

ORMAT TECHNOLOGIES, INC.

Form 10-K

March 02, 2009

**Table of Contents**

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
FORM 10-K**

- x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
For the fiscal year ended December 31, 2008
- or
- o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**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)

**6225 Neil Road, Reno, Nevada 89511-1136**  
(Address of principal executive offices)

**Registrant's telephone number, including area code: (775) 356-9029**

**Securities Registered Pursuant to Section 12(b) of the Act:**

<b>Title of each class</b>	<b>Name of each exchange on which registered</b>
Ormat Technologies, Inc. Common Stock \$0.001 Par Value	New York Stock Exchange

**Securities Registered Pursuant to Section 12(g) of the Act: None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes o No x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act.

Yes o No x

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

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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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer

Accelerated filer

Non-accelerated filer  (Do not check if a smaller reporting company)

Smaller reporting

company

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

Yes  No

As of June 30, 2008, the last business day of the registrant's most recently completed second fiscal quarter, the aggregate market value of the registrant's common stock held by non-affiliates of the registrant was \$977,767,006 based on the closing price as reported on the New York Stock Exchange.

The number of outstanding shares of common stock of the registrant, as of February 24, 2009, was 45,353,120.

Documents Incorporated by Reference: Part III (Items 10, 11, 12, 13 and 14) incorporates by reference portions of the Registrant's Proxy Statement for its Annual Meeting of Stockholders, which will be filed not later than 120 days after December 31, 2008.

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**ORMAT TECHNOLOGIES, INC.**

**FORM 10-K FOR THE YEAR ENDED DECEMBER 31, 2008**

**TABLE OF CONTENTS**

	<b>Page No.</b>
<u>PART I</u>	
<u>ITEM 1. BUSINESS</u>	5
<u>ITEM 1A. RISK FACTORS</u>	44
<u>ITEM 1B. UNRESOLVED STAFF COMMENTS</u>	61
<u>ITEM 2. PROPERTIES</u>	61
<u>ITEM 3. LEGAL PROCEEDINGS</u>	61
<u>ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS</u>	62
 <u>PART II</u>	
<u>ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES</u>	63
<u>ITEM 6. SELECTED FINANCIAL DATA</u>	66
<u>ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</u>	68
<u>ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u>	97
<u>ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA</u>	98
<u>ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE</u>	148
<u>ITEM 9A. CONTROLS AND PROCEDURES</u>	148
<u>ITEM 9B. OTHER INFORMATION</u>	148
 <u>PART III</u>	
<u>ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT AND CORPORATE GOVERNANCE</u>	149
<u>ITEM 11. EXECUTIVE COMPENSATION</u>	152
<u>ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS</u>	153
<u>ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE</u>	153
<u>ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES</u>	153
 <u>PART IV</u>	
<u>ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES</u>	154
<u>SIGNATURES</u>	166
<u>EX-10.18.3: COMMON TERMS AGREEMENT</u>	
<u>EX-10.18.4: DEG A FACILITY LOAN AGREEMENT</u>	
<u>EX-10.18.5: DEG B FACILITY LOAN AGREEMENT</u>	

EX-10.18.6: DEG C FACILITY LOAN AGREEMENT

EX-10.18.7: PROPARCO A FACILITY LOAN AGREEMENT

EX-23.1: CONSENT OF PRICEWATERHOUSECOOPERS LLP

EX-31.1: CERTIFICATION

EX-31.2: CERTIFICATION

EX-32.1: CERTIFICATION

EX-32.2: CERTIFICATION

**Table of Contents**

**Cautionary Note Regarding Forward-Looking Statements**

This annual report 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 annual report, the words may, will, could, should, expects, plans, anticipates, believes, estimates, projects, potential, or contemplate or the negative of these terms or other 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 contained in Part II, Item 7, Risk Factors contained in Part I, Item IA, and Notes to Financial Statements contained in Part II, Item 8 of this annual report, 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 annual report 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 annual 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);

financial market conditions and the results of financing efforts;

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;

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;

the impact of recent and future federal, state and local 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;

**Table of Contents**

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; and

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.



**Table of Contents**

**PART I**

**ITEM 1. BUSINESS**

**Certain Definitions**

Unless the context otherwise requires, all references in this annual 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 8 1/4% 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. OPC Tax Monetization Transaction refers to a financing transaction involving four of our Nevada power plants in which institutional equity investors purchased an interest in our special purpose subsidiary that owns such plants, with a view to obtaining certain tax benefits.

**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 and recovered energy-based power plants, usually using equipment that we design and manufacture. Our geothermal power plants include both power plants that we have built and power plants that we have acquired, while all of our recovered energy-based plants have been constructed by us. We conduct our business activities in two business segments, which we refer to as our Electricity Segment and Products Segment. In our Electricity Segment, we develop, build, own and operate geothermal and recovered energy-based power plants in the United States and geothermal power plants in other countries around the world and sell the electricity they generate. In our Products Segment, we design, manufacture and sell equipment for geothermal and recovered energy-based electricity generation, remote power units and other power generating units and provide services relating to the engineering, procurement, construction, operation and maintenance of geothermal and recovered energy power plants. Both our Electricity Segment and Products Segment operations are conducted in the United States and throughout the world. Our current generating portfolio includes geothermal plants in the United States, Guatemala, Kenya, Nicaragua and New Zealand, as well as recovered energy generation (REG) plants in the United States.

The charts below show the relative contributions of the Electricity Segment and the Products Segment to our consolidated revenues and the geographical breakdown of our segment revenues for our fiscal year ended December 31, 2008. Additional information concerning our segment operations, including year-to-year comparisons of revenues, the geographical breakdown of revenues, cost of revenues, results of operations, and trends and uncertainties is provided below in Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations and Item 8 Financial Statements and Supplementary Data .

**Table of Contents**

The following chart sets forth a breakdown of revenues for the year ended December 31, 2008:

The following chart sets forth the geographical breakdown of the revenues attributable to our Electricity Segment for the year ended December 31, 2008:

**Table of Contents**

The following chart sets forth the geographical breakdown of the revenues attributable to our Products Segment for the year ended December 31, 2008:

Most of the projects that we currently own or operate produce electricity from geothermal energy sources. Geothermal energy is a clean, renewable and generally sustainable form of energy derived from the natural heat of the earth. Unlike electricity produced by burning fossil fuels, electricity produced from geothermal energy sources is produced without emissions of certain pollutants such as nitrogen oxide, and with far lower emissions of other pollutants such as carbon dioxide. Therefore, electricity produced from geothermal energy sources contributes significantly less to local and regional incidences of acid rain and global warming than energy produced by burning fossil fuels. Geothermal energy is also an attractive alternative to other sources of energy as part of a national diversification strategy to avoid dependence on any one energy source or politically sensitive supply sources.

In addition to our geothermal energy business, we manufacture products that produce electricity from recovered energy or so-called "waste heat". We also construct, own, and operate recovered energy projects. Recovered energy represents residual heat that is generated as a by-product of gas turbine-driven compressor stations and a variety of industrial processes, such as cement manufacturing. Such residual heat, that would otherwise be wasted, may be captured in the recovery process and used by recovered energy power plants to generate electricity without burning additional fuel and without additional emissions.

**Company Contact and Sources of Information**

We file annual, quarterly and periodic reports, proxy statements and other information with the Securities and Exchange Commission, which we refer to as the SEC. You may obtain and copy any document we file with the SEC at the SEC's Public Reference Room at 100 F Street, N.E., Room 1580, Washington D.C. 20549. You may obtain information on the operation of the SEC's Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains an internet website at <http://www.sec.gov> that contains reports, proxy and other information statements, and other information regarding issuers that file electronically with the SEC. Our SEC filings are accessible via the Internet at that website.

On May 14, 2008, we submitted to the New York Stock Exchange (NYSE) an Annual Written Affirmation, in the prescribed form and with no qualifications, regarding our compliance with the NYSE's Corporate Governance listing standards. In addition, our reports on Form 10-K, 10-Q and 8-K, and amendments to those reports are available at our website [www.ormat.com](http://www.ormat.com) for downloading, free of charge, as

**Table of Contents**

soon as reasonably practicable after these reports are filed with the SEC. Our Code of Business Conduct and Ethics, Code of Ethics Applicable to Senior Executives, Audit Committee Charter, Corporate Governance Guidelines, Nominating and Corporate Governance Committee Charter, Compensation Committee Charter, and Insider Trading Policy, as amended, are also available at our website address mentioned above. The content of our website, however, is not part of this annual report.

You may request a copy of our SEC filings, as well as the foregoing corporate documents, at no cost to you, by writing to the Company address appearing in this annual report or by calling us at (775) 356-9029.

**Our Power Generation Business**

We own or control, and operate geothermal and recovered energy projects in the United States. We also own or control, and operate geothermal projects in Guatemala, Kenya, Nicaragua and New Zealand. We continue to pursue opportunities to acquire and develop similar projects throughout the world. Most of our projects are located in regions where there is, or is expected to be, demand for additional generating capacity. During the year ended December 31, 2008, we substantially completed the construction of power plants that added an additional capacity of approximately 109 megawatts (MW). This increase in our owned generating capacity is primarily attributable to the following:

The 10 MW Heber South plant at the Heber Complex in California, which commenced operation in April 2008.

The 8 MW GDL project in New Zealand, which commenced commercial operation in September 2008.

An increase of 35 MW, attributable to Phase II of Olkaria III in Kenya. The construction and testing was substantially completed in December 2008 and the project commenced commercial operation in January 2009.

A 5.5 MW recovered energy generation unit at the OREG 2 project in North Dakota, which commenced commercial operation in December 2008.

The 50 MW North Brawley project in California. The construction was substantially completed in December 2008 and we expect to reach commercial operation and sale of power in commercial quantities in the second quarter of 2009.

Offset by:

A 2 MW decrease in the Momotombo project as a result of a decline in the geothermal reservoir.

A 1 MW decrease in the Brady project as a result of decline in the geothermal reservoir.

**Table of Contents****Projects in Operation**

The table below summarizes certain key non-financial information relating to our projects that are in operation and, in the case of North Brawley, start-up phase, as of December 31, 2008:

<b>Project</b>	<b>Location</b>	<b>Ownership<sup>(1)</sup></b>	<b>Ormat Share in Generating Capacity (in MW)<sup>(2)</sup></b>	<b>Power Purchaser</b>	<b>Contracts Expiration</b>
<b>Domestic</b>					
Ormesa Complex	East Mesa, California	100%	57	Southern California Edison Company	2018
Heber Complex <sup>(3)</sup>	Heber, California	100%		Southern California Edison Company and Southern California Power Public Authority	2015/2023/2031
Steamboat Complex <sup>(5)</sup>	Steamboat, Nevada	100%	92 <sup>(4)</sup>	NV Energy, Inc.	2018/2022/2026/2028
Mammoth Complex	Mammoth Lakes, California	50%	84	Southern California Edison Company	2014/2020
Puna	Puna, Hawaii	100%	14.5	Hawaii Electric Light Company	2027
Brady Complex	Churchill County, Nevada	100%	30	NV Energy, Inc.	2022/2027
North Brawley <sup>(6)</sup>	Imperial County, California	100%	22	Southern California Edison Company	2029
OREG 1	North and South Dakota	100%	50	Basin Electric Power Cooperative	2031
OREG 2	North Dakota	100%	22	Basin Electric Power Cooperative	2033
			5.5 <sup>(7)</sup>		
<b>Total For Domestic Projects under Ownership</b>			<b>377</b>		
<b>Foreign</b>					
Momotombo	Nicaragua	100%	28	DISNORTE/DISSUR	2014
Zunil	Guatemala	100%	24	Instituto Nacional de Electricidad	2019
Olkaria III Complex <sup>(8)</sup>	Kenya	100%	48	Kenya Power and Lighting Co. Ltd.	2029

Amatitlan	Guatemala	100%		Instituto Nacional De	2026
			20	(9) Electricidad	
GDL	New Zealand	100%		Norske Skog Tasman	2015
			8	Ltd.	
<b>Total For Foreign Projects under Ownership</b>			128		
<b>Total For Projects under Ownership:</b>			505		

- (1) We own and operate all but three of our projects. Those exceptions are: the Momotombo project in Nicaragua, which we do not own but which we control and operate through a concession arrangement with the Nicaraguan government; the GDL project in New Zealand, which we own but is operated by a third party under an operating and maintenance (O&M) agreement; and the Mammoth project, in which we have a 50% ownership interest. Two financial institutions hold equity interests in one of our subsidiaries that owns the Desert Peak 2, Steamboat Hills, Galena 2 and Galena 3 projects. In this chart, we show these projects as being 100% owned because all of the generating capacity is owned by our consolidated subsidiaries and we control the operation of the projects. The

**Table of Contents**

nature of the equity interests held by the financial institutions is described in Item 7 under the heading OPC Tax Monetization Transaction .

- (2) References to generating capacity refers to the gross capacity less auxiliary power, in the case of all of our existing domestic projects and the Momotombo, Amatitlan, Olkaria III and GDL projects (four of our foreign projects), and to the generating capacity that is subject to the take or pay power purchase agreements in the case of the Zunil project (one of our foreign projects). We determine the generating capacity figures in any given year from available historical operational data of our operating projects taking into account resource capabilities. This column represents our net ownership in such generating capacity.

In any given year, the actual power generation of a particular project may differ from that project's generating capacity due to variations in ambient temperature and operational issues affecting performance during that year. In 2008, the total actual power generation of the projects we operate in the U.S. was approximately 234,000 MWh lower than the energy potential commensurate with our generating capacity due to operational factors discussed elsewhere in this annual report.

- (3) The Heber complex includes the Heber 1 and 2 projects and the Heber South project.
- (4) Subject to drilling of an additional well for the Heber South project.
- (5) The Steamboat complex includes the Steamboat 1A project, the Steamboat 2 and 3 projects, the Burdette project, the Steamboat Hills project, the Galena 2 project, and the Galena 3 project.
- (6) We substantially completed the construction of the North Brawley project in December 2008 and expect to reach commercial operation and sale of power in commercial quantities during the second quarter of 2009. Until then the plant is expected to run at partial load.
- (7) One out of four units of the OREG 2 project reached commercial operation in December 2008 and an additional unit came on line in January 2009. The remaining two units of the project are expected to come on line by the end of 2009.
- (8) The Olkaria Complex includes 13 MW Phase I and the 35 MW Phase II, which reached commercial operation in January 2009.
- (9) Currently the project operates at 17 MW and we are in the process of drilling another well.

**Projects under Construction**

The table below summarizes certain key non-financial information relating to projects that were under construction as of December 31, 2008:

<b>Project</b>	<b>Location</b>	<b>Ownership</b>	<b>Projected Commercial Operation Date</b>	<b>Ormat Share in Projected Generating Capacity (in MW)</b>	<b>Power Purchaser</b>	<b>Contract Expiration</b>
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OREG II	North Dakota, Montana and Minnesota	100%	2009 <sup>(1)</sup>	16.5	Basin Electric Power Cooperative	25 years from January 1st, following commissioning of the project
Peetz	Denver, Colorado	100%	Early 2009	4	Highline Electric Association	20 years following commercial operation date <sup>(2)</sup>
Puna	Puna, Hawaii	100%	End 2009	8	Hawaii Electric Light Company <sup>(3)</sup>	N/A
GRE <sup>(4)</sup>	Minnesota	100%	End 2009	5.3	Great River Energy	20 years following commercial operation date
East Brawley	Imperial County, California	100%	2010	30	Southern California Power Public Authority <sup>(5)</sup>	N/A
Jersey Valley	Nevada	100%	2010/2011	18-30	NV Energy, Inc.	20 years following commercial operation date
<b>Total</b>				<b>82-94</b>		

(1) One unit out of the four units of the OREG 2 project reached commercial operation in December, 2008 and an additional unit came on line in January, 2009. The remaining two units of the project are expected to come on line by the end of 2009.

(2) The power purchase agreement for the Peetz project will expire the earlier of 20 years from the commercial operation date or the end of 2029.

(3) The power purchase agreement is currently under negotiation with Hawaii Electric Light Company.

(4) The GRE project is a recovered energy generation power plant.

(5) The power purchase agreement is currently under negotiation with Southern California Power Public Authority.



**Table of Contents****Projects under Development**

The table below summarizes certain key non-financial information relating to projects that are under development, which, if implemented, will come on line after 2009:

<b>Project</b>	<b>Location</b>	<b>Ownership</b>	<b>Ormat Share in Projected Generating Capacity (in MW)</b>	<b>Power Purchaser</b>	<b>Contract Expiration</b>
Carson Lake <sup>(1)</sup>	Nevada	100%	18-30	NV Energy, Inc.	20 years following commercial operation date
Mammoth	Mammoth Lakes, California	50%	10-15	Southern California <sup>(2)</sup> Edison Company	NA
Imperial Valley	Imperial County, California	100%	50	Southern California Edison Company	20 years following commercial operation date
Sarulla	Indonesia	12.75%	43	PT Perusahaan Listrik Negara	NA <sup>(3)</sup>
McGinness Hills	Nevada	100%	30	NA	NA
<b>Total</b>			<b>151-168</b>		

<sup>(1)</sup> The recent exploration results show that the deep resource cannot support a commercial project. We are currently evaluating the shallow resource at this location.

<sup>(2)</sup> We are currently negotiating a power purchase agreement with Southern California Edison Company.

<sup>(3)</sup> The contract will expire 360 months after completion of the last stage of the project, and in all cases, 504 months after the effective date of the contract, which is subject to financing closing.

In addition to the projects listed above, we have other projects in early development.

Substantially all of the revenues that we currently derive from the sale of electricity are pursuant to long-term power purchase agreements. Approximately 74.0% of our total revenues in the year ended December 31, 2008 from the sale of electricity by our domestic projects were derived from power purchasers that currently have investment grade credit ratings. The purchasers of electricity from our foreign projects are either state-owned or private entities. We have obtained political risk insurance from the Multilateral Investment Guarantee Agency of the World Bank Group (MIGA) or from Zurich Re, a private sector political risk insurer, for all of our foreign projects (with the exception of

a portion of the Zunil project for which we are currently negotiating insurance coverage) in order to cover a portion of any loss that we may suffer upon the occurrence of certain political events covered by such insurance.

*Development, Construction and Acquisition.* We have experienced significant growth in recent years, principally through development and construction of new power plants and the expansion and enhancement of our existing projects. We currently expect to continue growing our power generation business through:

the development and construction of new geothermal and recovered energy-based power plants;

acquiring geothermal leases for future development and exploration;

entering into new host agreements for development of recovered energy generation projects;