ORMAT TECHNOLOGIES, INC.
Form 10-Q
November 04, 2010

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

þ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended September 30, 2010

or

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

Commission file number: 001-32347

ORMAT TECHNOLOGIES, INC.
(Exact name of registrant as specified in its charter)

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

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

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

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes þ No o

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

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

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

ORMAT TECHNOLOGIES, INC

FORM 10-Q
FOR THE QUARTER ENDED SEPTEMBER 30, 2010

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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.

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PART I UNAUDITED FINANCIAL INFORMATION

ITEM 1. *CONDENSED CONSOLIDATED FINANCIAL STATEMENTS*

ORMAT TECHNOLOGIES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

	September 30, 2010	December 31, 2009
	(In thousands)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 49,240	$ 46,307
Restricted cash, cash equivalents and marketable securities (all related to VIEs)	64,332	40,955
Receivables:		
Trade	59,223	53,423
Related entity	274	441
Other	10,395	7,884
Due from Parent	182	422
Inventories	14,615	15,486
Costs and estimated earnings in excess of billings on uncompleted contracts	771	14,640
Deferred income taxes	3,410	3,617
Prepaid expenses and other	16,329	12,080
Total current assets	218,771	195,255
Long-term marketable securities	1,289	652
Restricted cash, cash equivalents and marketable securities (all related to VIEs)	1,740	2,512
Unconsolidated investments	2,040	35,188
Deposits and other	20,862	18,653
Deferred charges	30,064	22,532
Property, plant and equipment, net ($1,242,923 related to VIEs at September 30, 2010)	1,289,137	998,693
Construction-in-process ($219,622 related to VIEs at September 30, 2010)	341,507	518,595
Deferred financing and lease costs, net	19,093	20,940
Intangible assets, net	40,206	41,981
Total assets	$ 1,964,709	$ 1,855,001
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	$ 86,414	$ 73,993
Billings in excess of costs and estimated earnings on uncompleted contracts	4,771	3,351

Current portion of long-term debt:		
Limited and non-recourse (all related to VIEs at September 30, 2010)	14,918	19,191
Full recourse	13,010	12,823
Senior secured notes (non-recourse) (all related to VIEs at September 30, 2010)	20,583	20,227
Due to Parent, including current portion of notes payable to Parent		10,018
Total current liabilities	139,696	139,603
Long-term debt, net of current portion:		
Limited and non-recourse (all related to VIEs at September 30, 2010)	120,690	129,152
Full recourse:		
Senior unsecured bonds	142,003	
Other	69,166	77,177
Revolving credit lines with banks	116,464	134,000
Senior secured notes (non-recourse) (all related to VIEs at September 30, 2010)	224,005	231,872
Liability associated with sale of tax benefits	70,965	73,246
Deferred lease income	71,673	72,867
Deferred income taxes	24,969	44,530
Liability for unrecognized tax benefits	5,648	4,931
Liabilities for severance pay	19,840	18,332
Asset retirement obligation	18,508	14,238
Other long-term liabilities	2,267	3,358
Total liabilities	1,025,894	943,306
Commitments and contingencies		
Equity:		
The Company s stockholders equity:		
Common stock, par value $0.001 per share; 200,000,000 shares authorized; 45,430,886 shares issued and outstanding	46	46
Additional paid-in capital	713,991	709,354
Retained earnings	219,122	196,950
Accumulated other comprehensive income	1,101	622
	934,260	906,972
Noncontrolling interest	4,555	4,723
Total equity	938,815	911,695
Total liabilities and equity	$ 1,964,709	$ 1,855,001

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 AND COMPREHENSIVE INCOME
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009 (As Revised)	2010	2009 (As Revised)
	(In thousands, except per share data)		(In thousands, except per share data)	
Revenues:				
Electricity	$ 83,357	$ 67,913	$ 218,269	$ 189,799
Product	18,120	51,113	62,128	128,037
Total revenues	101,477	119,026	280,397	317,836
Cost of revenues:				
Electricity	61,530	44,085	179,551	132,489
Product	14,764	35,780	41,316	87,265
Total cost of revenues	76,294	79,865	220,867	219,754
Gross margin	25,183	39,161	59,530	98,082
Operating expenses:				
Research and development expenses	1,252	3,863	8,133	7,151
Selling and marketing expenses	3,333	3,393	9,221	10,909
General and administrative expenses	5,780	6,437	19,796	19,554
Write-off of unsuccessful exploration activities		2,367	3,050	2,367
Operating income	14,818	23,101	19,330	58,101
Other income (expense):				
Interest income	140	157	432	585
Interest expense, net	(10,961)	(4,358)	(30,101)	(12,063)
Foreign currency translation and transaction gains (losses)	1,074	25	475	(1,324)
Income attributable to sale of tax benefits	2,183	3,869	6,392	12,403
Gain on acquisition of controlling interest	36,928		36,928	
Other non-operating income (expense), net	233	246	(47)	646
Income from continuing operations, before income taxes and equity in income (losses) of investees	44,415	23,040	33,409	58,348
Income tax provision	(11,931)	(2,935)	(6,009)	(10,232)
Equity in income (losses) of investees, net	(83)	591	942	1,496

Income from continuing operations		32,401		20,696		28,342		49,612
Discontinued operations:								
Income from discontinued operations, net of related tax of $0, $536, $6 and $1,206, respectively				1,251		14		2,815
Gain on sale of a subsidiary in New Zealand net of tax of $2,000						4,336		
Net income		32,401		21,947		32,692		52,427
Net loss attributable to noncontrolling interest		58		80		168		236
Net income attributable to the Company s stockholders	$	32,459	$	22,027	$	32,860	$	52,663
Comprehensive income:								
Net income	$	32,401	$	21,947	$	32,692	$	52,427
Other comprehensive income (loss), net of related taxes:								
Currency translation adjustment				412		43		783
Amortization of unrealized gains in respect of derivative instruments designated for cash flow hedge		(61)		(65)		(177)		(195)
Change in unrealized gains or losses on marketable securities available-for-sale				5		(80)		265
Comprehensive income		32,340		22,299		32,478		53,280
Comprehensive loss attributable to noncontrolling interest		58		80		168		236
Comprehensive income attributable to the Company s stockholders	$	32,398	$	22,379	$	32,646	$	53,516
Earnings per share attributable to the Company s stockholders basic and diluted:								
Income from continuing operations	$	0.71	$	0.45	$	0.62	$	1.10
Income from discontinued operations				0.03		0.10		0.06
Net income	$	0.71	$	0.48	$	0.72	$	1.16
Weighted average number of shares used in computation of earnings per share attributable to the Company s stockholders:								
Basic		45,431		45,413		45,431		45,379
Diluted		45,450		45,564		45,452		45,477
Dividend per share declared	$	0.05	$	0.06	$	0.22	$	0.19

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 EQUITY
(Unaudited)

	The Company s Stockholders Equity							
	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total	Noncontrolling Interest	Total Equity
	(In thousands, except per share data)							
Balance at December 31, 2008	45,353	$ 45	$ 701,273	$ 138,241	$ 645	$ 840,204	$ 7,031	$ 847,235
Stock-based compensation			4,253			4,253		4,253
Cumulative effect of adopting the other-than-temporary impairment standard as of April 1, 2009 (net of related tax of $650)				1,205	(1,205)			
Cash dividend declared, $0.19 per share				(8,622)		(8,622)		(8,622)
Exercise of options by employees	70	1	1,090			1,091		1,091
Net income (loss) (as revised)				52,663		52,663	(236)	52,427
Other comprehensive income (loss), net of related taxes:								
Currency translation adjustment					783	783		783
Amortization of unrealized gains in respect of derivative instruments designated for cash flow hedge (net of related tax of $120)					(195)	(195)		(195)
Change in unrealized gains or losses on marketable securities available-for-sale (net of related tax of $146)					265	265		265
Balance at September 30, 2009 (as revised)	45,423	$ 46	$ 706,616	$ 183,487	$ 293	$ 890,442	$ 6,795	$ 897,237
Balance at December 31, 2009	45,431	46	709,354	196,950	622	906,972	4,723	911,695

Stock-based compensation			4,637			4,637		4,637
Cumulative effect of adopting the guidance on evaluation of credit derivatives embedded in beneficial interests in securitized financial assets as of July 1, 2010 (net of related tax of $370)				(693)	693			
Cash dividend declared, $0.22 per share				(9,995)		(9,995)		(9,995)
Net income (loss)				32,860		32,860	(168)	32,692
Other comprehensive income (loss), net of related taxes:								
Currency translation adjustment					43	43		43
Amortization of unrealized gains in respect of derivative instruments designated for cash flow hedge (net of related tax of $108)					(177)	(177)		(177)
Change in unrealized gains or losses on marketable securities available-for-sale (net of related tax of $43)					(80)	(80)		(80)
Balance at September 30, 2010	45,431	$ 46	$ 713,991	$ 219,122	$ 1,101	$ 934,260	$ 4,555	$ 938,815

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)

	Nine Months Ended September 30, 2010	2009 (As Revised)
	(In thousands)	
Cash flows from operating activities:		
Net income	$ 32,692	$ 52,427
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	64,461	48,794
Accretion of asset retirement obligation	888	788
Stock-based compensation	4,637	4,253
Amortization of deferred lease income	(2,014)	(2,014)
Income attributable to sale of tax benefits, net of interest expense	(2,281)	(6,686)
Equity in income of investees	(942)	(1,496)
Loss on disposal of property, plant and equipment	571	
Write-off of unsuccessful exploration activities	3,050	2,367
Return on investment in unconsolidated investments	3,734	
Loss on severance pay fund asset	(1,099)	(1,205)
Gain on sale of a subsidiary	(6,350)	
Gain on acquisition of controlling interest	(36,928)	
Deferred income tax provision	5,717	9,213
Liability for unrecognized tax benefits	717	1,001
Deferred lease revenues	820	841
Other		(70)
Changes in operating assets and liabilities net of amounts acquired:		
Receivables	(5,691)	(10,107)
Costs and estimated earnings in excess of billings on uncompleted contracts	13,869	(16,973)
Inventories	871	(469)
Prepaid expenses and other	(3,995)	5,943
Deposits and other	(253)	(15)
Accounts payable and accrued expenses	5,571	355
Due from/to related entities, net	(60)	(140)
Billings in excess of costs and estimated earnings on uncompleted contracts	1,420	(10,176)
Liabilities for severance pay	1,508	821
Other long-term liabilities	(1,091)	
Due from/to Parent	(178)	244
Net cash provided by operating activities	79,644	77,696
Cash flows from investing activities:		
Return of investment in unconsolidated investments	3,516	
Marketable securities, net		200

Net change in restricted cash, cash equivalents and marketable securities	(23,352)	(36,219)
Cash received from sale of a subsidiary	19,594	
Capital expenditures	(194,926)	(212,282)
Cash grant received from the U.S. Treasury under Section 1603 of the ARRA	108,286	
Investment in unconsolidated company	(511)	
Cash paid for acquisition of controlling interest in a subsidiary, net of cash acquired	(64,517)	
Intangible assets acquired	(875)	
Increase in severance pay fund asset, net of payments made to retired employees	(235)	(642)
Repayment from unconsolidated investment		62
Net cash used in investing activities	(153,020)	(248,881)
Cash flows from financing activities:		
Proceeds from issuance of senior unsecured bonds	142,003	
Proceeds from long-term loans		187,000
Proceeds from exercise of options by employees		1,091
Proceeds from revolving credit lines with banks	518,064	879,000
Repayment of revolving credit lines with banks	(535,600)	(867,000)
Repayments of long-term debt		
Parent	(9,600)	(16,600)
Other	(28,070)	(13,049)
Deferred debt issuance costs	(493)	(4,901)
Cash dividends paid	(9,995)	(8,622)
Net cash provided by financing activities	76,309	156,919
Effect of exchange rate changes on cash and cash equivalents		216
Net change in cash and cash equivalents	2,933	(14,050)
Cash and cash equivalents at beginning of period	46,307	34,393
Cash and cash equivalents at end of period	$ 49,240	$ 20,343
Supplemental non-cash investing and financing activities:		
Increase (decrease) in accounts payable related to purchases of property, plant and equipment	$ 6,153	$ (26,417)

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 GENERAL AND BASIS OF PRESENTATION

These unaudited condensed consolidated financial statements of Ormat Technologies, Inc. and its subsidiaries (the Company) have been prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) and pursuant to the rules and regulations of the Securities and Exchange Commission (SEC) for interim financial statements. Accordingly, they do not contain all information and notes required by U.S. GAAP for annual financial statements. In the opinion of management, the unaudited condensed consolidated interim financial statements reflect all adjustments, which include normal recurring adjustments, necessary for a fair statement of the Company s consolidated financial position as of September 30, 2010, the consolidated results of operations and comprehensive income for the three and nine-month periods ended September 30, 2010 and 2009, and the consolidated cash flows for the nine-month periods ended September 30, 2010 and 2009.

The financial data and other information disclosed in the notes to the condensed consolidated financial statements related to these periods are unaudited. The results for the three and nine-month periods ended September 30, 2010 are not necessarily indicative of the results to be expected for the year ending December 31, 2010.

These condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company s annual report on Form 10-K for the year ended December 31, 2009. The condensed consolidated balance sheet data as of December 31, 2009 was derived from the audited consolidated financial statements for the year ended December 31, 2009, but does not include all disclosures required by U.S. GAAP.

Cash grant

On August 27, 2010, the Company was awarded a cash grant from the U.S. Department of Treasury (Treasury) for Specified Energy Property in Lieu of Tax Credits under Section 1603 of the American Recovery and Reinvestment Act of 2009 (ARRA) in the amount of $108.3 million relating to its North Brawley geothermal power plant. The plant s estimated useful life is 30 years. The Company has recorded the cash grant as a reduction in the carrying value of the plant and is amortizing the grant as a reduction in depreciation expense over the plant s estimated useful life. During the three and nine-month periods ended September 30, 2010, amortization of the cash grant reduced depreciation expense by $0.5 million.

For federal income tax purposes, the tax basis of the plant is only reduced by 50 percent of the cash grant. To account for the tax effect of the difference between the tax and book basis of the plant, the Company has recorded a deferred tax asset of $33.2 million with a corresponding decrease in the carrying value of the plant. This reduction in the carrying value of the plant will be amortized as a reduction in depreciation expense over the plant s estimated useful life. During the three and nine-month periods ended September 30, 2010, amortization of this basis difference reduced depreciation expense by $0.1 million.

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

Certain comparative figures have been reclassified to conform to the current period presentation (see Note 10).

Revision of the financial statements for the three and nine-month periods ended September 30, 2009

Through the third quarter of 2009, the Company accounted for exploration and development costs using an accounting method that is analogous to the full cost method used in the oil and gas industry. Under that method, the Company capitalized costs incurred in connection with the exploration and development of

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ORMAT TECHNOLOGIES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)

geothermal resources on an area-of-interest basis. Each area of interest included a number of potential projects in the state of Nevada that were planned to be operated together with the same operation and maintenance team. Impairment tests were performed on an area-of-interest basis rather than at a single site. Under this methodology, costs associated with projects that the Company determined were not economically feasible remained capitalized as long as the area-of-interest was not subject to impairment.

Following a periodic review performed by the SEC Staff, the Company concluded that this accounting treatment was inappropriate in certain respects and the Company restated the consolidated financial statements for the year ended December 31, 2008 to write-off capitalized costs for projects the Company determined were not economically feasible in the period such determination was made. The Company also revised its financial statements for the three and nine-month periods ended September 30, 2009 to give effect to a write-off of costs associated with a project which the Company determined in the third quarter of 2009 would not support commercial operations. The effect of the revision on the results of operations in those periods is as follows:

	Three Months Ended September 30, 2009		
	*As Originally Reported	Adjustment	As Revised
	(Dollars in thousands)		
Write-off of unsuccessful exploration activities	$	$ (2,367)	$ (2,367)
Operating income	25,468	(2,367)	23,101
Other income (expense):			
Interest income	157		157
Interest expense, net	(4,358)		(4,358)
Foreign currency translation and transaction gains	25		25
Income attributable to sale of tax benefits	3,869		3,869
Other non-operating income, net	246		246
Income from continuing operations, before income taxes and equity in income of investees	25,407	(2,367)	23,040
Income tax provision	(3,803)	868	(2,935)
Equity in income of investees, net	591		591
Income from continuing operations	22,195	(1,499)	20,696
Income from discontinued operations, net of tax	1,251		1,251
Net income	23,446	(1,499)	21,947
Net loss attributable to noncontrolling interest	80		80
Net income attributable to the Company s stockholders	$ 23,526	$ (1,499)	$ 22,027

Comprehensive income:						
Net income	$	23,446	$	(1,499)	$	21,947
Other comprehensive income (loss), net of related taxes:						
Currency translation adjustment		412				412
Amortization of unrealized gains in respect of derivative instruments designated for cash flow hedge		(65)				(65)
Change in unrealized gains or losses on marketable securities available-for-sale		5				5
		23,798		(1,499)		22,299
Comprehensive loss attributable to noncontrolling interest		80				80
Comprehensive income attributable to the Company s stockholders	$	23,878	$	(1,499)	$	22,379
Earnings per share attributable to the Company s stockholders basic and diluted:						
Income from continuing operations	$	0.49	$	(0.04)	$	0.45
Income from discontinued operations		0.03				0.03
Net income	$	0.52	$	(0.04)	$	0.48

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ORMAT TECHNOLOGIES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)

	Nine Months Ended September 30, 2009		
	*As Originally Reported	Adjustment	As Revised
	(Dollars in thousands)		
Write-off of unsuccessful exploration activities	$	$ (2,367)	$ (2,367)
Operating income	60,468	(2,367)	58,101
Other income (expense):			
Interest income	585		585
Interest expense, net	(12,063)		(12,063)
Foreign currency translation and transaction gains	(1,324)		(1,324)
Income attributable to sale of tax benefits	12,403		12,403
Other non-operating income, net	646		646
Income from continuing operations, before income taxes and equity in income of investees	60,715	(2,367)	58,348
Income tax provision	(11,100)	868	(10,232)
Equity in income of investees, net	1,496		1,496
Income from continuing operations	51,111	(1,499)	49,612
Income from discontinued operations, net of tax	2,815		2,815
Net income	53,926	(1,499)	52,427
Net loss attributable to noncontrolling interest	236		236
Net income attributable to the Company s stockholders	$ 54,162	$ (1,499)	$ 52,663
Comprehensive income:			
Net income	$ 53,926	$ (1,499)	$ 52,427
Other comprehensive income (loss), net of related taxes:			
Currency translation adjustment	783		783
Amortization of unrealized gains in respect of derivative instruments designated for cash flow hedge	(195)		(195)
Change in unrealized gains or losses on marketable securities available-for-sale	265		265
	54,779	(1,499)	53,280
Comprehensive loss attributable to noncontrolling interest	236		236
Comprehensive income attributable to the Company s stockholders	$ 55,015	$ (1,499)	$ 53,516

Earnings per share attributable to the Company s stockholders basic and diluted:				
Income from continuing operations	$	1.14	$ (0.04)	$ 1.10
Income from discontinued operations		0.06		0.06
Net income	$	1.20	$ (0.04)	$ 1.16

* In January 2010, the Company sold its interest in its New Zeland subsidiary, Geothermal Development Limited (GDL). As a result of such sale, the operations of GDL have been included in discontinued operations in the three and nine-month periods ended September 30, 2010.

Concentration of credit risk

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

The Company places its temporary cash investments with high credit quality financial institutions located in the United States (U.S.) and in foreign countries. At September 30, 2010 and December 31, 2009, the Company had deposits totaling $35,534,000 and $24,561,000, respectively, in seven U.S. financial institutions that were federally insured up to $250,000 per account. At September 30, 2010 and December 31, 2009, the Company s deposits in foreign countries amounted to approximately $31,546,000 and $35,095,000, respectively.

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ORMAT TECHNOLOGIES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)

At September 30, 2010 and December 31, 2009, accounts receivable related to operations in foreign countries amounted to approximately $24,448,000 and $30,761,000, respectively. At September 30, 2010 and December 31, 2009, accounts receivable from the Company s major customers that have generated 10% or more of its revenues amounted to approximately 50% and 61% of the Company s accounts receivable, respectively.

Southern California Edison Company (SCE) accounted for 36.9% and 24.5% of the Company s total revenues for the three months ended September 30, 2010 and 2009, respectively, and 29.6% and 21.4% of the Company s total revenues for the nine months ended September 30, 2010 and 2009, respectively. SCE is also the power purchaser and revenue source for the Mammoth complex, which was accounted for under the equity method through August 1, 2010. Following the Company s acquisition of the remaining 50% interest in the Mammoth complex, as described in Note 3, the Company has included the results of the Mammoth complex in its consolidated financial statements.

Sierra Pacific Power Company and Nevada Power Company (subsidiaries of NV Energy, Inc.) accounted for 12.1% and 10.3% of the Company s total revenues for the three months ended September 30, 2010 and 2009, respectively, and 14.8% and 12.0% of the Company s total revenues for the nine months ended September 30, 2010 and 2009, respectively.

Hawaii Electric Light Company accounted for 9.5% and 3.8% of the Company s total revenues for the three months ended September 30, 2010 and 2009, respectively, and 8.3% and 6.1% of the Company s total revenues or the nine months ended September 30, 2010 and 2009, respectively.

Kenya Power and Lighting Co. Ltd. accounted for 8.7% and 7.5% of the Company s total revenues for the three months ended September 30, 2010 and 2009, respectively, and 9.4% and 8.2% of the Company s total revenues for the nine months ended September 30, 2010 and 2009, respectively.

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

NOTE 2 NEW ACCOUNTING PRONOUNCEMENTS

New accounting pronouncements effective in the nine-month period ended September 30, 2010

Accounting for Transfers of Financial Assets

In June 2009, the Financial Accounting Standards Board (FASB) issued an amendment to the accounting and disclosure requirements for transfers of financial assets. This amendment requires greater transparency and additional disclosures for transfers of financial assets and the entity s continuing involvement with them and changes the requirements for derecognizing financial assets. In addition, this amendment eliminates the concept of a qualifying special-purpose entity (QSPE). The adoption by the Company of this amendment on January 1, 2010 did not have any effect on the Company s financial position, results of operations, or liquidity.

Consolidation Guidance for Variable Interest Entities

In June 2009, the FASB issued an amendment to the accounting and disclosure requirements for the consolidation of variable interest entities (VIEs). The elimination of the concept of a QSPE removes the exception from applying the consolidation guidance within this amendment. This amendment requires a company to perform a qualitative analysis when determining whether or not it must consolidate a VIE. The amendment also requires a company to continuously reassess whether it must consolidate a VIE. Additionally, the amendment requires enhanced disclosures about a company s involvement with VIEs and any significant

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change in risk exposure due to that involvement, as well as how its involvement with VIEs impacts the company s financial statements. Finally, a company is required to disclose significant judgments and assumptions used to determine whether or not to consolidate a VIE. The Company adopted this amendment on January 1, 2010. The impact of the adoption of this amendment on the Company s condensed consolidated financial statements is disclosed in Note 6.

Updated Disclosure for Fair Value Measurements

In January 2010, the FASB updated the fair value measurements disclosures. This update will require an entity to disclose separately the amounts of significant transfers in and out of Levels 1 and 2 fair value measurements and to describe the reasons for the transfers. In addition, information about purchases, sales, issuances and settlements are required to be presented separately (i.e., present the activity on a gross basis rather than net) in the reconciliation for fair value measurements using significant unobservable inputs (Level 3 inputs). This update clarifies existing disclosure requirements for the level of disaggregation used for classes of assets and liabilities measured at fair value, and requires disclosures about the valuation techniques and inputs used to measure fair value for both recurring and nonrecurring fair value measurements using Level 2 and Level 3 inputs. This update became effective as of the first interim or annual reporting period beginning after December 15, 2009 (January 1, 2010 for the Company), except for the gross presentation of the Level 3 roll forward information, which is required for annual reporting periods beginning after December 15, 2010 (January 1, 2011 for the Company) and for interim reporting periods within those years. The adoption by the Company of the new guidance on January 1, 2010 did not have a material impact on the Company s consolidated financial statements (see Note 7).

Scope Exception Related to Embedded Credit Derivatives

In March 2010, the FASB issued an accounting standards update that amends and clarifies the guidance on how entities should evaluate credit derivatives embedded in beneficial interests in securitized financial assets. The updated guidance eliminates the scope exception for bifurcation of embedded credit derivatives in interests in securitized financial assets unless they are created solely by subordination of one beneficial interest to another. The guidance is effective on the first day of the first fiscal quarter beginning after June 15, 2010 (July 1, 2010 for the Company). The effect of adopting this accounting standards update on July 1, 2010 is disclosed in Note 7.

New accounting pronouncements effective in future periods

Accounting for Revenue Recognition

In October 2009, the FASB issued amendments to the accounting and disclosures for revenue recognition. These amendments, effective for fiscal years beginning on or after June 15, 2010 (January 1, 2011 for the Company) with early adoption permitted, modify the criteria for recognizing revenue in multiple element arrangements and require companies to develop a best estimate of the selling price to separate deliverables and allocate arrangement consideration using the relative selling price method. Additionally, the amendments eliminate the residual method for allocating arrangement considerations. The Company is currently evaluating the potential impact, if any, of the adoption of these amendments on its consolidated financial statements.

In April 2010, the FASB issued guidance for revenue recognition milestone method, which provides guidance on the criteria that, should be met for determining whether the milestone method of revenue recognition is appropriate. A vendor can recognize consideration that is contingent upon achievement of a milestone in its entirety as revenue in the period in which the milestone is achieved only if the milestone meets all criteria to be considered substantive. A milestone should be considered substantive in its entirety. An individual milestone may not be bifurcated. The amendments in this update are effective on a prospective basis

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for milestones achieved in fiscal years, and interim periods within those years, beginning on or after June 15, 2010 (January 1, 2011 for the Company). The Company is currently evaluating the potential impact, if any, of the adoption of this guidance on its consolidated financial statements.

Accounting for Share-based Payments

In April 2010, the FASB issued an accounting standards update, which addresses the classification of an employee share-based payment award with an exercise price denominated in the currency of a market in which the underlying equity security trades. This update clarifies that an employee share-based payment award with an exercise price denominated in the currency of a market in which a substantial portion of the entity s equity securities trades should not be considered to contain a condition that is not a market, performance, or service condition. Therefore, an entity should not classify such an award as a liability if it otherwise qualifies as equity. The amendments in this update are effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2010 (January 1, 2011 for the Company). The adoption of this update is not expected to have an effect on the Company s consolidated financial statements.

NOTE 3 MAMMOTH COMPLEX ACQUISITION

On August 2, 2010, the Company acquired the remaining 50% interest in Mammoth Pacific, LP (Mammoth Pacific), which owns the Mammoth complex located near the city of Mammoth, California, for a purchase price of $72.5 million in cash. The Company acquired the remaining interest in Mammoth Pacific to increase its geothermal power plant operations in the United States.

Prior to the acquisition, the Company had a 50% interest in Mammoth Pacific that was accounted for under the equity method of accounting. Following the acquisition, the Company became the sole owner of the Mammoth complex, as well as the sole owner of rights to over 10,000 acres of undeveloped federal lands.

As a result of the acquisition of the remaining 50% interest in Mammoth Pacific, the financial statements of Mammoth Pacific have been consolidated with the Company s financial statements effective August 2, 2010. The acquisition-date fair value of the previously held 50% equity interest was $64.9 million. In the three and nine-month periods ended September 30, 2010, the Company recognized a pre-tax gain of $36.9 million, which is equal to the difference between the acquisition-date fair value of the previously held 50% equity interest in Mammoth Pacific and the acquisition-date carrying value of such investment. The gain is included in Gain on acquisition of controlling interest in the condensed consolidated statements of operations and comprehensive income.

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The Company is required to allocate the purchase price to tangible and identifiable intangible assets acquired and liabilities assumed based on their fair values. The Company is in the process of finalizing the valuation of the assets acquired and liabilities assumed and therefore, the fair values set forth below are subject to adjustment once the valuations are completed.

The following table summarizes the Company s initial allocation of the purchase price:

	(Dollars in thousands)	
Assets:		
Current assets:		
Cash and cash equivalents	$	7,983
Trade receivables		3,239
Prepaid expenses and other		254
Deposits and other		622
Property, plant and equipment, net (including construction-in-process)		129,764
Total identifiable assets acquired		141,862
Liabilities:		
Current liabilities accounts payable and accrued expenses		(1,072)
Asset retirement obligation		(3,342)
Total identifiable liabilities assumed		(4,414)
Total net assets acquired	$	137,448

The acquired property, plant and equipment will be depreciated over their estimated useful lives.

The revenues of the Mammoth complex and the net loss of the Mammoth complex were $3,543,000 and $281,000, respectively, for the period from August 2, 2010 to September 30, 2010.

The following unaudited consolidated pro forma financial information for the three and the nine-month periods ended September 30, 2010 and 2009, assumes the Mammoth Pacific acquisition occurred as of the beginning of each reporting period presented, after giving effect to certain adjustments, including the depreciation based on the adjustments to the fair market value of the property, plant and equipment acquired, and related income tax effects. The pro forma results have been prepared for comparative purposes only and

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are not necessarily indicative of the results of operations that may occur in the future or that would have occurred had the acquisition of Mammoth Pacific been effected on the dates indicated.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009 (As Revised)	2010	2009 (As Revised)
	(In thousands, except per share data)		(In thousands, except per share data)	
Revenues	$ 103,155	$ 124,455	$ 291,881	$ 332,720
Income from continuing operations	8,710	21,212	5,273	50,537
Net income	8,697	22,463	9,532	53,352
Net loss attributable to noncontrolling interest	58	80	168	236
Net income attributable to the Company s stockholders	$ 8,755	$ 22,543	$ 9,700	$ 53,588
Earnings per share attributable to the Company s stockholders basic and diluted:				
Income from continuing operations	$ 0.19	$ 0.47	$ 0.12	$ 1.11
Income from discontinued operations	0.00	0.03	0.10	0.06
Net income	$ 0.19	$ 0.50	$ 0.22	$ 1.17

NOTE 4 INVENTORIES

Inventories consist of the following:

	September 30, 2010	December 31, 2009
	(Dollars in thousands)	
Raw materials and purchased parts for assembly	$ 9,542	$ 7,322
Self-manufactured assembly parts and finished products	5,073	8,164

Total	$ 14,615	$ 15,486

NOTE 5 UNCONSOLIDATED INVESTMENTS

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

	September 30, 2010	December 31, 2009
	(Dollars in thousands)	
Mammoth	$	$ 33,659
Sarulla	2,040	1,529
Total	$ 2,040	$ 35,188

The Mammoth Complex

Prior to August 2, 2010, the Company had a 50% interest in Mammoth Pacific, which owns the Mammoth complex. The Company s 50% ownership interest in Mammoth Pacific was accounted for under the equity method of accounting as the Company had the ability to exercise significant influence, but not control,

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over Mammoth Pacific. On August 2, 2010, the Company acquired the remaining 50% interest in Mammoth Pacific (see Note 3).

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

	December 31, 2009 (Dollars in thousands)
Condensed balance sheets:	
Current assets	$ 19,257
Non-current assets	64,728
Current liabilities	659
Non-current liabilities	3,196
Partners capital	80,130

	Period from January 1, 2010 to August 1, 2010	Nine Months Ended September 30, 2009
	(Dollars in thousands)	
Condensed statements of operations:		
Revenues	$ 11,484	$ 14,884
Gross margin	2,670	4,311
Net income	2,528	4,145
Company s equity in income of Mammoth:		
50% of Mammoth net income	$ 1,264	$ 2,073
Plus amortization of basis difference	345	445
	1,609	2,518
Less income taxes	(611)	(957)
Total	$ 998	$ 1,561

The Sarulla Project

The Company is a 12.75% member of a consortium which is in the process of developing a geothermal power project in Indonesia with expected generating capacity of approximately 340 MW. The project is located in Tapanuli Utara, North Sumatra, Indonesia and will be owned and operated by the consortium members under the framework of a Joint Operating Contract with PT Pertamina Geothermal Energy (PGE). The project will be constructed in three phases over five years, with each phase utilizing the Company s 110 MW to 120 MW combined cycle geothermal plants in which the steam first produces power in a backpressure steam turbine and is subsequently condensed in a vaporizer of a binary plant, which produces additional power. The consortium is currently negotiating certain amendments to the energy sales contract, including an adjustment of commercial terms, and intends to proceed with the project after those amendments have become effective. On April 26, 2010, the parties agreed to increase the price of the power sold under the energy sales contract.

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

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NOTE 6 CONSOLIDATION GUIDANCE FOR VARIABLE INTEREST ENTITIES

Effective January 1, 2010, the Company adopted new accounting and disclosure guidance for variable interest entities (VIEs). Among other accounting and disclosure requirements, the new guidance requires the primary beneficiary of a VIE to be identified as the party that both (i) has the power to direct the activities of a VIE that most significantly impact its economic performance; and (ii) has an obligation to absorb losses or a right to receive benefits that could potentially be significant to the VIE. The adoption of this new accounting guidance did not result in the Company consolidating any additional VIEs or deconsolidating any VIEs.

The Company evaluated all transactions and relationships with VIEs to determine whether the Company is the primary beneficiary of the entities in accordance with the guidance. The Company s overall methodology for evaluating transactions and relationships under the VIE requirements includes the following two steps: (i) determining whether the entity meets the criteria to qualify as a VIE; and (ii) determining whether the Company is the primary beneficiary of the VIE.

In performing the first step, the significant factors and judgments that the Company considers in making the determination as to whether an entity is a VIE include:

- The design of the entity, including the nature of its risks and the purpose for which the entity was created, to determine the variability that the entity was designed to create and distribute to its interest holders;

- The nature of the Company s involvement with the entity;

- Whether control of the entity may be achieved through arrangements that do not involve voting equity;

- Whether there is sufficient equity investment at risk to finance the activities of the entity; and

- Whether parties other than the equity holders have the obligation to absorb expected losses or the right to receive residual returns.

If the Company identifies a VIE based on the above considerations, it then performs the second step and evaluates whether it is the primary beneficiary of the VIE by considering the following significant factors and judgments:

- Whether the Company has the power to direct the activities of the VIE that most significantly impact the entity s economic performance; and

- Whether the Company has the obligation to absorb losses of the entity that could potentially be significant to the VIE or the right to receive benefits from the entity that could potentially be significant to the VIE.

The Company s VIEs include certain of its wholly owned subsidiaries that own one or more power plants with long-term PPAs. In most cases, the PPAs require the utility to purchase substantially all of the plant s electrical output over a significant portion of its estimated useful life. Most of the VIEs have associated project financing debt that is non-recourse to the general creditors of the Company, is collateralized by substantially all of the assets of the VIE and those of its wholly owned subsidiaries (also VIEs) and is fully and unconditionally guaranteed by such subsidiaries.

The Company has concluded that such entities are VIEs primarily because the entities do not have sufficient equity at risk and/or subordinated financial support is provided through the long-term power purchase agreements (PPAs). The Company has evaluated each of its VIEs to determine the primary beneficiary by considering the party that has the power to direct the most significant activities of the entity. Such activities include, among others, construction of the power plant, operations and maintenance, dispatch of electricity, financing and strategy. The Company controls such activities at each of its VIEs and, therefore, is considered the primary beneficiary. The Company will perform

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an ongoing reassessment of the VIEs to determine the primary beneficiary and may be required to deconsolidate certain of its VIEs in the future. The Company has aggregated its consolidated VIEs into the following categories: (i) consolidated subsidiaries with project debt; and (ii) consolidated subsidiaries with PPAs.

The tables below detail the assets and liabilities (excluding intercompany balances which are eliminated in consolidation) for the Company s VIEs, combined by VIE classifications that were included in the condensed consolidated balance sheets as of September 30, 2010 and December 31, 2009: