value
Nonvested outstanding at January 1, 2006	221	$ 0.96
Granted	—	—
Vested	—	—
Forfeited	(7)	0.96

Nonvested outstanding at March 31, 2006	214	$	0.96

As of March 31, 2006, there was $186 of total unrecognized compensation cost related to nonvested share-based compensation arrangements granted under the 2004 Incentive Plan. That cost is expected to be recognized over a weighted average period of 1.6 years.

The Parent's Stock Option Plans

Ormat Industries Ltd. (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 of the Parent, 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 March 31, 2006, no shares of the Parent's ordinary shares are available for future grants.

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The following table summarizes the status of the Parent's Plans as of and for the periods presented below (shares in thousands):

	Three Months Ended March 31, 2006		
	Shares		Weighted Average Exercise Price
Outstanding at beginning of period	1,747	$	2.32
Granted, below fair value	—		—
Exercised	(113)		1.87
Expired	(32)		2.26
Forfeited	(25)		3.14
Outstanding at end of period	1,577		2.45
Options exercisable at end of period	632		1.55

Weighted-average fair value of options granted during the period	$	—

The following table summarizes information about stock options outstanding at March 31, 2006 (shares in thousands):

	Exercise Price	Number of Shares Outstanding	Weighted Average Remaining Contractual Life in Years	Number of Shares Exercisable	Weighted Average Remaining Contractual Life in Years
$	1.41	366	1.0	366	1.0
	1.75	608	2.0	266	2.0
	3.78	603	3.1	—	—
		1,577	2.1	632	1.4

The following table summarizes information about the status of the Parent's nonvested shares as of March 31, 2006, and changes during the three-month period then ended (shares in thousands):

	Number of Shares		Weighted Average Grant Date Fair Value
Nonvested outstanding at January 1, 2006	1,451	$	2.54
Granted	—		—
Vested	(481)		1.53
Forfeited	(25)		3.14
Nonvested outstanding at March 31, 2006	946	$	3.04

As of March 31, 2006, there was $376,000 of total unrecognized compensation cost related to nonvested share-based compensation arrangements granted under the Parent's Plans. That cost is expected to be recognized over a weighted average period of 1.88 years. The total fair value of shares vested under the Parent's Plan during the three months ended March 31, 2006, was $736,000.

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

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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 March 31, 2006:			
Net revenues from external customers	$ 43,733	$ 16,588	$ 60,321
Intersegment revenues	—	16,025	16,025
Operating income	11,312	3,458	14,770
Segment assets at period end*	900,050	42,903	942,953
* Including unconsolidated investments	40,241	—	—
Three months ended March 31, 2005:			
Net revenues from external customers	$ 40,452	$ 13,444	$ 53,896
Intersegment revenues	—	11,101	11,101
Operating income	12,461	925	13,386
Segment assets at period end*	787,122	41,273	828,395
* Including unconsolidated investments	50,018	—	—

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

	Three Months Ended March 31,	
	2006	2005
	(in thousands)	
Operating income:		
Operating income	$ 14,770	$ 13,386
Interest expenses, net	(6,338)	(9,488)
Non-operating income and other, net	95	(43)
Total consolidated income before income taxes and equity income of investees	$ 8,527	$ 3,855

NOTE 10 – COMMITMENTS AND CONTINGENCIES

Letters of credit

In the ordinary course of business with customers, vendors, and lenders, the Company is contingently liable for performance under letters of credit totaling $26.0 million and $25.4 million at March 31, 2006 and December 31, 2005, respectively (out of these amounts, letters of credit totaling $4.1 million and $5.1 million respectively, have been obtained by the Parent on behalf of the Company). Management does not expect any material losses to result from these letters of credit because performance is not expected to be required, and, therefore, is of the opinion that the fair value of these instruments is zero.

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LOC Agreement

A subsidiary of the Company has a letter of credit and loan agreement (''LOC Agreement'') with Hudson United Bank (the ''bank'') pursuant to which the bank agreed to issue one or more letters of credit for an aggregate amount of up to $15.0 million. The LOC Agreement terminates on June 30, 2007, but is automatically extended for successive one-year periods unless notice is provided by either the Company or the bank to the contrary. In the event that the bank is required to pay on a letter of credit drawn by the beneficiary thereof, such letter of credit converts into a loan, bearing interest at 3-month LIBOR plus 4.0%, to be repaid in equal installments at the end of each of the next four quarters. There are various restrictive covenants in the LOC Agreement, which include maintaining certain levels of tangible net worth, leverage ratio, and minimum coverage ratio. Management believes that as of March 31, 2006, the Company was in compliance with the covenants under the LOC Agreement. As of March 31, 2006 and December 31, 2005, no letters of credit were outstanding under the LOC Agreement.

Credit Agreement

On February 15, 2006, a subsidiary of the Company entered into a $25 million credit agreement (''Credit Agreement'') with Union Bank of California (''UBOC''). Under the Credit Agreement, the Company can request extensions of credit in the form of loans and/or the issuance of one or more letters of credit. UBOC is currently the sole lender and issuing bank under the credit agreement, but is also designated as an administrative agent on behalf of banks that may, from time to time in the future, join the credit agreement as parties thereto. In connection with this transaction, the Company has entered into a guarantee in favor of the administrative agent for the benefit of the banks, pursuant to which the Company agreed to guarantee the subsidiary's obligations under the credit agreement. The subsidiary's obligations under the credit agreement are otherwise unsecured by any of its (or any of its subsidiaries') assets. There are various restrictive covenants under the credit agreement, which include maintaining certain levels of tangible net worth, leverage ratio, minimum coverage ratio, and a distribution coverage ratio. In addition, there are restrictions on dividend distributions in the event of a payment default or noncompliance with such ratios. Management believes that as of March 31, 2006, the Company was in compliance with the covenants under the Credit Agreement.

As of March 31, 2006, one letter of credit with a stated amount of $11.5 million was issued and outstanding under the Credit Agreement.

Phase II of the Olkaria III Project in Kenya

As of March 31, 2006 and December 31, 2005, the Company had incurred approximately $21.6 million (included in construction-in-process) in connection with the construction of Phase II of the Olkaria III project in Kenya. Upon completion of the project, the Company expects Phase II to add 35 MW in generating capacity to the current Olkaria III project. Under existing documentation for the Olkaria III project, the Company's subsidiary was required to construct Phase II and to reach commercial operations by May 31, 2007, in order to avoid financial penalties, or by April 17, 2008, at the latest, to avoid termination of the entire power purchase agreement. The Company has reached an agreement with Kenya Power & Lighting Co. Ltd. (''KPLC''), subject to execution of a definitive agreement and

regulatory approval, pursuant to which the tariff of Phase II will be reduced and KPLC will be required to provide a letter of credit to secure its payment obligations. The initial agreement was that if the definitive agreement and the opening of the letter of credit were completed by April 1, 2006, the completion date would be December 2007. The Company is currently negotiating the receipt of letter of credit and the definitive agreement, which will extend the completion date beyond December 2007. Management believes that the project will be completed in the required timeframe. If the Company does not complete the construction of Phase II, the Company may lose some or all of its investment in the construction-in-process relating to Phase II.

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

Contingencies

Steamboat Geothermal LLC (‘‘SG’’), a wholly-owned indirect subsidiary, is a party to a litigation related to a dispute over amounts owed to the plaintiffs under certain operating agreements. SG has initiated settlement discussions with the plaintiff and on December 31, 2005 and January 9, 2006, it entered into a sales, settlement and release agreement and an assignment agreement, respectively, with an assignee of 37% of one of the plaintiffs’ right to net operating revenues, whereby SG was assigned such 37% of the net operating revenues of Steamboat 1 in partial settlement of the dispute with such plaintiff. The Company believes that any outcome of the dispute with regard to the remaining claims will not have a material impact on the Company’s results of operations.

The Company is a party to a third-party complaint filed on November 15, 2005 by Lacy M. Henry and Judy B. Henry (the ‘‘Henrys’’) in a bankruptcy proceeding in the United States Bankruptcy Court for the Eastern District of North Carolina. The Henrys are debtors in a Chapter 11 bankruptcy filed in the Bankruptcy Court. The Henrys were the sole shareholders of MPS Generation, Inc. (‘‘MPSG’’). The Company entered into a supply contract with MPSG dated as of December 29, 2003, under which the Company was retained as a subcontractor to produce four waste heat energy converters for a project for which MPSG had entered into a contract with Basin Electric Power Cooperative (‘‘Basin’’). Basin filed a lawsuit on February 24, 2005 against, among others, MPSG and the Henrys in the United States District Court for the District of North Dakota, alleging various causes of action including breach of contract, actual and constructive fraud, and conversion, and demanding the piercing of MPSG’s corporate veil to establish the personal liability of the Henrys for MPSG’s debts. On September 15, 2005, Basin filed a complaint commencing the bankruptcy proceeding, seeking a determination that the claims which Basin alleged against the Henrys in the North Dakota lawsuit were not dischargeable. On November 15, 2005, the Henrys answered Basin’s complaint in the bankruptcy proceeding and also filed a third-party complaint against the Company, alleging that to the extent the Henrys are found personally liable to Basin for MPSG’s debts, the Henrys have claims against the Company for breach of contract/breach of warranty, tortuous interference with contract, unfair or deceptive trade practices and fraud. The Henrys alleged damages in excess of $100 million. On December 15, 2005, the Company filed an answer denying the Henrys’ claims and asserting counterclaims against the Henrys. The Company filed a motion to dismiss the Henrys’ claims, but the Bankruptcy Court has not yet ruled on this motion. The Company believes that it has no liability to the Henrys and intends to defend vigorously against the Henrys’ claims in the bankruptcy proceeding. Therefore, no provision is included in the financial statements in respect of the claims.

In connection with the power purchase agreements for the Ormesa project, SCE has expressed its intent not to pay the contract rate for the power supplied by the GEM 2 and GEM 3 plants to the Ormesa project. SCE contends that California ISO real-time prices should apply, while management believes that SP-15 prices quoted by NYMEX should apply. According to SCE's estimation, the amount under dispute is approximately $2.5 million. The parties have signed an Interim Agreement; whereby SCE will continue to procure the GEM 2 and GEM 3 power at the current energy rate of 5.37 Cents/kWh until May 1, 2007. In addition a long term PPA is expected to be entered into for the GEM 2 and GEM 3 power. The negotiations of the long term power purchase agreement are still under way and there is no guarantee that they will be successfully completed. Management believes that such settlement agreement will not have a material financial impact on the Company.

The Company is a defendant in various other legal and regulatory proceedings in the ordinary course of business. It is the opinion of the Company's management that the expected outcome of these matters, individually or in the aggregate, will not have a material effect on the results of operations and financial condition of the Company.

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

NOTE 11 – CASH DIVIDEND

On March 7, 2006, the Company's Board of Directors declared, approved and authorized payment of a quarterly dividend of $947,000 ($0.03 per share) to all holders of the Company's issued and outstanding shares of common stock on March 28, 2006. Such divided was paid on April 4, 2006.

NOTE 12 – SHELF REGISTRATION STATEMENT

On January 17, 2006, the Company filed a universal shelf registration statement on Form S-3, which was declared effective by the SEC on January 31, 2006. The shelf registration statement provides the Company with the opportunity to issue various types of securities, including debt securities, common stock, warrants and units of the Company, from time to time, in one or more offerings up to a total dollar amount of $1 billion. Pursuant to the shelf registration statement, the Company may periodically offer one or more of the registered securities in amounts, at prices, and on terms to be announced when, and if, the securities are offered. At the time any offering is made under the shelf registration statement, the offering specifics will be set out in a prospectus supplement.

NOTE 13 – INCOME TAXES

The effective tax rate of the Company for the three-month period ended March 31, 2006 was 22.4%, which differs from the federal statutory rate of 34% primarily attributable to: (i) a 3% decrease in the tax rate in Israel commencing January 1, 2006, which decreased the tax provision by $0.1 million; (ii) an Israeli Investment Law amendment and the resulting ruling from the Israeli Tax Authorities granted in April 2006, according to which the Company's Israeli subsidiary was subject to lower income tax rates effective as of January 1, 2004, which resulted in a tax benefit of $0.6 million; and (iii) a production tax credit of $0.3 million.

NOTE 14 – SUBSEQUENT EVENTS

Follow-On Public Offering

On April 10, 2006, the Company completed a follow-on public offering of 3,500,000 shares of common stock at a price of $35.50 per share, under the shelf registration statement mentioned in Note 12. In addition, on April 17, 2006, 525,000 additional shares of common stock were sold at the same price pursuant to the exercise of the underwriters' over-allotment option. Net proceeds to the Company after deducting underwriting fees and commissions and estimated offering expenses associated with the offering, were approximately $135.0 million.

Stock Options

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 Plan.

Acquisition

On April 27, 2006, the Company signed an agreement to acquire an additional 14.1% partnership interest in Orzunil, as discussed in Note 5.

Cash Dividend

On May 9, 2006, the Company's Board of Directors declared, approved and authorized payment of a quarterly dividend of $1,423,500 ($0.04 per share) to all holders of the issued and outstanding shares of common stock on May 23, 2006, payable on May 30, 2006.

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ITEM 1A. RISK FACTORS

A comprehensive discussion of our risk factors is included in the ''Risk Factors'' section of our annual report on Form 10-K for the year ended December 31, 2005 filed with the Securities and Exchange Commission (SEC) on March 28, 2006 and the Prospectus Supplement filed with the SEC on April 5, 2006.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This quarterly report on Form 10Q includes ''forward-looking statements'' within the meaning of the Private Securities Litigation Reform Act of 1995. All statements, other than statements of historical facts, included in this report that address activities, events or developments that we expect or anticipate will or may occur in the future, including such matters as our projections of annual revenues, expenses and debt service coverage with respect to our debt securities, future capital expenditures, business strategy, competitive strengths, goals, development or operation of generation assets, market and industry developments and the growth of our business and operations, are forward-looking statements. When used in this quarterly report on Form 10-Q, the words ''may'', ''will'', ''could'', ''should'', ''expects'', ''pl ''anticipates'', ''believes'', ''estimates'', ''predicts'', ''projects'', ''potential'', or ''contemplate'' or the negative of these term comparable terminology are intended to identify forward-looking statements, although not all forward-looking statements contain such words or expressions. The forward-looking statements in this report are primarily located in the material set forth under the headings ''Management's Discussion and Analysis of Financial Condition and Results of

Operations'', ''Risk Factors'', and ''Notes to Condensed Consolidated Financial Statements'', but are found in other locations as well. These forward-looking statements generally relate to our plans, objectives and expectations for future operations and are based upon management's current estimates and projections of future results or trends. Although we believe that our plans and objectives reflected in or suggested by these forward-looking statements are reasonable, we may not achieve these plans or objectives. You should read this quarterly report on Form 10-Q completely and with the understanding that actual future results and developments may be materially different from what we expect due to a number of risks and uncertainties, many of which are beyond our control. We will not update forward-looking statements even though our situation may change in the future.

Specific factors that might cause actual results to differ from our expectations include, but are not limited to:

- significant considerations, risks and uncertainties discussed in this quarterly report;
- operating risks, including equipment failures and the amounts and timing of revenues and expenses;
- geothermal resource risk (such as the heat content of the reservoir, useful life and geological formation);
- environmental constraints on operations and environmental liabilities arising out of past or present operations, including the risk that we may not have, and in the future may be unable to procure, any necessary permits or other environmental authorization;
- construction or other project delays or cancellations;
- financial market conditions and the results of financing efforts;
- political, legal, regulatory, governmental, administrative and economic conditions and developments in the United States and other countries in which we operate;
- the enforceability of the long-term power purchase agreements for our projects;
- contract counterparty risk;
- weather and other natural phenomena;

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- the impact of recent and future federal and state regulatory proceedings and changes, including legislative and regulatory initiatives regarding deregulation and restructuring of the electric utility industry and incentives for the production of renewable energy in the United States and elsewhere: changes in environmental and other laws and regulations to which our company is subject, as well as changes in the application of existing laws and regulations;
- current and future litigation;
- our ability to successfully identify, integrate and complete acquisitions;
- competition from other similar geothermal energy projects, including any such new geothermal energy projects developed in the future, and from alternative electricity producing technologies;
- the effect of and changes in economic conditions in the areas in which we operate;
- market or business conditions and fluctuations in demand for energy or capacity in the markets in which we operate;
- the direct or indirect impact on our company's business resulting from terrorist incidents or responses to such incidents, including the effect on the availability of and premiums on insurance;
- the effect of and changes in current and future land use and zoning regulations, residential, commercial and industrial development and urbanization in the areas in which we operate;

- the risk factors set forth in our annual report on Form 10-K for the year ended December 31, 2005, the Prospectus Supplement filed with the Securities and Exchange Commission on April 5, 2006 and any updates contained herein which may have a significant impact on our business, operating results or financial condition;
- other uncertainties which are difficult to predict or beyond our control and the risk that we incorrectly analyze these risks and forces or that the strategies we develop to address them could be unsuccessful; and
- other risks and uncertainties detailed from time to time in our filings with the Securities and Exchange Commission.

Investors are cautioned that these forward-looking statements are inherently uncertain. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results or outcomes may vary materially from those described herein. We undertake no obligation to update forward-looking statements even though our situation may change in the future. Given these risks and uncertainties, readers are cautioned not to place undue reliance on such forward-looking statements.

The following discussion and analysis of our financial condition and results of operations should be read together with our condensed consolidated financial statements and related notes included elsewhere in this report and the ‘‘Risk Factors’’ section of our annual report on Form 10-K for the year ended December 31, 2005 and any updates contained herein as well as those set forth in our press releases, reports and other filings made with the SEC.

General

Overview

We are a leading vertically integrated company engaged in the geothermal and recovered energy power business. We design, develop, build, own and operate clean, environmentally friendly geothermal power plants, and we also design, develop and build, and plan to own and operate, recovered energy-based power plants, in each case, using equipment that we design and manufacture. In addition, we sell the equipment we design and manufacture for geothermal electricity generation, recovered energy-based electricity generation, and other equipment for electricity generation to third

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parties. Our operations consist of two principal business segments. The first consists of the sale of electricity from our power plants, which we refer to as the Electricity Segment. The second consists of the design, manufacturing and sale of equipment for electricity generation, the installation thereof and the provision of services relating to the engineering, procurement, construction, operation and maintenance of geothermal and recovered energy power plants, which we refer to as the Products Segment.

Our Electricity Segment currently consists of our investment in power plants producing electricity from geothermal resources. It will also include our investment in power plants producing electricity from recovered energy resources. Our geothermal power plants include both power plants that we have built and power plants that we have acquired. Our Products Segment consists of the design, manufacture and sale of equipment that generates electricity, principally from geothermal and recovered energy resources, but also using other fuel sources as well. Our Products Segment also includes, to the extent requested by our customers, the installation of our equipment and other related power plant

installations and the provision of services relating to the engineering, procurement, construction, operation and maintenance of geothermal and recovered energy power plants. For the three months ended March 31, 2006, our Electricity Segment represented approximately 72.5% of our total revenues, while our Products Segment represented approximately 27.5% of our total revenues during such period.

During the three months ended March 31, 2006, total Electricity Segment revenues from the sale of electricity by our wholly owned power plants were $43.7 million. In addition, revenues from our 50% ownership of the Mammoth Project and from our 80% ownership of the Leyte Project for the three months ended March 31, 2006 were $4.5 million. This additional data is a Non-GAAP financial measure as defined by the SEC. There is no comparable GAAP measure. Management believes that such Non-GAAP data is useful to the readers as it provides a more complete view on the scope of our activities. Our investments in the Mammoth and Leyte projects are accounted for in our consolidated financial statements under the equity method and the revenues are not included in our consolidated revenues for the three months ended March 31, 2006.

Our Electricity Segment operations are conducted in the United States and throughout the world. We have increased our net ownership interest in generating capacity by 12 MW in the first quarter of 2006 through the acquisition of an additional 50.8% ownership interest in the Zunil project. Since January 1, 2001, we have completed various acquisitions of geothermal power plants with an aggregate acquisition cost, net of cash received, of $519.3 million. We also own or control as well as operate geothermal projects in Guatemala, Kenya, Nicaragua and the Philippines.

Our Products Segment operations are also conducted in the United States and throughout the world. During the three months ended March 31, 2006, revenues attributable to our Products Segment were $16.6 million. We have identified recovered energy-based power generation as a significant market opportunity for us in the United States and throughout the world. During the first quarter of 2006 we recognized revenues of approximately $6.2 million from recovered energy generation (including $3.5 million from related parties) compared to $0 in the same quarter last year.

We expect that an important component of our Products Segment will be the design, manufacturing and sale of recovered energy products that we expect will allow us (in our Electricity Segment) and potential customers (in our Products Segment) to utilize waste heat for the purpose of producing electricity.

Our Electricity Segment is characterized by relatively predictable revenues generated by our power plants pursuant to long-term power purchase agreements, with terms which are generally up to 20 years. By contrast, revenues attributable to our Products Segment, which are based on the sale of equipment and the provision of various services to our customers are far less predictable and may vary significantly from period to period. Our management assesses the performance of our two segments of operation differently. In the case of our Electricity Segment, when making decisions about potential acquisitions or the development of new projects, our management typically focuses on the internal rate of return of the relevant investment, relevant technical and geological matters and other relevant business considerations. Additionally, as part of our Electricity Segment, our management

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evaluates our operating projects based on the performance of such projects in terms of revenues and expenses in contrast to projects that are under development, which our management evaluates based on costs attributable to each such project. By contrast, our management evaluates the performance of our Products Segment based on the timely delivery of our products, performance quality of our products and costs actually incurred to complete customer orders as compared to the costs originally budgeted for such orders.

During the three months ended March 31, 2006, our total revenues increased by 11.9% (from $53.9 to $60.3 million), over the same period last year. Revenues from the Electricity Segment increased by 8.1%, and revenues from the Product Segment increased by 23.4%, from the same period last year.

During the three-month periods ended March 31, 2006 and 2005, our U.S. projects generated 484,427 MWh and 473,301 MWh, respectively, which includes our 50% share in the Mammoth project.

Recent Developments

- On May 9, 2006, we announced that a newly established subsidiary entered into a 20-year power purchase agreement (PPA) with Sierra Pacific Power Company (SPPC), for the sale of energy to be produced from the Galena 3 power plant, which is currently under construction. Under the new PPA, between 15 MW to 25 MW will be delivered from the Galena 3 project to SPPC for a fixed price of $61 MWh, or $58 MWh, assuming the project will be eligible for a production tax credit. These rates escalate at the beginning of each contract year by 1% and include the value of the renewable energy credits. The new PPA is subject to the approval of the Nevada Public Utilities Commission.
- On April 27, 2006, one of our wholly-owned subsidiaries entered into an agreement to acquire an additional 14.1% (13.67% on a fully diluted basis assuming the exercise of an option by a third party) partnership interest in Orzunil I de Electricidad, Limitada (Orzunil), which owns the Zunil project in Guatemala. When completed, this acquisition will increase our subsidiary’s existing 71.8% ownership interest (69.67% on a fully diluted basis assuming the exercise of an option by a third party) in the Zunil Project to 85.9% (83.3% on a fully diluted basis, assuming the exercise of a option by a third party). The purchase price will be $3.3 million.
- On April 26, 2006, we received a notice to proceed on an engineering, procurement and construction (EPC) contract to construct a geothermal power plant for the Raft River project in Idaho, for a total sales price of $20.2 million. Construction of the power plant is expected to be completed in the last quarter of 2007.
- On April 10, 2006, we completed a follow-on public offering of 3,500,000 shares of common stock at a price of $35.50 per share, under the shelf registration statement mentioned below. In addition, on April 17, 2006, 525,000 additional shares of common stock were sold at the same price under to the exercise of the underwriters’ over-allotment option. Net proceeds to us, after deducting underwriting fees and commissions and estimated offering expenses associated with the offering, were approximately $135.0 million.
- On April 4, 2006, our subsidiary, Ormat Nevada Inc., signed a contract to supply a 10 MW Ormat Energy Converter (OEC) power unit to PacifiCorp Energy. The contract is in the amount of $11.5 million. The existing PacifiCorp plant, to which an additional OEC will be added, uses single-flash technology to produce approximately 23 MW net of power to the grid. That plant utilizes only steam, which is separated from the brine and delivered to the plant, while the brine is reinjected into the ground. Ormat's technology enables recovery of heat from the brine before reinjection and utilizes it to generate 10 MW of additional power in the OEC without additional resource or wells. The OEC power unit will be delivered in the second quarter of 2007 for installation adjacent to the existing plant.
- On March 13, 2006, one of our wholly owned subsidiaries acquired an additional 50.8% (49.28% on a fully diluted basis assuming the exercise of an option by a third party)

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partnership interest in Orzunil I de Electricidad, Limitada (Orzunil), which owns the Zunil project in Guatemala. As a result of this acquisition, our subsidiary increased its then existing 21.0% ownership interest in the Zunil Project to 71.8% (69.67% on a fully diluted basis assuming the exercise of an option by a third party). The purchase price was $14.8 million.

- On February 13, 2006, one of our wholly owned subsidiaries entered into a $7.7 million agreement with Tauropaki Power Company of New Zealand for the sale of one air-cooled OEC unit. This OEC unit will be used to expand the generating capacity of the existing Mokai geothermal power plant located near Lake Taupo in New Zealand, and is expected to be supplied within 12 months from the contract date.
- On January 25, 2006, one of our wholly owned subsidiaries, OrSumas LLC, entered into a 20-year power purchase agreement with Puget Sound Energy for the supply of power from a recovered energy generation facility, which will be located adjacent to the Sumas Compressor Station of Northwest Pipeline Inc. in Sumas, Washington State. The facility is expected to begin commercial operations in the fourth quarter of 2007 or the first quarter of 2008 and is expected to have a generating capacity of 5 MW and annual revenues of approximately $2.3 million with a 1% annual escalation.
- On January 17, 2006, we filed a universal shelf registration statement on Form S-3, which was declared effective by the SEC on January 31, 2006. The shelf registration statement provides us with the opportunity to issue various types of securities, including debt securities, common stock, warrants and units of our company, from time to time for a period of three years, in one or more offerings up to a total dollar amount of $1 billion. Under this shelf registration statement, we may periodically offer one or more of the registered securities in amounts, at prices, and on terms to be announced when, and if, the securities are offered. At the time any offering is made under the shelf registration statement, the offering specifics will be set out in a prospectus supplement.
- On January 13, 2006, one of our subsidiaries entered into a supply agreement in the amount of $2.4 million with ICQ Energetica s.r.l. in Italy for the supply of OEC systems for REG Plants.

Trends and Uncertainties

The geothermal industry in the United States has historically experienced significant growth followed by a consolidation of owners and operators of geothermal power plants. During the 1990s, growth and development in the geothermal industry occurred primarily in foreign markets and only minimal growth and development occurred in the United States. Since 2001, there has been increased demand for energy generated from geothermal resources in the United States as production costs for electricity generated from geothermal resources have become more competitive relative to fossil fuel generation due to increasing natural gas prices and as a result of newly enacted legislative and regulatory incentives, such as state renewable portfolio standards. We see the increasing demand for energy generated from geothermal and other renewable resources in the United States, the rise in oil and gas prices and further introduction of renewable portfolio standards as the most significant trends affecting our industry today and in the immediate future. Our operations and the trends that from time to time impact our operations are subject to market cycles.

Although other trends, factors and uncertainties may impact our operations and financial condition, including many that we do not or cannot foresee, we believe that our results of operations and financial condition for the foreseeable future will be affected by the following trends, factors and uncertainties: