

ORMAT TECHNOLOGIES, INC.

Form 10-Q

November 04, 2009

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**UNITED STATES 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 September 30, 2009
- or**
- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from to

Commission file number: 001-32347

ORMAT TECHNOLOGIES, INC.

(Exact name of registrant as specified in its charter)

DELAWARE

*(State or other jurisdiction of
incorporation or organization)*

88-0326081

*(I.R.S. Employer
Identification Number)*

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 No

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 No

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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 Smaller reporting company
(Do not check if a 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 the date of this filing, the number of outstanding shares of common stock of Ormat Technologies, Inc. is 45,423,399 par value of \$0.001 per share.

ORMAT TECHNOLOGIES, INC

**FORM 10-Q
FOR THE QUARTER ENDED SEPTEMBER 30, 2009**

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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.

Table of Contents**PART I UNAUDITED FINANCIAL INFORMATION****ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****ORMAT TECHNOLOGIES, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED BALANCE SHEETS****(Unaudited)**

| | September 30, 2009 | December 31, 2008 |
|---|-------------------------------|------------------------------|
| | (In thousands) | |
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 20,343 | \$ 34,393 |
| Restricted cash, cash equivalents and marketable securities | 60,846 | 24,439 |
| Receivables: | | |
| Trade | 55,332 | 49,839 |
| Related entity | 478 | 338 |
| Other | 19,981 | 15,654 |
| Due from Parent | 1,059 | 1,085 |
| Inventories | 14,193 | 13,724 |
| Costs and estimated earnings in excess of billings on uncompleted contracts | 23,955 | 6,982 |
| Deferred income taxes | 2,864 | 3,003 |
| Prepaid expenses and other | 10,286 | 16,222 |
| Total current assets | 209,337 | 165,679 |
| Long-term marketable securities | 2,057 | 1,994 |
| Restricted cash, cash equivalents and marketable securities | 2,981 | 2,951 |
| Unconsolidated investments | 34,219 | 30,559 |
| Deposits and other | 18,738 | 16,876 |
| Deferred income taxes | 14,006 | 13,965 |
| Property, plant and equipment, net | 971,316 | 958,186 |
| Construction-in-process | 514,205 | 386,501 |
| Deferred financing and lease costs, net | 22,116 | 19,240 |
| Intangible assets, net | 42,507 | 44,853 |
| Total assets | \$ 1,831,482 | \$ 1,640,804 |
| LIABILITIES AND EQUITY | | |
| Current liabilities: | | |
| Accounts payable and accrued expenses | \$ 77,423 | \$ 103,336 |
| Billings in excess of costs and estimated earnings on uncompleted contracts | 5,494 | 15,670 |
| Current portion of long-term debt: | | |

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| | | |
|---|--------------|--------------|
| Limited and non-recourse | 20,024 | 6,676 |
| Full recourse | 2,824 | |
| Senior secured notes (non-recourse) | 19,943 | 20,085 |
| Due to Parent, including current portion of notes payable to Parent | 9,834 | 16,616 |
| Total current liabilities | 135,542 | 162,383 |
| Long-term debt, net of current portion: | | |
| Limited and non-recourse | 136,031 | 7,814 |
| Full recourse | 37,176 | |
| Revolving credit lines with banks (full recourse) | 112,000 | 100,000 |
| Senior secured notes (non-recourse) | 244,588 | 252,060 |
| Notes payable to Parent | | 9,600 |
| Liability associated with sale of equity interests | 106,641 | 113,327 |
| Deferred lease income | 73,254 | 74,427 |
| Deferred income taxes | 44,524 | 33,231 |
| Liability for unrecognized tax benefits | 4,079 | 3,425 |
| Liabilities for severance pay | 18,461 | 17,640 |
| Asset retirement obligation | 14,226 | 13,438 |
| Total liabilities | 926,522 | 787,345 |
| Commitments and contingencies | | |
| Equity: | | |
| The Company's stockholders' equity: | | |
| Common stock, par value \$0.001 per share; 200,000,000 shares authorized; 45,423,399 and 45,353,120 shares issued and outstanding, respectively | 46 | 45 |
| Additional paid-in capital | 706,616 | 701,273 |
| Retained earnings | 191,210 | 144,465 |
| Accumulated other comprehensive income | 293 | 645 |
| | 898,165 | 846,428 |
| Noncontrolling interest | 6,795 | 7,031 |
| Total equity | 904,960 | 853,459 |
| Total liabilities and equity | \$ 1,831,482 | \$ 1,640,804 |

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

Table of Contents**ORMAT TECHNOLOGIES, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND
COMPREHENSIVE INCOME
(Unaudited)**

| | Three Months Ended September 30, 2009 2008 (In thousands, except per share data) | | Nine Months Ended September 30, 2009 2008 (In thousands, except per share data) | |
|--|--|-----------|---|------------|
| Revenues: | | | | |
| Electricity | \$ 68,715 | \$ 68,837 | \$ 191,915 | \$ 190,130 |
| Product | 51,113 | 30,889 | 128,037 | 59,204 |
| Total revenues | 119,828 | 99,726 | 319,952 | 249,334 |
| Cost of revenues: | | | | |
| Electricity | 44,394 | 44,742 | 133,236 | 124,924 |
| Product | 35,780 | 23,730 | 87,265 | 47,484 |
| Total cost of revenues | 80,174 | 68,472 | 220,501 | 172,408 |
| Gross margin | 39,654 | 31,254 | 99,451 | 76,926 |
| Operating expenses: | | | | |
| Research and development expenses | 3,863 | 1,894 | 7,151 | 3,375 |
| Selling and marketing expenses | 3,393 | 2,647 | 10,909 | 8,186 |
| General and administrative expenses | 6,437 | 7,587 | 19,554 | 19,539 |
| Operating income | 25,961 | 19,126 | 61,837 | 45,826 |
| Other income (expense): | | | | |
| Interest income | 157 | 637 | 585 | 2,735 |
| Interest expense, net | (4,358) | (3,017) | (12,063) | (12,654) |
| Foreign currency translation and transaction gains (losses) | 1,320 | (1,028) | 1,329 | (2,570) |
| Income attributable to sale of equity interests | 3,869 | 4,995 | 12,403 | 13,159 |
| Other non-operating income (expense), net | 246 | (2,066) | 646 | (2,045) |
| Income before income taxes and equity in income of investees | 27,195 | 18,647 | 64,737 | 44,451 |
| Income tax provision | (4,340) | (3,187) | (12,307) | (7,871) |
| Equity in income of investees, net | 591 | 372 | 1,496 | 1,319 |
| Net income | 23,446 | 15,832 | 53,926 | 37,899 |
| Net loss attributable to noncontrolling interest | 80 | 79 | 236 | 237 |
| Net income attributable to the Company's stockholders | \$ 23,526 | \$ 15,911 | \$ 54,162 | \$ 38,136 |

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| | | | | |
|---|-----------|-----------|-----------|-----------|
| Comprehensive income: | | | | |
| Net income | \$ 23,446 | \$ 15,832 | \$ 53,926 | \$ 37,899 |
| Other comprehensive income (loss), net of related taxes: | | | | |
| Currency translation adjustment | 412 | | 783 | |
| Amortization of unrealized gains in respect of derivative instruments designated for cash flow hedge | (65) | (69) | (195) | (218) |
| Reclassification of unrealized losses on marketable securities available-for-sale to other income | | 840 | | 479 |
| Change in unrealized gains or losses on marketable securities available-for-sale | 5 | | 265 | (49) |
| Comprehensive income | 23,798 | 16,603 | 54,779 | 38,111 |
| Comprehensive loss attributable to noncontrolling interest | 80 | 79 | 236 | 237 |
| Comprehensive income attributable to the Company's stockholders | | | | |
| | \$ 23,878 | \$ 16,682 | \$ 55,015 | \$ 38,348 |
| Earnings per share attributable to the Company's stockholders - basic and diluted | | | | |
| | \$ 0.52 | \$ 0.35 | \$ 1.19 | \$ 0.87 |
| Weighted average number of shares used in computation of earnings per share attributable to the Company's stockholders: | | | | |
| Basic | 45,413 | 45,337 | 45,379 | 43,782 |
| Diluted | 45,564 | 45,483 | 45,477 | 43,921 |
| Dividend per share declared | \$ 0.06 | \$ 0.05 | \$ 0.19 | \$ 0.15 |

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

Table of Contents**ORMAT TECHNOLOGIES, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF EQUITY
(Unaudited)**

| | Common Stock | | Additional Paid-in Capital | | Retained Earnings | | Accumulated Other Comprehensive Income | | Noncontrolling Interest | Total Equity |
|--|--------------|--------|----------------------------|------------|-------------------|------------|--|------------|-------------------------|--------------|
| | Shares | Amount | Capital | Earnings | (Loss) | Total | Interest | | | |
| Balance at December 31, 2007 | 41,530 | \$ 41 | \$ 513,109 | \$ 103,545 | \$ 1,388 | \$ 618,083 | \$ 4,682 | \$ 622,765 | | |
| Stock-based compensation | | | 3,193 | | | 3,193 | | 3,193 | | |
| Cash dividend declared, \$0.15 per share | | | | (6,644) | | (6,644) | | (6,644) | | |
| Issuance of shares of common stock in a block trade transaction | 3,100 | 3 | 149,652 | | | 149,655 | | 149,655 | | |
| Issuance of unregistered shares of common stock to the Parent in a private placement | 694 | 1 | 33,314 | | | 33,315 | | 33,315 | | |
| Exercise of options by employees | 19 | | 547 | | | 547 | | 547 | | |
| Tax benefit on exercise of options by employees | | | 68 | | | 68 | | 68 | | |
| Increase in noncontrolling interest due to sale of equity interest in OPC LLC | | | | | | | 2,598 | 2,598 | | |
| Net income (loss) | | | | 38,136 | | 38,136 | (237) | 37,899 | | |
| Other comprehensive income (loss), net of related taxes: | | | | | | | | | | |
| Amortization of unrealized gains in respect of derivative instruments designated for cash flow hedge (net of related tax of \$136,000) | | | | | (218) | (218) | | (218) | | |
| Reclassification of unrealized losses on marketable securities available-for-sale to other income (net of related tax of \$294,000) | | | | | 479 | 479 | | 479 | | |

| | | | | | | | |
|--|--------|-------|------------|------------|----------|------------|------------|
| Change in unrealized gains or losses on marketable securities available-for-sale (net of related tax of \$32,000) | | | | | (49) | (49) | (49) |
| Balance at September 30, 2008 | 45,343 | \$ 45 | \$ 699,883 | \$ 135,037 | \$ 1,600 | \$ 836,565 | \$ 843,608 |
| Balance at December 31, 2008 | 45,353 | \$ 45 | \$ 701,273 | \$ 144,465 | \$ 645 | \$ 846,428 | \$ 853,459 |
| 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 \$650,000) | | | | 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) | | | | 54,162 | | 54,162 | 53,926 |
| 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 \$120,000) | | | | | (195) | (195) | (195) |
| Change in unrealized gains or losses on marketable securities available-for-sale (net of related tax of \$146,000) | | | | | 265 | 265 | 265 |
| Balance at September 30, 2009 | 45,423 | \$ 46 | \$ 706,616 | \$ 191,210 | \$ 293 | \$ 898,165 | \$ 904,960 |

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

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

| | Nine Months Ended | |
|---|--------------------------|-------------|
| | September 30, | |
| | 2009 | 2008 |
| | (In thousands) | |
| Cash flows from operating activities: | | |
| Net income | \$ 53,926 | \$ 37,899 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 48,794 | 44,318 |
| Accretion of asset retirement obligation | 788 | 785 |
| Stock-based compensation | 4,253 | 3,193 |
| Amortization of deferred lease income | (2,014) | (2,014) |
| Income attributable to sale of equity interests, net of interest expense | (6,686) | (7,834) |
| Equity in income of investees | (1,496) | (1,319) |
| Return on investment in unconsolidated investees | | 1,317 |
| Loss on severance pay fund asset | (1,205) | (2,187) |
| Deferred income tax provision | 10,081 | 4,193 |
| Liability for unrecognized tax benefits | 1,001 | 487 |
| Deferred lease revenues | 841 | 590 |
| Other | (70) | 2,373 |
| Changes in operating assets and liabilities: | | |
| Receivables | (10,107) | (25,645) |
| Costs and estimated earnings in excess of billings on uncompleted contracts | (16,973) | (449) |
| Inventories | (469) | (1,884) |
| Prepaid expenses and other | 5,943 | (3,449) |
| Deposits and other | (15) | (946) |
| Accounts payable and accrued expenses | 355 | 20,428 |
| Due from/to related entities, net | (140) | (349) |
| Billings in excess of costs and estimated earnings on uncompleted contracts | (10,176) | 16,553 |
| Liabilities for severance pay | 821 | 3,903 |
| Due from/to Parent | 244 | (66) |
| Net cash provided by operating activities | 77,696 | 89,897 |
| Cash flows from investing activities: | | |
| Return of investment in unconsolidated investees | | 1,433 |
| Marketable securities, net | 200 | 12,590 |
| Net change in restricted cash, cash equivalents and marketable securities | (36,219) | (18,232) |
| Capital expenditures | (212,282) | (298,571) |
| Increase in severance pay fund asset, net | (642) | (1,017) |
| Repayment from unconsolidated investment | 62 | 95 |
| Net cash used in investing activities | (248,881) | (303,702) |

Cash flows from financing activities:

| | | |
|---|-------------|-----------|
| Proceeds from long-term loans | 187,000 | |
| Proceeds from public offerings, net of issuance costs | | 149,655 |
| Proceeds from issuance of unregistered shares of common stock to the Parent | | 33,315 |
| Proceeds from exercise of options by employees | 1,091 | 547 |
| Proceeds from the sale of limited liability company interest in OPC LLC, net of transaction costs | | 63,029 |
| Proceeds from revolving credit lines with banks | 879,000 | |
| Repayments of revolving credit lines with banks | (867,000) | |
| Repayments of long-term debt: | | |
| Parent | (16,600) | (16,600) |
| Other | (13,049) | (18,581) |
| Deferred financing costs | (4,901) | |
| Cash dividends paid | (8,622) | (6,644) |
| Net cash provided by financing activities | 156,919 | 204,721 |
| Effect of exchange rate changes on cash and cash equivalents | 216 | |
| Net change in cash and cash equivalents | (14,050) | (9,084) |
| Cash and cash equivalents at beginning of period | 34,393 | 47,227 |
| Cash and cash equivalents at end of period | \$ 20,343 | \$ 38,143 |
| Supplemental non-cash investing and financing activities: | | |
| Increase (decrease) in accounts payable related to purchases of property, plant and equipment | \$ (26,417) | \$ 19,185 |

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 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 (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, 2009, the consolidated results of operations and comprehensive income for the three and nine-month periods ended September 30, 2009 and 2008, and the consolidated cash flows for the nine-month periods ended September 30, 2009 and 2008.

The financial data and other information disclosed in the notes to the condensed consolidated interim financial statements related to these periods are unaudited. The results for the three and nine-month periods ended September 30, 2009 are not necessarily indicative of the results to be expected for the year ending December 31, 2009.

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, 2008. The condensed consolidated balance sheet data as of December 31, 2008 was derived from the audited consolidated financial statements for the year ended December 31, 2008, but does not include all disclosures required by U.S. GAAP.

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 6).

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, 2009 and December 31, 2008, the Company had deposits totaling \$9,779,000 and \$23,120,000, respectively, in seven U.S. financial institutions that were federally insured up to \$250,000 per account (after December 31, 2013, the deposits will be insured up to \$100,000 per account). At September 30, 2009 and December 31, 2008, the Company's deposits in foreign countries amounted to approximately \$23,905,000 and \$20,377,000, respectively.

At September 30, 2009 and December 31, 2008, accounts receivable related to operations in foreign countries amounted to approximately \$17,155,000 and \$14,867,000, respectively. At September 30, 2009 and December 31, 2008, accounts receivable from the Company's major customers that have generated 10% or more of its revenues amounted to approximately 62% and 45% of the Company's accounts receivable, respectively.

Southern California Edison Company (SCE) accounted for 24.8% and 29.8% of the Company's total revenues for the three months ended September 30, 2009 and 2008, respectively, and 21.6% and 30.2% of the Company's total revenues for the nine months ended September 30, 2009 and 2008, respectively. SCE is also the power purchaser and revenue source for the Company's Mammoth power plant, which is accounted for under the equity method.

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ORMAT TECHNOLOGIES, INC. AND SUBSIDIARIES

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

Hawaii Electric Light Company accounted for 3.8% and 16.1% of the Company's total revenues for the three months ended September 30, 2009 and 2008, respectively, and 6.0% and 17.6% of the Company's total revenues for the nine months ended September 30, 2009 and 2008, respectively.

Sierra Pacific Power Company and Nevada Power Company (subsidiaries of NV Energy, Inc.) accounted for 9.8% and 9.5% of the Company's total revenues for the three months ended September 30, 2009 and 2008, respectively, and 11.7% and 11.9% of the Company's total revenues for the nine months ended September 30, 2009 and 2008, 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, 2009

Fair Value Measurements

Effective January 1, 2008, the Company adopted the new accounting guidance on fair value measurements issued by the Financial Accounting Standards Board (FASB). This new guidance defines fair value, establishes a framework for measuring fair value under U.S. GAAP and expands disclosures about fair value measurements. In February 2008, the FASB deferred the effective date for the new accounting guidance for all non-financial assets and liabilities that are recognized and disclosed at fair value on a nonrecurring basis in the financial statements until January 1, 2009. The adoption of the new guidance for all non-financial assets and liabilities, effective January 1, 2009 did not have a material impact on the Company's consolidated financial statements.

Noncontrolling Interests in Consolidated Financial Statements

In December 2007, the FASB issued new accounting guidance for noncontrolling interests in a subsidiary and for the deconsolidation of a subsidiary. The guidance clarifies that a noncontrolling interest in a subsidiary is an ownership interest in the consolidated entity that should be reported as equity in the consolidated financial statements. It requires retroactive adoption of the presentation and disclosure requirements for existing minority interests. All other requirements of this guidance are applied prospectively. The Company adopted the guidance on January 1, 2009 and amended its presentation and disclosures accordingly (see Note 6).

Business Combinations

In December 2007, the FASB issued new accounting guidance on business combinations. The new guidance revises the method of accounting for a number of aspects of business combinations, including acquisition costs, contingencies (including contingent assets, contingent liabilities and contingent purchase price), the impacts of partial and step-acquisitions (including the valuation of net assets attributable to non-acquired minority interests), and post acquisition exit activities of acquired businesses. The adoption of the new guidance by the Company on January 1,

2009 did not have an impact on its consolidated financial statements; however, it could impact future transactions entered into by the Company.

Disclosures about Derivative Instruments and Hedging Activities

In March 2008, the FASB issued new accounting guidance on disclosures about derivative instruments and hedging activities. The guidance requires companies with derivative instruments to disclose information

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ORMAT TECHNOLOGIES, INC. AND SUBSIDIARIES

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

that should enable financial statement users to understand how and why a company uses derivative instruments, how derivative instruments and related hedged items are accounted for, and how derivative instruments and related hedged items affect a company's financial position, financial performance, and cash flows. The required disclosures include the fair value of derivative instruments and their gains or losses in tabular format, information about credit-risk-related contingent features in derivative agreements, counterparty credit risk, and the company's strategies and objectives for using derivative instruments. The adoption of the new guidance by the Company on January 1, 2009 did not have an impact on its financial position, results of operations and cash flows.

Recognition and Presentation of Other-Than-Temporary Impairments

In April 2009, the FASB issued new accounting guidance for recognition and presentation of other-than-temporary impairments of debt securities. It is intended to bring greater consistency to the timing of impairment recognition, and provide greater clarity to investors about the credit and noncredit components of impaired debt securities that are not expected to be sold. The measure of impairment remains fair value. The guidance also requires increasing disclosures regarding expected cash flows, credit losses, and an aging of securities with unrealized losses. The effect of the Company's adoption of this new accounting guidance on April 1, 2009 is disclosed in Note 5.

Interim Disclosures About Fair Value of Financial Instruments

In April 2009, the FASB issued new accounting guidance on interim disclosures about fair value of financial instruments. The guidance requires disclosures for any financial instruments that are not currently reflected on a company's balance sheet at fair value. It also requires these disclosures on a quarterly basis, providing qualitative and quantitative information about fair value estimates for all those financial instruments not measured on the balance sheet at fair value. The disclosures required under this guidance are provided in Note 5.

Subsequent Events

In May 2009, the FASB issued new guidance on subsequent events. The guidance requires disclosures of events that occur after the balance sheet date but before the financial statements are issued. It also requires disclosure of the date through which an entity has evaluated subsequent events and the basis for the date. The Company has evaluated events through November 4, 2009, the date of issuance of the financial statements (See Note 16). The adoption by the Company of the guidance on June 30, 2009 did not have an impact on the Company's consolidated financial statements.

The FASB Accounting Standards Codification

In June 2009, the FASB issued the FASB Accounting Standards Codification (the "Codification"). The Codification will become the single source for all authoritative U.S. GAAP recognized by the FASB to be applied for financial statements issued for periods ending after September 15, 2009 (September 30, 2009 for the Company). The Codification does not change U.S. GAAP and will not have an affect on the Company's financial position, results of operations or liquidity.

New accounting pronouncements effective in future periods

Accounting for Transfers of Financial Assets

In June 2009, the 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

Table of Contents**ORMAT TECHNOLOGIES, INC. AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**
(Unaudited)

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). This amendment is effective for financial statements issued for fiscal years beginning after November 15, 2009 (January 1, 2010 for the Company). The adoption of this amendment will not have a material 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 qualifying special purpose entity (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 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 will be required to disclose significant judgments and assumptions used to determine whether or not to consolidate a VIE. This amendment is effective for financial statements issued for fiscal years beginning after November 15, 2009 (January 1, 2010 for the Company). The Company is currently evaluating the potential impact, if any, of the adoption of this amendment on its consolidated financial statements.

NOTE 3 INVENTORIES

Inventories consist of the following:

| | September 30, 2009 | December 31, 2008 |
|--|-------------------------------|------------------------------|
| | (Dollars in thousands) | |
| Raw materials and purchased parts for assembly | \$ 8,360 | \$ 7,649 |
| Self-manufactured assembly parts and finished products | 5,833 | 6,075 |
| Total | \$ 14,193 | \$ 13,724 |

NOTE 4 UNCONSOLIDATED INVESTMENTS

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

| | September 30, 2009 | December 31, 2008 |
|--|-------------------------------|------------------------------|
| | (Dollars in thousands) | |

| | | | | |
|---------|----|--------|----|--------|
| Mammoth | \$ | 32,587 | \$ | 30,131 |
| Sarulla | | 1,269 | | |
| OLCL | | 363 | | 428 |
| Total | \$ | 34,219 | \$ | 30,559 |

The Mammoth Power Plant

The Company has a 50% interest in the Mammoth Power Plant (Mammoth), 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 (PPAs), which range from 12 to

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17 years. The Company operates and maintains the geothermal power plants under an operating and maintenance (O&M) agreement. The Company s 50% ownership interest in Mammoth is accounted for under the equity method of accounting as the Company has the ability to exercise significant influence, but not control, over Mammoth.

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

| | September 30, 2009 | December 31, 2008 |
|--|--|------------------------------|
| | (Dollars in thousands) | |
| Condensed balance sheets: | | |
| Current assets | \$ 16,273 | \$ 8,251 |
| Non-current assets | 66,281 | 69,784 |
| Current liabilities | 906 | 721 |
| Non-current liabilities | 3,366 | 3,177 |
| Partners capital | 78,282 | 74,137 |
| | | |
| | Nine Months Ended September 30, 2009 2008 | |
| | (Dollars in thousands) | |
| Condensed statements of operations: | | |
| Revenues | \$ 14,884 | \$ 14,568 |
| Gross margin | 4,311 | 3,985 |
| Net income | 4,145 | 3,752 |
| Company s equity in income of Mammoth: | | |
| 50% of Mammoth net income | \$ 2,073 | \$ 1,876 |
| Plus amortization of basis difference | 445 | 445 |
| | 2,518 | 2,321 |
| Less income taxes | (957) | (881) |
| Total | \$ 1,561 | \$ 1,440 |

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 designed and supplied power generation units of 110 MW to 120 MW. The consortium is currently negotiating certain amendments to the PPA, including an adjustment of commercial terms, and intends to proceed with the project after those amendments have become effective.

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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(Unaudited)**NOTE 5 FAIR VALUE OF FINANCIAL INSTRUMENTS**

As described in Note 1, the provisions of the fair value measurement guidance were adopted by the Company on January 1, 2008 for financial assets and liabilities and on January 1, 2009 for non-financial assets and liabilities.

This guidance clarifies that fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. It establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under the fair value measurement guidance are described below:

Level 1 Unadjusted quoted prices in active markets that are accessible at the measurement date for identical assets or liabilities;

Level 2 Quoted prices in markets that are not active, or inputs that are observable, either directly or indirectly, for substantially the full term of the asset or liability;

Level 3 Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (supported by little or no market activity).

The following table sets forth certain fair value information at September 30, 2009 and December 31, 2008 for financial assets and liabilities measured at fair value by level within the fair value hierarchy, as well as cost or amortized cost. As required by the fair value measurement guidance, assets and liabilities are classified in their entirety based on the lowest level of inputs that is significant to the fair value measurement.

| | Cost or Amortized Cost at September 30, 2009 | Fair Value at September 30, 2009 | | | |
|---|---|---|----------------|----------------|----------------|
| | | Total | Level 1 | Level 2 | Level 3 |
| (Dollars in thousands) | | | | | |
| Assets | | | | | |
| Current assets: | | | | | |
| Cash equivalents (including restricted cash accounts) | \$ 8,997 | \$ 8,997 | \$ 8,997 | \$ | \$ |
| Derivatives* | | 368 | | 368 | |
| Non-current assets: | | | | | |

| | | | | | |
|--|-----------|-----------|----------|--------|----------|
| Illiquid auction rate securities (including restricted cash accounts) (\$7.3 million par value), see below | 6,592 | 5,038 | | | 5,038 |
| Liabilities: | | | | | |
| Current liabilities: | | | | | |
| Derivatives* | | (55) | | (55) | |
| | \$ 15,589 | \$ 14,348 | \$ 8,997 | \$ 313 | \$ 5,038 |

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(Unaudited)

| | Cost or Amortized Cost at December 31, 2008 | Fair Value at December 31, 2008 | | | |
|---|--|--|----------------|----------------|----------------|
| | | Total | Level 1 | Level 2 | Level 3 |
| (Dollars in thousands) | | | | | |
| Assets: | | | | | |
| Current assets: | | | | | |
| Cash equivalents (including restricted cash accounts) | \$ 18,891 | \$ 18,891 | \$ 18,891 | \$ | \$ |
| Derivatives* | | 625 | | 625 | |
| Non-current assets: | | | | | |
| Illiquid auction rate securities (including restricted cash accounts) (\$11.2 million par value), see below | 11,160 | 4,945 | | | 4,945 |
| Liabilities: | | | | | |
| Current liabilities: | | | | | |
| Derivatives* | | (721) | | (721) | |
| | \$ 30,051 | \$ 23,740 | \$ 18,891 | \$ (96) | \$ 4,945 |

* Derivatives represent foreign currency forward and option contracts which are valued primarily based on observable inputs including forward and spot prices for currencies.

The Company's financial assets measured at fair value (including restricted cash accounts) at September 30, 2009 include investments in auction rate securities and money market funds (which are included in cash equivalents). Those securities, except for the illiquid auction rate securities, are classified within Level 1 of the fair value hierarchy because they are valued using quoted market prices in an active market.

The Company's auction rate securities are valued using Level 3 inputs. As of September 30, 2009, all of the Company's auction rate securities are associated with failed auctions. Such securities have par values totaling \$7.3 million and \$11.2 million at September 30, 2009 and December 31, 2008, respectively, all of which have been in a loss position since the fourth quarter of 2007. Historically, the carrying value of auction rate securities approximated fair value due to the frequent resetting of the interest rates. While the Company continues to earn interest on these investments at the contractual rates, the estimated market value of these auction rate securities no longer approximates par value. Due to the lack of observable market quotes on the Company's illiquid auction rate securities, the Company utilizes valuation models that rely exclusively on Level 3 inputs including, among other things: (i) the underlying structure of each security; (ii) the present value of future principal and interest payments discounted at rates considered to reflect the uncertainty of current market conditions; (iii) consideration of the probabilities of default, auction failure, or

repurchase at par for each period; (iv) assessments of counterparty credit quality; (v) estimates of the recovery rates in the event of default for each security; and (vi) overall capital market liquidity. These estimated fair values are subject to uncertainties that are difficult to predict. Therefore, such auction rate securities have been classified as Level 3 in the fair value hierarchy.

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(Unaudited)

The table below sets forth a summary of the changes in the fair value of the Company's financial assets classified as Level 3 (i.e., illiquid auction rate securities) for the nine months ended September 30, 2009 and 2008:

| | Nine Months Ended September 30, 2009 2008 | |
|---|---|-----------------|
| | (Dollars in thousands) | |
| Balance at beginning of period | \$ 4,945 | \$ 8,367 |
| Sale of auction rate securities | (40) | |
| Total unrealized gains (losses): | | |
| Included in net income | (280) | (2,373) |
| Unrealized losses included in other comprehensive income in 2007 and expensed in 2008 | | 773 |
| Included in other comprehensive income | 413 | |
| | \$ 5,038 | \$ 6,767 |

Effective April 1, 2009, the Company adopted the recognition and presentation of the other-than-temporary impairments standard, which requires an entity to separate an other-than-temporary impairment of a debt security into two components when there are credit-related losses associated with the impaired security for which management does not have the intent to sell the security and it is not more likely than not, that it will be required to sell the security before recovery of its cost basis. For those securities, the amount of the other-than-temporary impairment related to a credit loss is recognized in earnings and reflected as a reduction in the cost basis of the security, and the amount of the other-than-temporary impairment related to other factors is recorded in other comprehensive loss with no change to the cost basis of the security. For securities for which there is an intent to sell before recovery of the cost basis, the full amount of the other-than-temporary impairment is recognized in earnings and reflected as a reduction in the cost basis of the security. Upon adoption of this standard, the Company reclassified \$1.2 million (net of taxes of \$0.7 million) to other comprehensive income with an offset to retained earnings related to the other-than-temporary impairment charges previously recognized in earnings. This cumulative effect adjustment relates to auction rate securities for which the Company does not have the intent to sell and will not, more likely than not, be required to sell prior to recovery of its cost basis.

For the auction rate securities for which the Company had the intent to sell upon adoption of the recognition and presentation of other than temporary impairments standard, no cumulative effect adjustment was required. The Company sold these securities (\$3.9 million par value) for consideration of \$0.4 million and recorded a gain of \$0.3 million during the second quarter of 2009. The cumulative loss for these securities was \$3.5 million as impairment charges of \$3.8 million were recorded through earnings prior to the sale of the securities in the second quarter of 2009.

The amount of credit losses represents the difference between the present value of cash flows expected to be collected on these securities and the amortized cost. The credit loss was calculated as the difference between the current cash

flows discounted at present value to the expected cash flows at the date of purchase. The analysis incorporates management's best estimate of current key assumptions, including the default rate of such securities and probability of passing auction.

The change in other-than-temporary impairment losses from April 1, 2009 (the date of the adoption of the accounting standard) to September 30, 2009 was not material.

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The funds invested in auction rate securities that have experienced failed auctions will not be accessible until a successful auction occurs, a buyer is found outside of the auction process or the underlying securities reach maturity. As a result, the Company has classified those securities with failed auctions as long-term assets on the consolidated balance sheets as of September 30, 2009 and December 31, 2008.

The Company continues to monitor the market for auction rate securities and to consider the market's impact (if any) on the fair market value of the Company's investments. If current market conditions deteriorate further, the Company may be required to record additional impairment charges in the rest of 2009.

The fair value of the Company's long-term debt approximates its carrying amount, except for the following:

| | Fair Value | | Carrying Amount | |
|-----------------------------------|--|----------------------|--|----------------------|
| | September 30, 2009 (Dollars in millions) | December 31, 2008 | September 30, 2009 (Dollars in millions) | December 31, 2008 |
| Orzunil Senior Loans | \$ 6.3 | \$ 9.2 | \$ 6.2 | \$ 9.0 |
| Olkaria III Loan | 103.1 | | 105.0 | |
| Amatitlan Loan | 42.1 | | 41.5 | |
| Senior Secured Notes: | | | | |
| Ormat Funding Corp.(OFC) | 129.8 | 114.9 | 150.9 | 155.3 |
| OrCal Geothermal Inc.(OrCal) | 112.3 | 103.6 | 113.6 | 116.8 |
| Loan from institutional investors | 20.1 | | 20.0 | |
| Parent Loan | 9.8 | 26.1 | 9.6 | 26.2 |

The fair value of OFC Senior Secured Notes is determined using observable market prices as these securities are traded. The fair value of other long-term debt is determined by a valuation model which is based on a conventional discounted cash flow methodology and utilizes assumptions of current market pricing curves.

NOTE 6 NONCONTROLLING INTEREST

In June 2007, a wholly owned subsidiary of the Company, Ormat Nevada Inc. (Ormat Nevada), entered into agreements with affiliates of Morgan Stanley & Co. Incorporated and Lehman Brothers Inc., under which those investors purchased, for cash, interests in a newly formed subsidiary of Ormat Nevada, OPC LLC (OPC), entitling the investors to certain tax benefits (such as production tax credits and accelerated depreciation) and distributable cash associated with four geothermal power plants.

The first closing under the agreements occurred in 2007 and covered the Company's Desert Peak 2, Steamboat Hills and Galena 2 power plants. The investors paid \$71.8 million at the first closing. The second closing under the agreements occurred in 2008 and covered the Galena 3 power plant. The investors paid \$63.0 million at the second closing.

Ormat Nevada will continue to operate and maintain the power plants and will receive initially all of the distributable cash flow generated by the power plants until it recovers the capital that it has invested in the power plants, while the investors will receive substantially all of the production tax credits and the taxable income or loss (together, the Economic Benefits), and the distributable cash flow after Ormat Nevada has recovered its capital. The investors' return is limited by the term of the transaction. Once the investors reach a target after-tax yield on their investment in OPC (the Flip Date), Ormat Nevada will receive 95% of both distributable cash and taxable income on a going forward basis. Following the Flip date, Ormat Nevada also has the option to buy out the investors' remaining interest in OPC at the then-current fair market value or, if greater, the investors' capital account balances in OPC. Should Ormat Nevada exercise this purchase option, it would thereupon revert to being sole owner of the power plants.

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(Unaudited)**

The Class B membership units are provided with a 5% residual economic interest in OPC. The 5% residual interest commences on achievement by the investors of a contractually stipulated return that triggers the Flip Date. The actual Flip Date is not known with certainty and is determined by the operating results of OPC. This residual 5% interest represents a noncontrolling interest which is not subject to mandatory redemption or guaranteed payments.

The Company's voting rights in OPC are based on a capital structure that is comprised of Class A and Class B membership units. The Company owns, through its subsidiary, Ormat Nevada, all of the Class A membership units, which represent 75% of the voting rights in OPC. The investors own all of the Class B membership units, which represent 25% of the voting rights of OPC. Other than in respect of customary protective rights, all operational decisions in OPC are decided by the vote of a majority of the membership units. Following the Flip Date, Ormat Nevada's voting rights will increase to 95% and the investor's voting rights will decrease to 5%. Ormat Nevada retains the controlling voting interest in OPC both before and after the Flip Date and therefore has continued to consolidate OPC.

The Company adopted the new accounting guidance for noncontrolling interests in a subsidiary on January 1, 2009. Under this guidance, noncontrolling interests are to be presented on the balance sheet as a component of equity. The adoption of this standard resulted in retrospective presentation and disclosure changes to the consolidated balance sheet as of December 31, 2008 and the condensed consolidated statements of operations and comprehensive income for the three and nine-month periods ended September 30, 2008. These changes are denoted in the table below:

Excerpts from Consolidated Balance Sheet

| | Balance as of December 31, 2008 | Application of New Accounting Standard (Dollars in thousands) | Revised Balance as of December 31, 2008 |
|--|--|--|--|
| Deferred financing and lease costs, net | \$ 16,127 | \$ 3,113 ⁽¹⁾ | \$ 19,240 |
| Total assets | \$ 1,637,691 | \$ 3,113 | \$ 1,640,804 |
| Liability associated with sale of equity interests | \$ | \$ 113,327 ⁽²⁾ | \$ 113,327 |
| Total liabilities | 674,018 | 113,327 | 787,345 |
| Minority interest | 117,245 | (117,245) | |
| Equity: | | | |
| The Company's stockholders' equity: | | | |
| Common stock | 45 | | 45 |

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| | | | |
|--|--------------|----------------------|--------------|
| Additional paid-in capital | 701,273 | | 701,273 |
| Retained earnings | 144,465 | | 144,465 |
| Accumulated other comprehensive income | 645 | | 645 |
| | 846,428 | | 846,428 |
| Noncontrolling interest | | 7,031 ⁽³⁾ | 7,031 |
| Total equity | 846,428 | 7,031 | 853,459 |
| Total liabilities and equity | \$ 1,637,691 | \$ 3,113 | \$ 1,640,804 |

(1) Represents transaction costs that had previously been reflected as a component of minority interest on the consolidated balance sheets. Such costs are amortized using the effective interest method until the Flip Date.

(2) Represents unamortized liability associated with sale of equity interests in OPC.

(3) Represents noncontrolling interest in OPC.

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(Unaudited)*Excerpts from Consolidated Statements of Operations and Comprehensive Income*

| | Three Months Ended September 30, 2008 | Application of New Accounting Standard (Dollars in thousands) | Revised Three Months Ended September 30, 2008 |
|---|--|--|--|
| Other income (expense): | | | |
| Interest income | \$ 637 | \$ | \$ 637 |
| Interest expense, net | (859) | (2,158) ⁽¹⁾ | (3,017) |
| Foreign currency translation and transaction losses | (1,028) | | (1,028) |
| Income attributable to sale of equity interests | | 4,995 ⁽²⁾ | 4,995 |
| Other non-operating income, net | (2,066) | | (2,066) |
| Income before income taxes and equity in income of investees | 15,810 | 2,837 | 18,647 |
| Income tax provision | (3,187) | | (3,187) |
| Minority interest | 2,916 | (2,916) | |
| Equity in income of investees, net | 372 | | 372 |
| Net income | 15,911 | (79) | 15,832 |
| Net loss attributable to noncontrolling interest | | 79 ⁽³⁾ | 79 |
| Net income attributable to the Company's stockholders | \$ 15,911 | \$ | \$ 15,911 |
| Comprehensive income: | | | |
| Net income | \$ 15,911 | \$ (79) | \$ 15,832 |
| Other comprehensive income (loss), net of related taxes: | | | |
| Amortization of unrealized gains in respect of derivative instruments designated for cash flow hedge | (69) | | (69) |
| Reclassification of unrealized losses on marketable securities available-for-sale to other income (expense) | 840 | | 840 |

| | | | |
|---|-----------|-------------------|-----------|
| Comprehensive income | 16,682 | (79) | 16,603 |
| Comprehensive loss attributable to noncontrolling interest | | 79 ⁽³⁾ | 79 |
| Comprehensive income attributable to the Company's stockholders | \$ 16,682 | \$ | \$ 16,682 |

- (1) Represents interest expense relating to the liability associated with the sale of equity interests in OPC and amortization of transaction costs.
- (2) Represents the value of production tax credits and taxable income or loss generated by OPC and allocated to the investors.
- (3) Represents allocation of net loss to noncontrolling interest.

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(Unaudited)

| | Nine Months Ended September 30, 2008 | Application of New Accounting Standard (Dollars in thousands) | Revised Nine Months Ended September 30, 2008 |
|---|---|--|---|
| Other income (expense): | | | |
| Interest income | \$ 2,735 | \$ | \$ 2,735 |
| Interest expense, net | (7,329) | (5,325) ⁽¹⁾ | (12,654) |
| Foreign currency translation and transaction losses | (2,570) | | (2,570) |
| Income attributable to sale of equity interests | | 13,159 ⁽²⁾ | 13,159 |
| Other non-operating income, net | (2,045) | | (2,045) |
| Income before income taxes and equity in income of investees | 36,617 | 7,834 | 44,451 |
| Income tax provision | (7,871) | | (7,871) |
| Minority interest | 8,071 | (8,071) | |
| Equity in income of investees, net | 1,319 | | 1,319 |
| Net income | 38,136 | (237) | 37,899 |
| Net loss attributable to noncontrolling interest | | 237 ⁽³⁾ | 237 |
| Net income attributable to the Company's stockholders | \$ 38,136 | \$ | \$ 38,136 |
| Comprehensive income: | | | |
| Net income | \$ 38,136 | \$ (237) | \$ 37,899 |
| Other comprehensive income (loss), net of related taxes: | | | |
| Amortization of unrealized gains in respect of derivative instruments designated for cash flow hedge | (218) | | (218) |
| Reclassification of unrealized losses on marketable securities available-for-sale to other income (expense) | 479 | | 479 |
| Change in unrealized gains or losses on marketable securities available-for-sale | (49) | | (49) |
| Comprehensive income | 38,348 | (237) 237 ⁽³⁾ | 38,111 237 |

Comprehensive loss attributable to noncontrolling interest

| | | | | | |
|---|----|--------|----|----|--------|
| Comprehensive income attributable to the Company's stockholders | \$ | 38,348 | \$ | \$ | 38,348 |
|---|----|--------|----|----|--------|

- (1) Represents interest expense relating to the liability associated with the sale of equity interests in OPC and amortization of transaction costs.
- (2) Represents the value of production tax credits and taxable income or loss generated by OPC and allocated to the investors.
- (3) Represents allocation of net loss to noncontrolling interest.

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(Unaudited)****NOTE 7 LONG-TERM DEBT****Loan Agreement (the Olkaria III Power Plant)**

In March 2009, the Company's wholly owned subsidiary, OrPower 4, Inc. (OrPower 4), entered into a project financing loan of \$105.0 million to refinance its investment in the 48 MW Olkaria III geothermal power plant located in Kenya (the Olkaria Loan). The Company initially financed the construction of Phase I and Phase II of the project, as well as the drilling of wells with corporate funds. The Olkaria Loan is provided by a group of European Development Finance Institutions (DFIs) arranged by DEG Deutsche Investitions- und Entwicklungsgesellschaft mbH (DEG). The first disbursement of \$90.0 million occurred on March 23, 2009 and the second disbursement of \$15.0 million occurred on July 10, 2009. The Olkaria Loan will mature on December 15, 2018, and is payable in 19 equal semi-annual installments, commencing December 15, 2009. Interest on the Olkaria Loan is variable based on 6-month LIBOR plus 4.0% and the Company had the option to fix the interest rate upon each disbursement. Upon the first disbursement, the Company fixed the interest rate on \$77.0 million of the Olkaria Loan at 6.90% per annum.

There are various restrictive covenants under the Olkaria Loan, which include limitations on OrPower 4's ability to make distributions to its shareholders. Management believes that as of September 30, 2009, OrPower 4 was in compliance with the covenants under the Olkaria Loan.

Future minimum payments

As of September 30, 2009, future minimum payments under the Olkaria Loan are as follows:

| | (Dollars in thousands) |
|---------------------------------|-------------------------------|
| Year ending December 31: | |
| 2009 | \$ 5,526 |
| 2010 | 11,053 |
| 2011 | 11,053 |
| 2012 | 11,053 |
| 2013 | 11,053 |
| 2014 | 11,053 |
| Thereafter | 44,209 |
| Total | \$ 105,000 |

Loan Agreement (the Amatitlan Power Plant)

In May 2009, the Company's wholly owned subsidiary, Ortitlan Limitada (Ortitlan), entered into a note purchase agreement, in an aggregate principal amount of \$42.0 million, to refinance its investment in the 20 MW Amatitlan geothermal power plant located in Amatitlan, Guatemala (the Amatitlan Loan). The Company initially financed the construction of the project, as well as the drilling of wells with corporate funds. The Amatitlan Loan is provided by TCW Global Project Fund II, Ltd. (TCW). The Amatitlan Loan will mature on June 15, 2016, and will be payable in 28 quarterly installments. The Amatitlan Loan bears annual interest at a rate of 9.83%.

There are various restrictive covenants under the Amatitlan Loan, which include limitations on Ortitlan's ability to make distributions to its shareholders. Management believes that as of September 30, 2009, Ortitlan was in compliance with the covenants under the Amatitlan Loan.

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(Unaudited)*****Future minimum payments***

As of September 30, 2009, future minimum payments under the Amatitlan Loan are as follows:

| | (Dollars in thousands) |
|---------------------------------|-----------------------------------|
| Year ending December 31: | |
| 2009 | \$ 478 |
| 2010 | 2,037 |
| 2011 | 2,255 |
| 2012 | 2,495 |
| 2013 | 2,760 |
| 2014 | 3,054 |
| Thereafter | 28,455 |
| Total | \$ 41,534 |

Loan agreements with financial institutions

In July 2009, the Company entered into a 6-year loan agreement of \$20.0 million with a group of financial institutions (the First Loan). The First Loan matures on July 16, 2015, is payable in 12 semi-annual installments commencing January 16, 2010, and bears annual interest at a rate of 6.5%.

There are various restrictive covenants under the First Loan, which include among others maintaining a certain minimum debt coverage ratio. Management believes that as of September 30, 2009, the Company was in compliance with the covenants.

Future minimum payments

As of September 30, 2009, future minimum payments under the First Loan are as follows:

| | (Dollars in thousands) |
|---------------------------------|-----------------------------------|
| Year ending December 31: | |
| 2010 | \$ 2,824 |
| 2011 | 3,010 |
| 2012 | 3,209 |
| 2013 | 3,421 |

| | |
|------------|-----------|
| 2014 | 3,647 |
| Thereafter | 3,889 |
| Total | \$ 20,000 |

In July 2009, the Company entered into an 8-year loan agreement of \$20.0 million with another group of financial institutions (the Second Loan). The Second Loan matures on August 1, 2017, is payable in 12 semi-annual installments commencing February 1, 2012, and bears interest at 6-month LIBOR plus 5.0%.

There are various restrictive covenants under the Second Loan, which include among others maintaining a certain minimum debt coverage ratio. Management believes that as of September 30, 2009, the Company was in compliance with the covenants.

Table of Contents**ORMAT TECHNOLOGIES, INC. AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)***Future minimum payments*

As of September 30, 2009, future minimum payments under the Second Loan are as follows:

| | (Dollars in thousands) |
|---------------------------------|-------------------------------|
| Year ending December 31: | |
| 2012 | \$ 3,333 |
| 2013 | 3,333 |
| 2014 | 3,334 |
| Thereafter | 10,000 |
| Total | \$ 20,000 |

NOTE 8 STOCK-BASED COMPENSATION

On March 18, 2009, the Company granted to employees 573,150 stock appreciation rights (SAR) under the Company's 2004 Incentive Plan. The exercise price of each SAR is \$26.84, which represented the fair market value of the Company's common stock on the date of grant. Such SARs will expire seven years from the date of grant and will 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. The fair value of each SAR on the date of grant was \$11.44. Under the plan, upon exercise of such SAR, the employee is entitled to receive shares of common stock equal to the amount by which the market value of the shares in respect of which the SAR is exercised exceeds the grant price set forth in the SAR, multiplied by the number of shares in respect of which the SAR is exercised.

The Company calculated the fair value of each SAR on the date of grant using the Black-Scholes valuation model based on the following assumptions:

| | |
|--------------------------|-------|
| Risk-free interest rates | 1.54% |
| Expected term (in years) | 5.1 |
| Dividend yield | 0.37% |
| Expected volatility | 48.5% |
| Forfeiture rate | 13.0% |

On November 4, 2009, the Company granted to non-employee directors options to purchase 30,000 shares of common stock under the 2004 Incentive Plan (see Note 16).

Table of Contents**ORMAT TECHNOLOGIES, INC. AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**
(Unaudited)**NOTE 9 ELECTRICITY REVENUES AND COST OF REVENUES**

The components of electricity revenues and cost of revenues are as follows:

| | Three Months Ended September 30, 2009 2008 | | Nine Months Ended September 30, 2009 2008 | |
|--------------------------------------|--|-----------|---|------------|
| | (Dollars in thousands) | | (Dollars in thousands) | |
| Revenues: | | | | |
| Energy and capacity | \$ 26,767 | \$ 27,731 | \$ 73,993 | \$ 76,682 |
| Lease portion of energy and capacity | 41,277 | 40,435 | 115,908 | 111,434 |
| Lease income | 671 | 671 | 2,014 | 2,014 |
| | \$ 68,715 | \$ 68,837 | \$ 191,915 | \$ 190,130 |
| Cost of revenues: | | | | |
| Energy and capacity | \$ 23,753 | \$ 26,135 | \$ 71,015 | \$ 69,085 |
| Lease portion of energy and capacity | 19,330 | 17,296 | 58,289 | 51,907 |
| Lease income | 1,311 | 1,311 | 3,932 | 3,932 |
| | \$ 44,394 | \$ 44,742 | \$ 133,236 | \$ 124,924 |

NOTE 10 INTEREST EXPENSE, NET

The components of interest expense are as follows:

| | Three Months Ended September 30, 2009 2008 | | Nine Months Ended September 30, 2009 2008 | |
|---|--|----------|---|-----------|
| | (Dollars in thousands) | | (Dollars in thousands) | |
| Parent | \$ 184 | \$ 790 | \$ 937 | \$ 2,790 |
| Interest related to sale of equity interest | 1,958 | 2,158 | 6,039 | 5,325 |
| Other | 9,537 | 6,086 | 24,600 | 18,488 |
| Less amount capitalized | (7,321) | (6,017) | (19,513) | (13,949) |
| | \$ 4,358 | \$ 3,017 | \$ 12,063 | \$ 12,654 |

NOTE 11 EARNINGS PER SHARE

Basic earnings per share attributable to the Company's stockholders (earnings per share) is computed by dividing net income attributable to the Company's stockholders 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.

Table of Contents**ORMAT TECHNOLOGIES, INC. AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)**

The table below shows the reconciliation of the number of shares used in the computation of basic and diluted earnings per share:

| | Three Months Ended | | Nine Months Ended | |
|---|---------------------------|-------------|--------------------------|-------------|
| | September 30, | | September 30, | |
| | 2009 | 2008 | 2009 | 2008 |
| | (In thousands) | | (In thousands) | |
| Weighted average number of shares used in computation of basic earnings per share | 45,413 | 45,337 | 45,379 | 43,782 |
| Add: | | | | |
| Additional shares from the assumed exercise of employee stock options | 151 | 146 | 98 | 139 |
| Weighted average number of shares used in computation of diluted earnings per share | 45,564 | 45,483 | 45,477 | 43,921 |

The number of stock options that could potentially dilute future earnings per share and were not included in the computation of diluted earnings per share because to do so would have been antidilutive was 817,500 and 830,446, respectively, for the three months ended September 30, 2009 and 2008, and 1,075,673 and 674,111, respectively, for the nine months ended September 30, 2009 and 2008.

NOTE 12 BUSINESS SEGMENTS

The Company has two reporting segments: Electricity and Product Segments. These segments are managed and reported separately as each offers different products and serves different markets. The Electricity Segment is engaged in the sale of electricity from the Company's power plants pursuant to power purchase agreements. The Product 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.

Table of Contents**ORMAT TECHNOLOGIES, INC. AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**
(Unaudited)

Summarized financial information concerning the Company's reportable segments is shown in the following tables:

| | Electricity | Product | Consolidated |
|--|-------------------------------|----------------|---------------------|
| | (Dollars in thousands) | | |
| Three Months Ended September 30, 2009 | | | |
| Net revenues from external customers | \$ 68,715 | \$ 51,113 | \$ 119,828 |
| Intersegment revenues | | (199) | (199) |
| Operating income | 17,612 | 8,349 | 25,961 |
| Segment assets at period end* | 1,744,597 | 86,885 | 1,831,482 |
| Three Months Ended September 30, 2008 | | | |
| Net revenues from external customers | \$ 68,837 | \$ 30,889 | \$ 99,726 |
| Intersegment revenues | | 44,278 | 44,278 |
| Operating income | 16,914 | 2,212 | 19,126 |
| Segment assets at period end* | 1,509,933 | 72,551 | 1,582,484 |
| Nine Months Ended September 30, 2009 | | | |
| Net revenues from external customers | \$ 191,915 | \$ 128,037 | \$ 319,952 |
| Intersegment revenues | | 17,022 | 17,022 |
| Operating income | 38,832 | 23,005 | 61,837 |
| Segment assets at period end* | 1,744,597 | 86,885 | 1,831,482 |
| Nine Months Ended September 30, 2008 | | | |
| Net revenues from external customers | \$ 190,130 | \$ 59,204 | \$ 249,334 |
| Intersegment revenues | | 77,619 | 77,619 |
| Operating income | 43,586 | 2,240 | 45,826 |
| Segment assets at period end* | 1,509,933 | 72,551 | 1,582,484 |

* Segment assets of the Electricity Segment include unconsolidated investments.

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

| | Three Months Ended | | Nine Months Ended | |
|-------------------------------------|-------------------------------|-------------|-------------------------------|-------------|
| | September 30, | | September 30, | |
| | 2009 | 2008 | 2009 | 2008 |
| | (Dollars in thousands) | | (Dollars in thousands) | |
| Operating income | \$ 25,961 | \$ 19,126 | \$ 61,837 | \$ 45,826 |
| Interest income | 157 | 637 | 585 | 2,735 |
| Interest expense, net | (4,358) | (3,017) | (12,063) | (12,654) |
| Non-operating income and other, net | 5,435 | 1,901 | 14,378 | 8,544 |

| | | | | |
|--|-----------|-----------|-----------|-----------|
| Total consolidated income before income taxes and equity in income in investees | \$ 27,195 | \$ 18,647 | \$ 64,737 | \$ 44,451 |
|--|-----------|-----------|-----------|-----------|

NOTE 13 CONTINGENCIES

The Company is a defendant in various 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.

Table of Contents**ORMAT TECHNOLOGIES, INC. AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)****NOTE 14 CASH DIVIDENDS**

On February 24, 2009, the Company's Board of Directors declared, approved and authorized payment of a quarterly dividend of \$3.2 million (\$0.07 per share) to all holders of the Company's issued and outstanding shares of common stock on March 16, 2009. Such dividend was paid on March 26, 2009.

On May 8, 2009, the Company's Board of Directors declared, approved and authorized payment of a quarterly dividend of \$2.7 million (\$0.06 per share) to all holders of the Company's issued and outstanding shares of common stock on May 20, 2009. Such dividend was paid on May 27, 2009.

On August 5, 2009, the Company's Board of Directors declared, approved and authorized payment of a quarterly dividend of \$2.7 million (\$0.06 per share) to all holders of the Company's issued and outstanding shares of common stock on August 18, 2009. Such dividend was paid on August 27, 2009.

NOTE 15 INCOME TAXES

The Company's effective tax rate for the three months ended September 30, 2009 and 2008 was 16.0% and 17.1%, respectively, and for the nine months ended September 30, 2009 and 2008 was 19.0% and 17.7%, respectively, which differs from the federal statutory rate of 35% primarily due to: (i) the benefit of production tax credits for new power plants placed in service since 2005; (ii) lower tax rates in Israel; (iii) a tax credit and tax exemption related to the Company's subsidiaries in Guatemala; (iv) and adjustments to income taxes provided in the prior year due to a change in estimate.

A reconciliation of the beginning and ending amounts of unrecognized tax benefits is as follows:

| | Nine Months Ended September 30, 2009 (Dollars in thousands) | |
|---|--|-------|
| Balance at beginning of period | \$ | 3,425 |
| Additions based on tax positions taken in prior years (including interest and penalties of \$570,000) | | 1,001 |
| Reductions for tax positions taken in prior years | | (347) |
| Balance at end of period | \$ | 4,079 |

NOTE 16 SUBSEQUENT EVENTS

The Company has evaluated events through November 4, 2009, the date of issuance of the financial statements.

Acquisition of Class B Membership Units in OPC

On October 30, 2009, Ormat Nevada acquired Lehman-OPC LLC's thirty percent interest in the Class B membership units of OPC. The membership units were acquired from Lehman-OPC LLC pursuant to a right of first offer for a price of \$18.5 million. A substantial portion of the initial sale of the Class B membership units by Ormat Nevada was accounted for as a financing. As a result, the repurchase of these interests at a discount will result in a pre-tax gain of approximately \$13 million in the fourth quarter of 2009.

Loan Agreement

On November 4, 2009, the Company entered into a 5-year loan agreement of \$50.0 million with a commercial bank. The bank loan matures on November 10, 2014 and is payable in 10 semi-annual installments

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ORMAT TECHNOLOGIES, INC. AND SUBSIDIARIES

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

commencing May 10, 2010. The loan bears interest at 6-month LIBOR plus 3.25%. The Company has the option to fix the interest rate upon the drawing of the loan.

Cash Dividend

On November 4, 2009, the Company's Board of Directors declared, approved and authorized payment of a quarterly dividend of \$2.7 million (\$0.06 per share) to all holders of the Company's issued and outstanding shares of common stock on November 18, 2009, payable on December 1, 2009.

Options Grant

On November 4, 2009, the Company granted to four non-employee directors non-qualified stock options, under the 2004 Incentive Plan, to purchase 30,000 shares of common stock (7,500 shares each) at an exercise price which is equal to the closing price of the Company's common stock on November 5, 2009 (since the Company released its quarterly results on November 4, 2009). Such options will expire seven years from the date of grant and will vest on the first anniversary of the date of grant.

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

This quarterly report on Form 10-Q 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 quarterly 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, plans, anticipates, believes, estimates, predicts, projects, potential, or contemplate or the ne 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 quarterly 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;

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;

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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, 2008 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 (SEC).

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, 2008 and any updates contained herein as well as those set forth in our 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, sell, own and operate clean, environmentally friendly geothermal and recovered energy-based power plants, in most cases 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 Product 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. We have recently decided to expand our activities in the Electricity Segment to include the ownership and operation of power plants that produce electricity generated by solar-photovoltaic (PV) systems that we do not manufacture. In our Product 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 Product Segment operations are conducted in the United States and throughout the world. Our current generating portfolio

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includes geothermal power plants in the United States, Guatemala, Kenya, Nicaragua and New Zealand, as well as recovered energy generation (REG) power plants in the United States. During the nine months ended September 30, 2009 and 2008, our consolidated U.S. and international power plants generated 2,500,110 MWh and 2,115,344 MWh, respectively.

For the nine months ended September 30, 2009, our Electricity Segment represented approximately 60.0% of our total revenues, while our Product Segment represented approximately 40.0% of our total revenues during such period. For the nine months ended September 30, 2008, our Electricity Segment represented approximately 76.3% of our total revenues, while our Product Segment represented approximately 23.7% of our total revenues during such period.

For the nine months ended September 30, 2009, our total revenues increased by 28.3% (from \$249.3 million to \$320.0 million) over the same period last year. Revenues from the Product Segment increased by 116.3%, while revenues from the Electricity Segment increased by 0.9%.

For the nine months ended September 30, 2009, total Electricity Segment revenues from the sale of electricity by our consolidated power plants were \$191.9 million, compared to \$190.1 million for the nine months ended September 30, 2008. In addition, revenues from our 50% ownership of the Mammoth complex in the nine months ended September 30, 2009 and 2008 were \$7.4 million and \$7.3 million, respectively. This additional data is a Non-Generally Accepted Accounting Principles (Non-GAAP) financial measure, as defined by the SEC. There is no comparable GAAP measure. We believe that such Non-GAAP data is useful to the readers as it provides a more complete view of the scope of activities of the power plants that we operate. Our investment in the Mammoth complex is accounted for in our consolidated financial statements under the equity method and the revenues are not included in our consolidated revenues for the nine months ended September 30, 2009 and 2008.

For the nine months ended September 30, 2009, revenues attributable to our Product Segment were \$128.0 million, compared to \$59.2 million for the nine months ended September 30, 2008, an increase of 116.3%. Most of this increase in revenues was derived from EPC contracts with third parties for the construction of three large binary geothermal projects, the Blue Mountain project in Nevada, the Centennial Binary Plant in New Zealand and the Las Pailas project in Costa Rica.

Revenues from our Electricity Segment are relatively predictable, as they are derived from sales of electricity generated by our power plants pursuant to long-term power purchase agreements. The price for electricity under all but one of our power purchase agreements is effectively a fixed price at least through May 2012. The exception is the power purchase agreement of the Puna power plant. It has a variable energy rate based on the local utility's avoided cost, which is the incremental cost that the power purchaser avoids by not having to generate such electrical energy itself or purchase it from others. In the nine months ended September 30, 2009, the variable energy rate in the Puna power plant decreased significantly mainly as a result of lower oil prices, which in turn impacted the gross margin in our Electricity Segment. In the nine months ended September 30, 2009, 91.1% of our electricity revenues were derived from contracts with fixed energy rates, and therefore most of our electricity revenues were not affected by the fluctuations in energy commodity prices. However, electricity revenues are subject to seasonal variations and can be affected by higher-than average ambient temperatures, as described below under the heading "Seasonality". Revenues attributable to our Product Segment are based on the sale of equipment and the provision of various services to our customers. These revenues may vary from period to period because of the timing of our receipt of purchase orders and the progress of our execution of each project.

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, we typically focus on the internal rate of return of the relevant investment, relevant technical and geological matters and other relevant business considerations. We evaluate our operating projects based on revenues and expenses, and our projects that are

under development based on costs attributable to each such project. We evaluate the performance of our Product Segment based on the timely delivery of our products, performance quality of our products and costs actually incurred to complete customer orders compared to the costs originally budgeted for such orders.

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Recent Developments

On November 4, 2009, we signed a 20-year power purchase agreement with Nevada Power Company for a 30 MW power plant for the McGinness Hills project in Nevada. The power purchase agreement is still subject to various approvals including the Public Utilities Commission of Nevada (PUCN) approval.

In November 2009, we entered into a 5-year loan agreement of \$50.0 million with a commercial bank. The bank loan matures on November 10, 2014 and is payable in 10 semi-annual installments commencing May 10, 2010. The loan bears interest at 6-month LIBOR plus 3.25% and we have the option to fix the interest rate upon the drawing of the loan.

In October 2009, our wholly owned subsidiary, Ormat Nevada Inc. (Ormat Nevada) was awarded \$13.8 million of grants under the Department of Energy's Innovative Exploration and Drilling Projects program for three of its projects: Maui, Glass Buttes and Wister. The total amount of the grants accounts for approximately 62% of the total exploration budget of these projects. Ormat Nevada will use a combination of technologies to locate fault zones within geothermal reservoirs, with initial tests in Maui, Hawaii, Glass Buttes, Oregon and in Wister, California.

On October 30, 2009, Ormat Nevada acquired Lehman-OPC LLC's thirty percent interest in the Class B membership units of OPC. The membership units were acquired from Lehman-OPC LLC pursuant to a right of first offer for a price of \$18.5 million. A substantial portion of the initial sale of the Class B membership units by Ormat Nevada was accounted for as a financing. As a result, the repurchase of these interests at a discount will result in a pre-tax gain of approximately \$13 million in the fourth quarter of 2009.

In October 2009, our Israeli subsidiary, Ormat Systems Ltd. (Ormat Systems), signed a Joint Venture Agreement (JVA) with Sunday Energy Ltd. (Sunday), a private company incorporated under the laws of Israel, to develop, construct and operate solar-photovoltaic (PV) energy systems in Israel with a total capacity of 36 MW. Under the JVA, Sunday will contribute the rights to all of its property and roofs required to develop solar energy systems above 1 MW to special purpose entities (SPEs). Ormat Systems will own 70% of each SPE. Under the terms of the JVA, Ormat Systems and Sunday will act, jointly, as the EPC contractor and the operator of each project in accordance with each company's share in the SPEs. The electricity generated from the projects will be sold to Israel Electric Corporation Ltd. under long-term power purchase agreements (20 years) and will generate aggregate annual revenues of approximately \$30 million across all SPEs. The SPEs expect to finance their capital expenditure with 80% non-recourse third party project finance debt.

In July 2009, we entered into certain amendments to certain of our power purchase agreements for our projects in Nevada that among other things removed the provisions that had provided for the payment of liquidated damages if certain minimum performance or availability criteria were not met. These amendments are subject to the approval of the PUCN.

In July 2009, we entered into a 6-year loan agreement and an 8-year loan agreement of \$20.0 million each with two separate groups of financial institutions.

Since the beginning of the year, we have secured new lease agreements covering approximately 6,000 acres of federal and private land in Nevada and California.

In May 2009, our wholly owned subsidiary, Ortitlan Limitada, entered into a project financing loan of \$42.0 million to refinance its investment in the 20.5 MW Amatitlan geothermal power plant. The loan was provided by TCW Global Project Fund II, Ltd.

In the second quarter of 2009, we completed construction of a new 75,000 square foot manufacturing facility, which we lease from our parent, adjacent to our existing facility in Yavne, Israel. The new facility will enable us to expand our manufacturing capabilities.

In March 2009, we declared commercial operation of the 4 MW recovered energy generation (REG) power plant that converts recovered waste heat from the exhaust of an existing gas turbine at a compressor station located along a natural gas pipeline near Denver, Colorado. The electricity produced by the power plant is sold under a 20-year power purchase agreement to Highline Electric Association Inc., a consumer owned cooperative in Colorado and Nebraska.

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In January 2009, we declared commercial operation of Phase II of the Olkaria III geothermal power plant in Kenya, the construction of which was completed in December 2008. The new power plant added 35 MW to the existing 13 MW power plant that has been in continuous operation since 2001. Following the declaration of commercial operation our wholly owned subsidiary, OrPower 4, Inc. closed a project financing loan of \$105.0 million in March 2009 to refinance its investment in the 48 MW Olkaria III geothermal power plant. The loan was provided by a group of European Development Finance Institutions (DFIs) arranged by DEG Deutsche Investitions- und Entwicklungsgesellschaft mbH (DEG). The first disbursement of \$90.0 million occurred on March 23, 2009, and the second disbursement of \$15.0 million occurred on July 10, 2009.

In January 2009, we signed a contract with Banco Centroamericano de Integración Económica (BCIE) for the supply, supervision of installation, start-up and testing of the Las Pailas Geothermal Plant, a new geothermal power plant that is to be constructed in the Las Pailas Field, Costa Rica. The power plant will be utilized by Instituto Costarricense de Electricidad, the Costa Rican national electricity and telecommunications company. The contract is valued at approximately \$65.0 million and the supply portion of the contract is expected to be completed within 18 months from the contract start date.

In January 2009, we declared commercial operation of the second 5.5 MW REG unit of the OREG 2 power plants, located in North Dakota. The electricity produced by the power plants is sold to Basin Electric Power Cooperative under a 20-year power purchase agreement.

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 costs for electricity generated from geothermal resources have become more competitive relative to fossil fuel generation. This has partly been due to increasing natural gas and oil prices during much of this period and, equally important, to newly enacted legislative and regulatory requirements and incentives, such as state renewable portfolio standards and federal tax credits. The recently enacted American Recovery and Reinvestment Act (ARRA) further encourages the use of geothermal energy through production or investment tax credits as well as cash grants (which are discussed in more detail in the section entitled "Government Grants and Tax Benefits"). We see the increasing demand for energy generated from geothermal and other renewable resources in the United States and the further introduction of renewable portfolio standards as 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.

We expect to continue to generate the majority of our revenues from our Electricity Segment through the sale of electricity from our power plants. All of our current revenues from the sale of electricity are derived from fully-contracted long-term power purchase agreements. We also intend to continue to pursue growth in our recovered energy business.

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:

The global recession resulting from the recent disruption in the global credit markets, failures or material business deterioration of investment banks, commercial banks, and other financial institutions and

intermediaries in the United States and elsewhere around the world, significant reductions in asset values across businesses, households and individuals, and the slowdown in manufacturing and other business activity has also resulted in reduced worldwide demand for energy. If these conditions continue or worsen, they may adversely affect both our Electricity and Product Segments. Among other things, we might face: (i) potential declines in revenues in our Products Segment due to reduced orders or other factors caused by economic challenges faced by our customers and prospective customers; (ii) potential declines in revenues from some of our existing geothermal power projects as a result of

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curtailed electricity demand and low oil and gas prices; and (iii) potential adverse impacts on our customers ability to pay, when due, amounts payable to us. In addition, we may experience related increases in our cost of capital associated with any increased working capital or borrowing needs we may have if our customers do not pay, or if we are unable to collect amounts payable to us in full (or at all) if any of our customers fail or seek protection under applicable bankruptcy or insolvency laws.

The worldwide credit crisis has reduced the availability of liquidity and credit to fund the continuation and expansion of industrial business operations worldwide. While we have sufficient financial resources to fund our projected activities for 2009, if these conditions continue or worsen, the cost of obtaining financing for our project needs may increase or such financing may not be available at all.

Our primary focus continues to be the implementation of our organic growth through exploration, development, the construction of new projects and enhancements of existing projects. We expect that this investment in organic growth will increase our total generating capacity, consolidated revenues and operating income attributable to our Electricity Segment year over year. We may look at acquisition opportunities that may arise.

In the United States, we expect to continue to benefit from the increasing demand for renewable energy. Thirty-six states and the District of Columbia, including California, Nevada and Hawaii (where we have been most active in geothermal development and in which all of our U.S. geothermal projects are located) have adopted renewable portfolio standards (RPS), renewable portfolio goals or other similar laws. These laws require that an increasing percentage of the electricity supplied by electric utility companies operating in such states be derived from renewable energy resources until certain pre-established goals are met. We expect that the additional demand for renewable energy from utilities in such states will outpace a possible reduction in general demand for energy due to the economic slow down and will continue to create opportunities for us to expand existing projects and build new power plants.

We expect that the increased awareness of climate change may result in significant changes in the business and regulatory environments, which may create business opportunities for us going forward. Although federal legislation addressing climate change appears likely, several states and regions are already addressing climate change. For example, the California Global Warming Solutions Act of 2006 (the Act), which was signed into law in September 2006, regulates most sources of greenhouse gas emissions and aims to reduce greenhouse gas emissions to 1990 levels by 2020, representing an approximately 30% reduction in greenhouse gas emissions from projected 2020 levels or about 15% from 2008 levels. The California Air Resources Board is expected to put in place measures for implementing the Act by 2012. In September of 2006, California also passed Senate Bill 1368, which prohibits the state's utilities from entering into long-term financial commitments for base-load generation with power plants that fail to meet a CO₂ emission performance standard established by the California Energy Commission and the California Public Utilities Commission. California's long-term climate change goals are reflected in Executive Order S-3-05, which requires a reduction in greenhouse gases to: (i) 2000 levels by 2010, (ii) 1990 levels by 2020 and (iii) 80% of 1990 levels by 2050. In addition to California, twenty-one other states have set greenhouse gas emissions targets (Arizona, Colorado, Connecticut, Florida, Hawaii, Illinois, Maine, Maryland, Massachusetts, Minnesota, Montana, New Hampshire, New Jersey, New Mexico, New York, Oregon, Rhode Island, Utah, Vermont, Virginia and Washington). Regional initiatives, such as the Western Climate Initiative (which includes seven U.S. states and four Canadian provinces) and the Midwest Greenhouse Gas Reduction Accord, are also being developed to reduce greenhouse gas emissions and develop trading systems for renewable energy credits. In September 2008, the first-in-the-nation auction of CO₂ allowances was held under the Regional Greenhouse Gas Initiative (RGGI), a regional cap-and-trade system, which includes ten Northeast and Mid-Atlantic States. Under RGGI, the ten participating states plan to stabilize power sector carbon emissions at their capped level, and then reduce the

cap by 10 percent at a rate of 2.5 percent each year between 2015 and 2018. In addition, thirty-six states and the District of Columbia have all adopted RPS, as discussed above. In November 2008, California, by Executive Order S-14-08, adopted a goal for all retailers of electricity to serve 33% of their load with renewable energy by 2020,

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and in September of 2009, Executive Order S-21-09 directed the California Air Resources Board to adopt regulations consistent with the 33% renewable energy target by July 31, 2010. Although it is currently difficult to quantify the direct economic benefit of these efforts to reduce greenhouse gas emissions, we believe they will prove advantageous to us.

Outside of the United States, we expect that a variety of governmental initiatives will create new opportunities for the development of new projects, as well as create additional markets for our products. These initiatives include the award of long-term contracts to independent power generators, the creation of competitive wholesale markets for selling and trading energy, capacity and related energy products and the adoption of programs designed to encourage clean renewable and sustainable energy sources.

We expect competition from the wind and solar power generation industry to continue. The current demand for renewable energy is large enough that this increased competition has not materially impacted our ability to obtain new power purchase agreements. However, the increase in competition and in the amount of renewable energy under contract may contribute to a reduction in electricity prices. Despite increased competition from the wind and solar power generation industry, we believe that baseload electricity, such as geothermal-based energy, will continue to be a leading source of renewable energy in areas with commercially viable geothermal resources.

We expect increased competition from binary power plant equipment suppliers. While we believe that we have a distinct competitive advantage based on our accumulated experience and current worldwide share of installed binary generation capacity, which is in excess of 90%, an increase in competition may lead to a reduction in prices that we are able to charge for our binary equipment, which in turn may impact our profitability.

We also expect increased competition from new developers which may impact the prices and availability of new leases for geothermal resource.

While the current demand for renewable energy is large enough that increased competition has not impacted our ability to obtain new power purchase agreements and new leases, increased competition in the power generation space may contribute to a reduction in electricity prices, and increased competition in geothermal leasing may contribute to an increase in lease costs.

The viability of a geothermal resource depends on various factors such as the resource temperature, the permeability of the resource (i.e., the ability to get geothermal fluids to the surface) and operational factors relating to the extraction of the geothermal fluids. Such factors, together with the possibility that we may fail to find commercially viable geothermal resources in the future, represent significant uncertainties we face in connection with our operations.

As our power plants age, they may require increased maintenance with a resulting decrease in their availability, potentially leading to the imposition of penalties if we are not able to meet the requirements under our power purchase agreements as a result of such decrease in availability.

Our foreign operations are subject to significant political, economic and financial risks, which vary by country. These risks include the partial privatization of the electricity sector in Guatemala, labor unrest in Nicaragua and the political uncertainty currently prevailing in some of the countries in which we operate. Although we maintain political risk insurance for most of our foreign power plants to mitigate these risks, insurance does not provide complete coverage with respect to all such risks.

On May 5, 2009, President Obama and the U.S. Treasury Department proposed changing certain of the U.S. tax rules for U.S. corporations doing business outside the United States. The proposed changes would limit the ability of U.S. corporations to deduct expenses attributable to offshore earnings, modify the foreign tax credit rules and further restrict the ability of U.S. corporations to transfer funds between foreign subsidiaries without triggering a requirement to pay U.S. income tax. Although the scope of the proposed changes is unclear, it is possible that these or other changes in the U.S. tax laws may increase our U.S. income tax liability and adversely affect our profitability.

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The Energy Policy Act of 2005 authorizes the Federal Energy Regulatory Commission (FERC) to revise the Public Utility Regulatory Policies Act (PURPA) so as to terminate the obligation of electric utilities to purchase the output of a Qualifying Facility if FERC finds that there is an accessible competitive market for energy and capacity from the Qualifying Facility. The legislation does not affect existing power purchase agreements. We do not expect this change in law to affect our U.S. projects significantly, as all except one of our current contracts (our Steamboat 1 power plant, which sells its electricity to Sierra Pacific Power Company on a year-by-year basis) are long-term. FERC issued a final rule that makes it easier to eliminate the utilities purchase obligation in four regions of the country. None of those regions includes a state in which our current projects operate. However, FERC has the authority under the Energy Policy Act of 2005 to act, on a case-by-case basis, to eliminate the mandatory purchase obligation in other regions. If the utilities in the regions in which our domestic projects operate were to be relieved of the mandatory purchase obligation, they would not be required to purchase energy from us upon termination of the existing power purchase agreements, which could have an adverse effect on our revenues.

Revenues

We generate our revenues from the sale of electricity from our geothermal and recovered energy-based power plants; the design, manufacturing and sale of equipment for electricity generation; and the construction, installation and engineering of power plant equipment.

Revenues attributable to our Electricity Segment are relatively predictable as they are derived from the sale of electricity from our power plants pursuant to long-term power purchase agreements. However, such revenues are subject to seasonal variations, as more fully described below in the section entitled *Seasonality*. Electricity Segment revenues may also be affected by higher-than-average ambient temperatures, which could cause a decrease in the generating capacity of our power plants, and by unplanned major maintenance activities related to our power plants.

Our power purchase agreements generally provide for the payment of energy payments, or energy and capacity payments. Generally, capacity payments are payments calculated based on the amount of time that our power plants are available to generate electricity. Some of our power purchase agreements provide for bonus payments in the event that we are able to exceed certain target levels and the potential forfeiture of payments if we fail to meet minimum target levels. Energy payments, on the other hand, are payments calculated based on the amount of electrical energy delivered to the relevant power purchaser at a designated delivery point. The rates applicable to such payments are either fixed (subject, in certain cases, to certain adjustments) or are based on the relevant power purchaser's short run avoided costs (the incremental costs that the power purchaser avoids by not having to generate such electrical energy itself or purchase it from others). Our more recent power purchase agreements provide generally for energy payments along with an obligation to compensate the off-taker for its incremental costs as a result of shortfalls in our supply.

The prices paid for electricity pursuant to the power purchase agreement of the Puna power plant are tied to the price of oil. Accordingly, our revenues for that power plant, which accounted for approximately 3.8% and 6.0% of our total revenues for the three and nine-month periods ended September 30, 2009, respectively, may be volatile.

Revenues attributable to our Product Segment are generally less predictable than revenues from our Electricity Segment. This is because larger customer orders for our products are typically a result of our participating in, and winning, tenders or requests for proposals issued by potential customers in connection with projects they are developing. Such projects often take a long time to design and develop and are often subject to various contingencies such as the customer's ability to raise the necessary financing for a project. As a result, we are generally unable to predict the timing of such orders for our products and may not be able to replace existing orders that we have completed with new ones. As a result, our revenues from our Product Segment fluctuate (and at times, extensively)

from period to period. As discussed under Trends and Uncertainties above, we may experience declines in revenues in our Product Segment due to reduced orders

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or other factors caused by the global recession and economic challenges faced by our customers and prospective customers.

The following table sets forth a breakdown of our revenues for the periods indicated:

| | Revenues in Thousands | | | | % of Revenues for Period Indicated | | | |
|---------------------|--|-----------|---|------------|--|--------|---|--------|
| | Three Months Ended September 30, 2009 | | Nine Months Ended September 30, 2009 | | Three Months Ended September 30, 2009 | | Nine Months Ended September 30, 2008 | |
| Revenues | | | | | | | | |
| Electricity Segment | \$ 68,715 | \$ 68,837 | \$ 191,915 | \$ 190,130 | 57.3% | 69.0% | 60.0% | 76.3% |
| Product Segment | 51,113 | 30,889 | 128,037 | 59,204 | 42.7 | 31.0 | 40.0 | 23.7 |
| Total | \$ 119,828 | \$ 99,726 | \$ 319,952 | \$ 249,334 | 100.0% | 100.0% | 100.0% | 100.0% |

Geographical Breakdown of Revenues

For the three months ended September 30, 2009, 72.6% of our revenues attributable to our Electricity Segment were generated in the United States, compared to 83.1% for the same period in 2008. For the nine months ended September 30, 2009, 71.5% of our revenues attributable to our Electricity Segment were generated in the United States, compared to 82.0% for the same period in 2008.

The following table sets forth the geographic breakdown of the revenues attributable to our Electricity Segment for the periods indicated:

| | Revenues in Thousands | | | | % of Revenues for Period Indicated | | | |
|---------------|--|-----------|---|------------|--|--------|---|--------|
| | Three Months Ended September 30, 2009 | | Nine Months Ended September 30, 2009 | | Three Months Ended September 30, 2009 | | Nine Months Ended September 30, 2008 | |
| United States | \$ 49,877 | \$ 57,195 | \$ 137,160 | \$ 155,958 | 72.6% | 83.1% | 71.5% | 82.0% |
| Foreign | 18,838 | 11,642 | 54,755 | 34,172 | 27.4 | 16.9 | 28.5 | 18.0 |
| Total | \$ 68,715 | \$ 68,837 | \$ 191,915 | \$ 190,130 | 100.0% | 100.0% | 100.0% | 100.0% |

For the three months ended September 30, 2009, 20.0% of our revenues attributable to our Product Segment were generated in the United States, compared to 51.9% for the same period in 2008. For the nine months ended September 30, 2009, 44.9% of our revenues attributable to our Product Segment were generated in the United States, compared to 39.7% for the same period in 2008.

A discussion of the reasons for these changes in the geographical breakdown of our revenues is provided further below in this report.

Seasonality

The prices paid for the electricity generated by our domestic projects pursuant to our power purchase agreements are subject to seasonal variations. The prices paid for electricity under the power purchase agreements with Southern California Edison Company (Southern California Edison) for the Heber 1 and 2 plants, the Mammoth complex and the Ormesa complex and the prices that will be paid for the electricity under the power purchase agreement for the North Brawley project are higher in the months of June through September. As a result, we receive and will receive in the future higher revenues during such months. The prices paid for electricity pursuant to the power purchase agreements of our projects in Nevada have no significant changes during the year. In the winter, due principally to the lower ambient temperature, our power plants produce more energy and as a result we receive higher energy revenues. However, the higher capacity payments payable by Southern California Edison in California in the summer months have a more significant impact on our revenues than that of the higher energy revenues generally generated in winter due to increased efficiency. As a result, our electricity revenues are generally higher in the summer than in the winter.

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Breakdown of Cost of Revenues

Electricity Segment

The principal expenses attributable to our operating projects include operation and maintenance expenses such as depreciation and amortization, salaries and related employee benefits, equipment expenses, costs of parts and chemicals, costs related to third-party services, lease expenses, royalties, startup and auxiliary electricity purchases, property taxes and insurance and, for the California projects, transmission charges, scheduling charges and purchases of make-up water for use in our cooling towers. Some of these expenses, such as parts, third-party services and major maintenance, are not incurred on a regular basis. This results in fluctuations in our expenses and our results of operations for individual projects from quarter to quarter. The lease expense related to the Puna lease transactions is included as a separate line item in our Electricity Segment cost of revenues (See *Liquidity and Capital Resources*). For management purposes, we analyze such costs on a combined basis with other cost of revenues in our Electricity Segment.

Payments made to government agencies and private entities on account of site leases where plants are located are included in cost of revenues. Royalty payments, included in cost of revenues, are made as compensation for the right to use certain geothermal resources and are paid as a percentage of the revenues derived from the associated geothermal rights. For the nine months ended September 30, 2009, royalties constituted approximately 3.8% of the Electricity Segment revenues, compared to approximately 5.3% for the same period in 2008.

Product Segment

The principal expenses attributable to our Product Segment include materials, salaries and related employee benefits, expenses related to subcontracting activities, transportation expenses and sales commissions to sales representatives. Some of the principal expenses attributable to our Product Segment, such as a portion of the costs related to labor, utilities and other support services are fixed, while others, such as materials, construction, transportation and sales commissions, are variable and may fluctuate significantly, depending on market conditions. As a result, the cost of revenues attributable to our Product Segment, expressed as a percentage of total revenues, fluctuates. Another reason for such fluctuation is that in responding to bids for our products, we price our products and services in relation to existing competition and other prevailing market conditions, which may vary substantially from order to order.

Cash and Cash Equivalents

Our cash and cash equivalents as of September 30, 2009 decreased to \$20.3 million from \$34.4 million as of December 31, 2008. This decrease is principally due to our use of \$212.3 million of cash resources to fund capital expenditures and \$29.6 million to repay long-term debt to our parent and to third parties. The decrease in our cash resources was partially offset by the receipt of \$105.0 million of the OrPower 4 Inc. financing, receipt of \$42.0 million from the Amatitlan financing, \$40.0 million proceeds from long-term loan agreements with two groups of institutional investors, \$12.0 million from using revolving credit lines with banks, and \$77.7 million derived from operating activities during the first nine months of 2009. Our corporate borrowing capacity under committed lines of credit with different commercial banks is \$347.5 million, as described below in the section entitled *Liquidity and Capital Resources* , of which we utilized \$143.4 million (including \$31.4 million of letters of credit) as of September 30, 2009.

Critical Accounting Policies

A comprehensive discussion of our critical accounting policies is included in the *Management's Discussion and Analysis of Financial Condition and Results of Operations* section in our annual report on Form 10-K for the year ended December 31, 2008.

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New Accounting Pronouncements

On January 1, 2009, we adopted the guidance for accounting for noncontrolling interests in consolidated financial statements. The adoption of the new accounting standard resulted in retrospective presentation on the condensed consolidated balance sheet as of December 31, 2008 and the condensed consolidated statements of operations and comprehensive income for the three and nine months ended September 30, 2008.

On April 1, 2009, we adopted the accounting standard for recognition and presentation of other-than-temporary impairments of debt securities. The adoption of this standard resulted in a reclassification of other-than-temporary impairment charges previously recognized in earnings to other comprehensive income (loss) with an offset to retained earnings.

See Note 2 to our condensed consolidated financial statements set forth in Item 1 of this quarterly report for additional information regarding new accounting pronouncements.

Table of Contents**Results of Operations**

Our historical operating results in dollars and as a percentage of total revenues are presented below. A comparison of the different periods described below may be of limited utility as a result of each of the following: (i) our recent construction of new projects and enhancement of acquired projects; and (ii) fluctuation in revenues from our Product Segment.

| | Three Months Ended September 30, 2009 2008 | | Nine Months Ended September 30, 2009 2008 | |
|---|--|-----------|---|------------|
| | (In thousands, except per share data) | | (In thousands, except per share data) | |
| Statements of Operations Historical Data: | | | | |
| Revenues: | | | | |
| Electricity | \$ 68,715 | \$ 68,837 | \$ 191,915 | \$ 190,130 |
| Product | 51,113 | 30,889 | 128,037 | 59,204 |
| | 119,828 | 99,726 | 319,952 | 249,334 |
| Cost of revenues: | | | | |
| Electricity | 44,394 | 44,742 | 133,236 | 124,924 |
| Product | 35,780 | 23,730 | 87,265 | 47,484 |
| | 80,174 | 68,472 | 220,501 | 172,408 |
| Gross margin: | | | | |
| Electricity | 24,321 | 24,095 | 58,679 | 65,206 |
| Product | 15,333 | 7,159 | 40,772 | 11,720 |
| | 39,654 | 31,254 | 99,451 | 76,926 |
| Operating expenses: | | | | |
| Research and development expenses | 3,863 | 1,894 | 7,151 | 3,375 |
| Selling and marketing expenses | 3,393 | 2,647 | 10,909 | 8,186 |
| General and administrative expenses | 6,437 | 7,587 | 19,554 | 19,539 |
| Operating income | 25,961 | 19,126 | 61,837 | 45,826 |
| Other income (expense): | | | | |
| Interest income | 157 | 637 | 585 | 2,735 |
| Interest expense, net | (4,358) | (3,017) | (12,063) | (12,654) |
| Foreign currency translation and transaction gains (losses) | 1,320 | (1,028) | 1,329 | (2,570) |
| Income attributable to sale of equity interests | 3,869 | 4,995 | 12,403 | 13,159 |
| Other non-operating income (expense), net | 246 | (2,066) | 646 | (2,045) |
| Income before income taxes and equity income of investees | 27,195 | 18,647 | 64,737 | 44,451 |
| Income tax provision | (4,340) | (3,187) | (12,307) | (7,871) |

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| | | | | |
|---|-----------|-----------|-----------|-----------|
| Equity in income of investees, net | 591 | 372 | 1,496 | 1,319 |
| Net income | 23,446 | 15,832 | 53,926 | 37,899 |
| Net loss attributable to the noncontrolling interest | 80 | 79 | 236 | 237 |
| Net income attributable to the Company's stockholders | \$ 23,526 | \$ 15,911 | \$ 54,162 | \$ 38,136 |
| Earnings per share attributable to the Company's stockholders - basic and diluted | \$ 0.52 | \$ 0.35 | \$ 1.19 | \$ 0.87 |
| Weighted average number of shares used in computation of earnings per share attributable to the Company's stockholders: | | | | |
| Basic | 45,413 | 45,337 | 45,379 | 43,782 |
| Diluted | 45,564 | 45,483 | 45,477 | 43,921 |

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| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|-------------|--|-------------|
| | 2009 | 2008 | 2009 | 2008 |
| Statements of Operations Percentage Data: | | | | |
| Revenues: | | | | |
| Electricity | 57.3% | 69.0% | 60.0% | 76.3% |
| Product | 42.7 | 31.0 | 40.0 | 23.7 |
| | 100.0 | 100.0 | 100.0 | 100.0 |
| Cost of revenues: | | | | |
| Electricity | 64.6 | 65.0 | 69.4 | 65.7 |
| Product | 70.0 | 76.8 | 68.2 | 80.2 |
| | 66.9 | 68.7 | 68.9 | 69.1 |
| Gross margin: | | | | |
| Electricity | 35.4 | 35.0 | 30.6 | 34.3 |
| Product | 30.0 | 23.2 | 31.8 | 19.8 |
| | 33.1 | 31.3 | 31.1 | 30.9 |
| Operating expenses: | | | | |
| Research and development expenses | 3.2 | 1.9 | 2.2 | 1.4 |
| Selling and marketing expenses | 2.8 | 2.7 | 3.4 | 3.3 |
| General and administrative expenses | 5.4 | 7.6 | 6.1 | 7.8 |
| Operating income | 21.7 | 19.2 | 19.3 | 18.4 |
| Other income (expense): | | | | |
| Interest income | 0.1 | 0.6 | 0.2 | 1.1 |
| Interest expense, net | (3.6) | (3.0) | (3.8) | (5.1) |
| Foreign currency translation and transaction gains (losses) | 1.1 | (1.0) | 0.4 | (1.0) |
| Income attributable to sale of equity interests | 3.2 | 5.0 | 3.9 | 5.3 |
| Other non-operating income (expense), net | 0.2 | (2.1) | 0.2 | (0.8) |
| Income before income taxes and equity income of investees | 22.7 | 18.7 | 20.2 | 17.8 |
| Income tax provision | (3.6) | (3.2) | (3.8) | (3.2) |
| Equity in income of investees, net | 0.5 | 0.4 | 0.5 | 0.6 |
| Net income | 19.6 | 15.9 | 16.9 | 15.3 |
| Net loss attributable to the noncontrolling interest | 0.1 | 0.1 | 0.1 | 0.1 |
| Net income attributable to the Company's stockholders | 19.6% | 16.0% | 16.9% | 15.3% |

Comparison of the Three Months Ended September 30, 2009 and the Three Months Ended September 30, 2008

Total Revenues

Total revenues for the three months ended September 30, 2009 were \$119.8 million, compared with \$99.7 million for the three months ended September 30, 2008, which represented a 20.2% increase in total revenues. This increase is attributable to our Product Segment, whose revenues increased by 65.5% from the same period in 2008 (for the reasons discussed below). Revenues from our Electricity Segment decreased by 0.2% from the same period last year.

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Electricity Segment

Revenues attributable to our Electricity Segment for the three months ended September 30, 2009 were \$68.7 million, compared to \$68.8 million for the three months ended September 30, 2008, which represented a 0.2% decrease in such revenues. The decrease is a result of a decline in the average revenue rate of our electricity portfolio from \$103 per MWh in the third quarter of 2008 to \$86 per MWh in the third quarter of 2009. The decrease in the average rate is mainly attributable to a decrease in the energy rates in the Puna power plant, due to lower oil prices. Our U.S. and international electricity generation increased from 671,283 MWh in the three months ended September 30, 2008 to 798,931 MWh in the three months ended September 30, 2009. The increase in our electricity generation is principally due to the 35 MW Phase II of the Olkaria III power plant in Kenya, which started generating electricity in January 2009 and to our 8 MW GDL power plant in New Zealand, which started generating electricity in the fourth quarter of 2008. In the United States, the electricity generation increased due to: (i) two new REG units at the OREG II power plants, which were placed in service in December 2008 and January 2009; and (ii) the replacement of turbines in the Steamboat 2/3 power plant. The increase was offset by a decrease in the generating capacity of the Puna power plant due to an enhancement and repair of the geothermal wellfield to increase its availability in advance of the addition of the new 8 MW expansion.

Product Segment

Revenues attributable to our Product Segment for the three months ended September 30, 2009 were \$51.1 million, compared to \$30.9 million for the three months ended September 30, 2008, which represented a 65.5% increase in such revenues. Most of this increase in revenues was derived from EPC contracts with third parties for the construction of three large binary geothermal projects, the Blue Mountain project in Nevada, the Centennial Binary Plant in New Zealand and the Las Pailas project in Costa Rica.

Total Cost of Revenues

Total cost of revenues for the three months ended September 30, 2009 was \$80.2 million, compared to \$68.5 million for the three months ended September 30, 2008, which represented a 17.1% increase in total cost of revenues. This increase is attributable to an increase in our Product Segment, as discussed below. As a percentage of total revenues, our total cost of revenues for the three months ended September 30, 2009 was 66.9% compared with 68.7% for the same period in 2008.

Electricity Segment

Total cost of revenues attributable to our Electricity Segment for the three months ended September 30, 2009 was \$44.4 million, compared to \$44.7 million for the three months ended September 30, 2008, which represented a 0.8% decrease in total cost of revenues for such segment. The decrease over the same period last year is due to decreased royalty costs in the Puna power plant as a result of lower revenues as discussed above. The decrease was partially offset by increased costs (including depreciation) as a result of new and enhanced projects placed into service. Due to the increase in the generation volume, the cost per MWh was lower compared to the third quarter of 2008. As a percentage of total electricity revenues, the total cost of revenues attributable to our Electricity Segment for the three months ended September 30, 2009 was 64.6%, compared to 65.0% for the three months ended September 30, 2008.

Product Segment

Total cost of revenues attributable to our Product Segment for the three months ended September 30, 2009 was \$35.8 million, compared to \$23.7 million for the three months ended September 30, 2008, which represented a 50.8% increase in total cost of revenues related to such segment. This increase is attributable to the increase in our product

revenues. As a percentage of total Product Segment revenues, our total cost of revenues attributable to this segment for the three months ended September 30, 2009 were 70.0% compared to 76.8% for the three months ended September 30, 2008. This decrease is mainly attributable to the volume of revenues, to a different product mix and to a decrease in costs as a result of the global decrease in commodities prices.

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Research and Development Expenses

Research and development expenses for the three months ended September 30, 2009 were \$3.9 million, compared to \$1.9 million for the three months ended September 30, 2008, which represented a 104.0% increase. This increase reflects an expansion of our research and development activities in the following areas: (i) a REG plant specifically designed to use the residual energy from the vaporization process at a liquefied natural gas regasification terminal; (ii) Enhanced Geothermal Systems (EGS); and (iii) water treatment technologies.

Selling and Marketing Expenses

Selling and marketing expenses for the three months ended September 30, 2009 were \$3.4 million, compared to \$2.6 million for the three months ended September 30, 2008, which represented a 28.2% increase. The increase was due primarily to an increase in Product Segment revenues. Selling and marketing expenses for the three months ended September 30, 2009 constituted 2.8% of total revenues for such period compared to 2.7% for the three months ended September 30, 2008.

General and Administrative Expenses

General and administrative expenses for the three months ended September 30, 2009 were \$6.4 million, compared to \$7.6 million for the three months ended September 30, 2008, which represented a 15.2% decrease. Such decrease is primarily attributable to costs incurred in the third quarter of 2008 related to a potential acquisition of geothermal assets that we ultimately decided not to pursue. General and administrative expenses for the three months ended September 30, 2009 constituted 5.4% of total revenues for such period, compared to 7.6% for the three months ended September 30, 2008.

Operating Income

Operating income for the three months ended September 30, 2009 was \$26.0 million, compared to \$19.1 million for the three months ended September 30, 2008. Such increase in operating income was principally attributable to an increase in total revenues as well as an increase in the gross margin of our Product Segment. Operating income attributable to our Electricity Segment for the three months ended September 30, 2009 was \$17.6 million, compared to \$16.9 million for the three months ended September 30, 2008. Operating income attributable to our Product Segment for the three months ended September 30, 2009 was \$8.4 million, compared to \$2.2 million for the three months ended September 30, 2008.

Interest Income

Interest income for the three months ended September 30, 2009 was \$0.2 million, compared to \$0.6 million for the three months ended September 30, 2008, which represented a 75.4% decrease. The decrease is primarily due to a decrease in cash and cash equivalents, marketable securities and restricted cash as well as a decrease in interest rates payable on investments.

Interest Expense, Net

Interest expense, net, for the three months ended September 30, 2009 was \$4.4 million, compared to \$3.0 million for the three months ended September 30, 2008, which represented a 44.4% increase. The \$1.4 million increase is primarily due to an increase in interest expense from the long-term project finance loans of the Olkaria III and Amatitlan power plants, the borrowings under the Company's revolving credit lines with banks and loan agreements with two groups of financial institutions. The increase was partially offset due to an increase of \$1.3 million in interest

capitalized to projects as a result of increased projects under construction, as well as principal repayments.

During the third quarter of 2009, we capitalized \$7.3 million in interest related to projects under construction. We expect this amount to decrease significantly beginning in 2010 due to a lower volume of projects under construction and the upcoming commencement of commercial operation of our North Brawley power plant towards the end of 2009.

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Foreign Currency Translation and Transaction Gains (Losses)

Foreign currency translation and transaction gains for the three months ended September 30, 2009 were \$1.3 million, compared to foreign currency translation and transaction losses of \$1.0 million for the three months ended September 30, 2008. The \$2.3 million increase is primarily due to: (i) foreign currency translation gains in the amount of \$1.3 million with respect to a loan denominated in New Zealand dollars which was granted to our New Zealand subsidiary GDL, whose functional currency is the New Zealand dollar; and (ii) gains on forward and option foreign exchange transactions which do not qualify as hedge transactions for accounting purposes. The foreign currency translation gains in respect of the loan granted to our New Zealand subsidiary will increase the cost of the equipment which was financed by such loan.

Income Attributable to Sale of Equity Interests

Income from the sale of limited liability company interests in OPC to institutional equity investors (as described in the OPC Transaction) for the three months ended September 30, 2009 was \$3.9 million, compared to \$5.0 million for the three months ended September 30, 2008. This income represents the value of production tax credits and taxable income or loss generated by OPC and allocated to the investors. The decrease is due to lower depreciation for tax purposes as a result of declining depreciation rates utilizing the Modified Accelerated Cost Recovery System (MACRS).

Other Non-Operating Income, Net

Other non-operating income, net, for the three months ended September 30, 2009 was \$0.2 million, compared to other non-operating expense of \$2.1 million for the three months ended September 30, 2008. Other non-operating expense for the three months ended September 30, 2008 includes \$2.0 million of impairment as a result of an other-than-temporary decline in the value of auction rate securities.

Income Taxes

Income tax provision for the three months ended September 30, 2009 was \$4.3 million, compared to \$3.2 million for the three months ended September 30, 2008. The effective tax rate for the three months ended September 30, 2009 and 2008 was 16.0% and 17.1%, respectively. The decrease in the effective tax rate primarily resulted from a higher impact of production tax credits on the effective tax rate for the quarter ended September 30, 2009 due to a decrease in our annual forecasted pretax income in the third quarter of 2009.

Equity in Income of Investees

Our participation in the income generated from our investees in the three months ended September 30, 2009 was \$0.6 million, compared to \$0.4 million in the three months ended September 30, 2008. The amount is derived mainly from our 50% ownership of the Mammoth power plant.

Net Income

Net income for the three months ended September 30, 2009 was \$23.4 million, compared to \$15.8 million for the three months ended September 30, 2008, which represents an increase of 48.1%. Such increase in net income was principally attributable to: (i) an increase of \$6.8 million in our operating income; (ii) a \$2.3 million increase in foreign currency transaction and translation gains; and (iii) a \$2.3 million increase in other non-operating income, net. This was partially offset by: (i) a \$1.3 million increase in interest expense; (ii) a \$1.2 million increase in income tax provision; (iii) a \$1.1 million decrease in income attributable to sale of equity interests; and (iv) a \$0.5 million

decrease in interest income.

Comparison of the Nine Months Ended September 30, 2009 and the Nine Months Ended September 30, 2008

Total Revenues

Total revenues for the nine months ended September 30, 2009 were \$320.0 million, compared to \$249.3 million for the nine months ended September 30, 2008, which represented a 28.3% increase in total

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revenues. This increase is primarily attributable to our Product Segment whose revenues increased by 116.3% from the same period in 2008 (for the reasons discussed below). Revenues in our Electricity Segment increased by 0.9% from the same period last year.

Electricity Segment

Revenues attributable to our Electricity Segment for the nine months ended September 30, 2009 were \$191.9 million, compared to \$190.1 million for the nine months ended September 30, 2008, which represented a 0.9% increase in such revenues. The increase in the Electricity Segment revenues is attributable to an increase in our U.S. and international electricity generation from 2,115,344 MWh in the nine months ended September 30, 2008 to 2,500,110 MWh in the nine months ended September 30, 2009. The increase in our electricity generation is principally due to the 35 MW Phase II of the Olkaria III power plant in Kenya, which started generating electricity in January 2009 and to our 8 MW GDL power plant in New Zealand, which started generating electricity in the fourth quarter of 2008. In the United States, the electricity generation increased due to: (i) the new Galena 3 power plant, which was placed in service in the second half of the first quarter of 2008; (ii) two new REG units at the OREG II power plants, which were placed in service in December 2008 and January 2009; and (iii) the replacement of turbines in the Steamboat 2/3 power plant during the second half of 2008. The increase in our electricity revenues was offset by a decrease resulting from a decline in the average revenue rate of our electricity portfolio from \$90 per MWh in the first nine months of 2008 to \$77 per MWh in the first nine months of 2009. The decrease in the average rate is mainly attributable to a decrease in the energy rates in the Puna power plant due to lower oil prices, and the expiration of the adder, an additional energy rate paid to us under the Heber 2 power purchase agreement at the end of July 2008. The decrease in the Electricity Segment revenues in the first nine months of 2009 is also attributable to a temporary decrease in the generating capacity of the Puna power plant due to an enhancement and repair of the geothermal wellfield to increase its availability in advance of the addition of the 8 MW expansion.

Product Segment

Revenues attributable to our Product Segment for the nine months ended September 30, 2009 were \$128.0 million, compared to \$59.2 million for the nine months ended September 30, 2008, which represented a 116.3% increase in such revenues. Most of this increase in revenues was derived from EPC contracts with third parties for the construction of three large binary geothermal projects, the Blue Mountain project in Nevada, the Centennial Binary Plant in New Zealand and the Las Pailas project in Costa Rica.

Total Cost of Revenues

Total cost of revenues for the nine months ended September 30, 2009 was \$220.5 million, compared to \$172.4 million for the nine months ended September 30, 2008, which represented a 27.9% increase in total cost of revenues. This increase is attributable to an increase in both our Electricity and Product Segments, as discussed below. As a percentage of total revenues, our total cost of revenues for the nine months ended September 30, 2009 was 68.9% compared with 69.1% for the same period in 2008.

Electricity Segment

Total cost of revenues attributable to our Electricity Segment for the nine months ended September 30, 2009 was \$133.2 million, compared to \$124.9 million for the nine months ended September 30, 2008, which represented a 6.7% increase in total cost of revenues for such segment. The increase from the same period last year is due to: (i) increased costs (including depreciation) as a result of new and enhanced projects placed into service; and (ii) an increase in certain maintenance costs in order to ensure higher availability during the summer, when electricity rates paid under the relevant power purchase agreement are higher. This increase was partially offset by decreased royalty costs in the

Puna power plant as a result of lower revenues as discussed above. The increase in cost of revenues is generation volume related, and thus, the cost per MWh was lower compared to the first nine months of 2008. As a percentage of total electricity revenues, the total cost of revenues attributable to our Electricity Segment for the nine months ended September 30, 2009 was 69.4%, compared to 65.7% for the nine months ended September 30, 2008.

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Product Segment

Total cost of revenues attributable to our Product Segment for the nine months ended September 30, 2009 was \$87.3 million, compared to \$47.5 million for the nine months ended September 30, 2008, which represented an 83.8% increase in total cost of revenues related to such segment. This increase is attributable to the increase in our product revenues. As a percentage of total Product Segment revenues, our total cost of revenues attributable to this segment for the nine months ended September 30, 2009 was 68.2% compared to 80.2% for the nine months ended September 30, 2008. This decrease is mainly attributable to the volume of revenues, to a different product mix and to a decrease in costs as a result of the global decrease in commodities prices.

Research and Development Expenses

Research and development expenses for the nine months ended September 30, 2009 were \$7.2 million, compared to \$3.4 million for the nine months ended September 30, 2008, which represented a 111.9% increase. Our research and development activities during the period included: (i) a REG plant specifically designed to use the residual energy from the vaporization process at a liquefied natural gas regasification terminal; (ii) Enhanced Geothermal Systems (EGS); (iii) development of a solar thermal system for the production of electricity; and (iv) water treatment technologies.

Selling and Marketing Expenses

Selling and marketing expenses for the nine months ended September 30, 2009 were \$10.9 million, compared to \$8.2 million for the nine months ended September 30, 2008, which represented a 33.3% increase. The increase was due primarily to an increase in expenses related to Product Segment revenues. Selling and marketing expenses for the nine months ended September 30, 2009 constituted 3.4% of total revenues for such period, compared to 3.3% for the nine months ended September 30, 2008.

General and Administrative Expenses

General and administrative expenses for the nine months ended September 30, 2009 were \$19.6 million, compared to \$19.5 million for the nine months ended September 30, 2008, which represented a 0.1% increase. Despite a significant increase in performance-based bonus payments to company personnel, including our general and administrative staff, general and administrative expenses increased only slightly in the nine months ended September 30, 2009, because we did not incur one time costs similar to those incurred in the nine months ended September 30, 2008 relating to a potential acquisition of geothermal assets that we ultimately decided not to pursue. The bonus payments also affected other operating expenses in the current period. General and administrative expenses for the nine months ended September 30, 2009 constituted 6.1% of total revenues for such period, compared to 7.8% for the nine months ended September 30, 2008.

Operating Income

Operating income for the nine months ended September 30, 2009 was \$61.8 million, compared to \$45.8 million for the nine months ended September 30, 2008. Such increase in operating income was principally attributable to an increase in total revenues as well as an increase in the gross margin of our Product Segment. Operating income attributable to our Electricity Segment for the nine months ended September 30, 2009 was \$38.8 million, compared to \$43.6 million for the nine months ended September 30, 2008. Operating income attributable to our Product Segment for the nine months ended September 30, 2009 was \$23.0 million, compared to \$2.2 million for the nine months ended September 30, 2008.

Interest Income

Interest income for the nine months ended September 30, 2009 was \$0.6 million, compared to \$2.7 million for the nine months ended September 30, 2008, which represented a 78.6% decrease. The decrease is primarily due to a decrease in cash and cash equivalents, marketable securities and restricted cash as well as a decrease in interest rates payable on investments.

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Interest Expense, Net

Interest expense, net, for the nine months ended September 30, 2009 was \$12.1 million, compared to \$12.7 million for the nine months ended September 30, 2008, which represented a 4.7% decrease. The \$0.6 million decrease is primarily due to an increase of \$5.6 million in interest capitalized to projects as a result of increased projects under construction, as well as principal repayments. The decrease was partially offset by: (i) an increase in interest expenses related to the sale of limited liability company interests in OPC and interest expenses related to our long-term project finance loans of the Olkaria III and Amatitlan power plants; (ii) borrowings under our revolving credit lines with banks; and (iii) loan agreements with two groups of financial institutions.

Foreign Currency Translation and Transaction Gains (Losses)

Foreign currency translation and transaction gains for the nine months ended September 30, 2009 were \$1.3 million, compared to foreign currency translation and transaction losses of \$2.6 million for the nine months ended September 30, 2008. The \$3.9 million increase is primarily due to foreign currency translation gains in the amount of \$2.6 million with respect to a loan denominated in New Zealand dollars, which was granted to our New Zealand subsidiary GDL, whose functional currency is the New Zealand dollar.

Income Attributable to Sale of Equity Interests

Income from the sale of limited liability company interests in OPC to institutional equity investors (as described in OPC Transaction) for the nine months ended September 30, 2009 was \$12.4 million, compared to \$13.2 million for the nine months ended September 30, 2008. This income represents the value of production tax credits and taxable income or loss generated by OPC and allocated to the investors. The decrease is due to lower depreciation for tax purposes as a result of declining depreciation rates utilizing the Modified Accelerated Cost Recovery System (MACRS).

Other Non-Operating Income (Expense), Net

Other non-operating income, net, for the nine months ended September 30, 2009 was \$0.6 million, compared to other non-operating expense of \$2.0 million for the nine months ended September 30, 2008. Other non-operating expense for the nine months ended September 30, 2008 includes \$2.4 million of impairment as a result of an other-than-temporary decline in the value of auction rate securities.

Income Taxes

Income tax provision for the nine months ended September 30, 2009 was \$12.3 million, compared to \$7.9 million for the nine months ended September 30, 2008. The effective tax rate for the nine months ended September 30, 2009 and 2008 was 19.0% and 17.7%, respectively. The increase in the effective tax rate primarily resulted from a lower impact of production tax credits on the effective tax rate for the period ended September 30, 2009 due to the increase in our income before income taxes.

Equity in Income of Investees

Our participation in the income generated from our investees for the nine months ended September 30, 2009 was \$1.5 million, compared to \$1.3 million for the nine months ended September 30, 2008. The amount is derived mainly from our 50% ownership of the Mammoth power plant.

Net Income

Net income for the nine months ended September 30, 2009 was \$53.9 million, compared to \$37.9 million for the nine months ended September 30, 2008, which represents an increase of 42.3%. Such increase in net income was principally attributable to: (i) an increase of \$16.0 million in our operating income; (ii) a \$0.6 million decrease in interest expense; (iii) an increase of \$3.9 million in foreign currency transaction and translation gains; and (iv) a \$2.7 million increase in other non-operating income, net. This increase was

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partially offset by: (i) a \$4.4 million increase in income tax provision; (ii) a \$2.2 million decrease in interest income; and (iii) a \$0.8 million decrease in income attributable to a sale of equity interest.

Liquidity and Capital Resources

Our principal sources of liquidity have been derived from cash flows from operations, the issuance of our common stock in public and private offerings, proceeds from third party debt in the form of borrowings under credit facilities, issuance by Ormat Funding and OrCal Geothermal of their Senior Secured Notes and project financing (including the Puna lease, the OPC Transaction and the Olkaria III and Amatitlan loans described below). We have utilized this cash to fund our acquisitions, develop and construct power generation plants, and meet our other cash and liquidity needs.

As of September 30, 2009, we have access to the following sources of funds: (i) \$20.3 million in cash and cash equivalents; and (ii) \$204.1 million of unused corporate borrowing capacity under existing committed lines of credit with different commercial banks. In addition, in October 2009, we entered into an additional \$15.0 million committed line of credit with a commercial bank and in November 2009 we entered into a long-term loan agreement of \$50.0 million with another commercial bank.

Our estimated capital needs for the rest of 2009 include approximately \$50.0 million for capital expenditures on new projects in development or construction, exploration activity, operating projects, and machinery and equipment, as well as \$33.6 million for debt repayment. In addition, as discussed below under *OPC Transaction*, in October 2009, our subsidiary, Ormat Nevada Inc. (Ormat Nevada), acquired from Lehman-OPC LLC all of the Class B membership units of OPC held by Lehman-OPC LLC pursuant to a right of first offer for a purchase price of \$18.5 million.

We expect to finance these requirements with: (i) the sources of liquidity described above; (ii) cash flows from our operations; (iii) additional borrowing capacity under future lines of credit with commercial banks that are under negotiations; (iv) future project financing and refinancing; and (v) a cash grant available to us under the ARRA in respect of the North Brawley power plant. Our management believes that these sources will address our anticipated liquidity, capital expenditures and other investment requirements. Our shelf registration statement on Form S-3, which was declared effective on October 2, 2008, provides us with the ability to raise additional capital of up to \$1.5 billion through the issuance of securities, subject to market conditions.

Loan Agreements with our Parent

In 2003, we entered into a loan agreement with Ormat Industries Ltd. (our parent company), which was further amended on September 20, 2004. Pursuant to this loan agreement, Ormat Industries Ltd. agreed to make a loan to us in one or more advances not exceeding a total aggregate amount of \$150.0 million. The proceeds of the loan were used to fund our general corporate activities and investments. We are required to repay the loan and accrued interest in full and in accordance with an agreed-upon repayment schedule and in any event on or prior to June 5, 2010. Interest on the loan is calculated on the balance from the date of the receipt of each advance until the date of payment thereof at a fixed rate of 7.5% per annum. All computations of interest are made by Ormat Industries Ltd. on the basis of a year consisting of 360 days. As of September 30, 2009, the outstanding balance of the loan was approximately \$9.6 million, compared to \$26.2 million, as of December 31, 2008.

Third Party Debt

Our third party debt is composed of two principal categories. The first category consists of project finance debt or acquisition financing that we or our subsidiaries have incurred for the purpose of developing and constructing, refinancing or acquiring our various projects, which are described under the heading *Non-Recourse and Limited-Recourse Third Party Debt*. The second category consists of debt incurred by us or our subsidiaries for

general corporate purposes, which are described under the heading Full-Recourse Third Party Debt .

Table of Contents***Non-Recourse and Limited-Recourse Third Party Debt******Ormat Funding Senior Secured Notes Non Recourse***

On February 13, 2004, Ormat Funding Corp. (OFC), one of our subsidiaries, issued \$190.0 million, 8 1/4% Senior Secured Notes (OFC Senior Secured Notes) in an offering subject to Rule 144A and Regulation S of the Securities Act of 1933, as amended, for the purpose of refinancing the acquisition cost of the Brady, Ormesa and Steamboat 1/1A power plants, and the financing of the acquisition cost of the Steamboat 2/3 power plants. The OFC Senior Secured Notes have a final maturity date of December 30, 2020. Principal and interest on the OFC Senior Secured Notes are payable in semi-annual payments which commenced on June 30, 2004. The OFC Senior Secured Notes are collateralized by substantially all of the assets of OFC and those of its wholly owned subsidiaries and are fully and unconditionally guaranteed by all of the wholly owned subsidiaries of OFC. There are various restrictive covenants under the OFC Senior Secured Notes, which include limitations on additional indebtedness and payment of dividends. As of September 30, 2009, OFC was in compliance with the covenants under the OFC Senior Secured Notes. As of September 30, 2009, there were \$150.9 million of OFC Senior Secured Notes outstanding.

OrCal Geothermal Senior Secured Notes Non-Recourse

On December 8, 2005, OrCal Geothermal Inc. (OrCal), one of our subsidiaries, issued \$165.0 million, 6.21% Senior Secured Notes (OrCal Senior Secured Notes) in an offering subject to Rule 144A and Regulation S of the Securities Act of 1933, as amended, for the purpose of refinancing the acquisition cost of the Heber power plants. 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 that commenced on June 30, 2006. The OrCal Senior Secured Notes are collateralized by substantially all of the assets of OrCal and those of its wholly owned subsidiaries 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. As of September 30, 2009, OrCal was in compliance with the covenants under the OrCal Senior Secured Notes. As of September 30, 2009, there were \$113.6 million of OrCal Senior Secured Notes outstanding.

Olkaria III Loan Non-Recourse

In March 2009, our wholly owned subsidiary, OrPower 4, Inc. (OrPower 4), closed a project financing loan of \$105.0 million to refinance its investment in the 48 MW Olkaria III geothermal power plant located in Kenya. We initially financed construction of Phase I and Phase II of the project, as well as the drilling of wells, with our own funds. The loan is provided by a group of European Development Finance Institutions (DFIs) arranged by DEG Deutsche Investitions-und Entwicklungsgesellschaft mbH (DEG). The first disbursement of \$90.0 million was made on March 23, 2009 and the second disbursement of \$15.0 million was made on July 10, 2009. The loan will mature on December 15, 2018, and will be payable in 19 equal semi-annual installments, commencing December 15, 2009. Interest on the loan is variable based on 6-month LIBOR plus 4.0%, but we had the option to fix the interest rate upon each disbursement. We fixed the interest rate on \$77.0 million of the loan at 6.90% per annum. There are various restrictive covenants under the loan, which include limitations on OrPower 4's ability to make distributions to its shareholders. As of September 30, 2009, OrPower 4 was in compliance with the covenants under the loan.

Amatitlan Loan Non-Recourse

In May 2009, the Company's wholly owned subsidiary, Ortitlan Limitada (Ortitlan), entered into a note purchase agreement in an aggregate principal amount of \$42.0 million to refinance its investment in the 20 MW Amatitlan geothermal power plant located in Amatitlan, Guatemala. We initially financed the construction of the project, as well

as the drilling of wells with corporate funds. The loan was provided by TCW Global Project Fund II, Ltd. (TCW). The loan will mature on June 15, 2016, and will be payable in 28 quarterly installments, commencing September 15, 2009. The annual interest rate on the loan is 9.83%, but the

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effective cost for us is approximately 8%, due to the elimination, following the refinancing, of the political risk insurance premiums that we had been paying on our equity investment in the project. There are various restrictive covenants under the loan, which include limitations on Ortitlan's ability to make distributions to its shareholders. Management believes that as of September 30, 2009, Ortitlan was in compliance with the covenants under the loan. As of September 30, 2009, \$41.5 million of the Amatitlan loan was outstanding.

Senior Loans from International Finance Corporation (IFC) and Commonwealth Development Corporation (CDC) (The Zunil Power Plant) Non-Recourse

Orzunil I de Electricidad, Limitada (Orzunil), a wholly owned subsidiary in Guatemala, has senior loan agreements with IFC and CDC. The loan from IFC, of which \$3.6 million was outstanding as of September 30, 2009, has a fixed annual interest rate of 11.775%, and matures on November 15, 2011. The loan from CDC, of which \$2.6 million was outstanding as of September 30, 2009, has a fixed annual interest rate of 10.300%, and matures on August 15, 2010. There are various restrictive covenants under the Senior Loans, which include limitations on Orzunil's ability to make distributions to its shareholders. As of September 30, 2009, Orzunil was in compliance with the covenants under these senior loans.

Credit Facility Agreement (The Momotombo Power Plant) Limited Recourse

Ormat Momotombo Power Company (Momotombo), a wholly owned subsidiary in Nicaragua, has a loan agreement with Bank Hapoalim, of which \$3.3 million was outstanding as of September 30, 2009, bearing an interest rate of 3-month LIBOR plus 2.375% per annum on tranche one of the loan and 3-month LIBOR plus 3.0% per annum on tranche two of the loan. Tranche one of the loan matures on September 5, 2010, and is payable in 32 quarterly installments of \$298,000 each and tranche two of the loan matures on December 5, 2010, and is payable in 28 quarterly installments of \$424,000 each. There are various restrictive covenants under this loan, which include limitations on Momotombo's ability to make distributions to its shareholders. As of September 30, 2009, Momotombo was in compliance with the covenants under the loan.

New Financing of Our Projects

Financing of the North Brawley Power Plant

As a result of the recent ARRA, we intend to refinance the equity invested in the North Brawley power plant partially with a cash grant available to us under the ARRA and with long-term debt of approximately \$100 million that we are currently negotiating with a financial institution.

Full-Recourse Third Party Debt

In December 2008, our subsidiary, Ormat Nevada Inc. (Ormat Nevada), entered into an amendment of its credit agreement with Union Bank, N.A., formerly known as Union Bank of California, N.A. (Union Bank), extending the final maturity of the facility and increasing its total amount to \$37.5 million. Under the credit agreement, Ormat Nevada can request extensions of credit in the form of loans and/or the issuance of one or more letters of credit. Union Bank 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, we have entered into a guarantee in favor of the administrative agent for the benefit of the banks, pursuant to which we agreed to guarantee Ormat Nevada's obligations under the credit agreement. Ormat Nevada's obligations under the credit agreement are otherwise unsecured by any of its (or any of its subsidiaries') assets.

Loans and draws under the letters of credit (if any) under the credit agreement will bear interest at the floating rate based on the Eurodollar plus a margin. 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.

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As of September 30, 2009, nine letters of credit in the amount of \$31.4 million remain issued and outstanding under this credit agreement with Union Bank.

We also have credit agreements with five commercial banks for an aggregate amount of \$310.0 million. Under these credit agreements, we or our Israeli subsidiary, Ormat Systems, can request extensions of credit in the form of loans and/or the issuance of one or more letters of credit. Each of the credit agreements has a term of three years.

In October 2009, we entered into an additional credit agreement with another commercial bank in the amount of \$15.0 million. Under this credit agreement, we or our Israeli subsidiary, Ormat Systems, can request extensions of credit in the form of loans and/or the issuance of one or more letters of credit. This credit agreement has a term of two years.

Loans and draws under the credit agreements or under any letters of credit will bear interest at the respective bank's cost of funds plus a margin. As of September 30, 2009, loans in the amount of \$112.0 million were outstanding under such credit agreements.

In July 2009, we entered into a 6-year loan agreement of \$20.0 million with a group of financial institutions. The loan matures on July 16, 2015, is payable in 12 semi-annual installments commencing January 16, 2010 and bears annual interest of 6.5%.

In July 2009, we entered into an 8-year loan agreement of \$20.0 million with a group of financial institutions. The loan matures on August 1, 2017, is payable in 12 semi-annual installments commencing February 1, 2012 and bears interest at 6-month LIBOR plus 5.0%.

In November 2009, we entered into a 5-year loan agreement of \$50.0 million with a commercial bank. The bank loan matures on November 10, 2014, and is payable in 10 semi-annual installments commencing May 10, 2010. The loan bears interest at 6-month LIBOR plus 3.25% and we have the option to fix the interest rate upon the drawing of the loan.

Our obligations under the credit and loan agreements are unsecured, but we are subject to a negative pledge in favor of the banks and certain other restrictive covenants. These include, among other things, a prohibition on: (i) creating any floating charge or any permanent pledge, charge or lien over our assets without obtaining the prior written approval of the lender; (ii) guaranteeing the liabilities of any third party without obtaining the prior written approval of the lender; and (iii) selling, assigning, transferring, conveying or disposing of all or substantially all of our assets. In some cases, we have agreed to maintain certain financial ratios such as a debt service coverage ratio and a debt to equity ratio. The failure to perform or observe any of the covenants set forth in such agreements, subject to various cure periods, would result in the occurrence of an event of default and would enable the lenders to accelerate all amounts due under each such agreement.

Some of the credit and loan agreements contain cross-default provisions with respect to other material indebtedness owed by us to any third party.

We are currently in compliance with our covenants with respect to these credit and loan agreements, and believe that the restrictive covenants, financial ratios and other terms of any of our (or Ormat Systems') full-recourse bank credit agreements will not materially impact our business plan or plan of operations.

Letters of Credit

Some of our customers require our project subsidiaries to post letters of credit in order to guarantee their respective performance under relevant contracts. We are also required to post letters of credit to secure our obligations under various leases and licenses and may, from time to time, decide to post letters of credit in lieu of cash deposits in reserve accounts under certain financing arrangements. In addition, our subsidiary, Ormat Systems, is required from time to time to post performance letters of credit in favor of our customers with respect to orders of products.

Bank Hapoalim and Bank Leumi have issued such performance letters of credit in favor of our customers from time to time. As of September 30, 2009, Bank Hapoalim and Bank Leumi have agreed to make available

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to us letters of credit totaling \$30.8 million and \$25.3 million, respectively. As of such date, Bank Hapoalim and Bank Leumi have issued letters of credit in the amount of \$18.6 million and \$25.3 million, respectively. These letters of credit were not issued under the credit agreements discussed under *Full-Recourse Third Party Debt* above.

In addition, we and certain of our subsidiaries may request letters of credit under the credit agreements with Union Bank and five other commercial banks as described above under *Full-Recourse Third Party Debt*. As of September 30, 2009, nine letters of credit in the amount of \$31.4 million remained issued and outstanding under the Union Bank credit agreement.

Puna Project Lease Transactions

On May 19, 2005, our subsidiary in Hawaii, Puna Geothermal Ventures (PGV), entered into a transaction involving the Puna geothermal power plant located on the Big Island of Hawaii. The transaction was concluded with financing parties by means of a leveraged lease transaction. A secondary stage of the lease transaction relating to two new geothermal wells that PGV drilled in the second half of 2005 (for production and injection) was completed on December 30, 2005. Pursuant to a 31-year head lease, PGV leased its geothermal power plant to the abovementioned financing parties in return for deferred lease payments by such financing parties to PGV in the aggregate amount of \$83.0 million.

OPC Transaction

In June 2007, our wholly owned subsidiary, Ormat Nevada, entered into agreements with affiliates of Morgan Stanley & Co. Incorporated and Lehman Brothers Inc., under which those investors have purchased, for cash, interests in a newly formed subsidiary of Ormat Nevada, OPC LLC (OPC), entitling the investors to certain tax benefits (such as production tax credits and accelerated depreciation) and distributable cash associated with four geothermal power plants.

The first closing under the agreements occurred in 2007 and covered the Company's Desert Peak 2, Steamboat Hills and Galena 2 power plants. The investors paid \$71.8 million at the first closing. The second closing under the agreements occurred in 2008 and covered the Galena 3 power plant. The investors paid \$63.0 million at the second closing.

Ormat Nevada will continue to operate and maintain the power plants and will receive initially all of the distributable cash flow generated by the power plants until it recovers the capital that it has invested in the power plants, while the investors will receive substantially all of the production tax credits and the taxable income or loss, and the distributable cash flow after Ormat Nevada has recovered its capital. The investors' return is limited by the term of the transaction. Once the investors reach a target after-tax yield, on their investment in OPC (the Flip Date) Ormat Nevada will receive 95% of both distributable cash and taxable income, on a going forward basis. Following the Flip Date, Ormat Nevada also has the option to buy out the investors' remaining interest in OPC at the then-current fair market value or, if greater, the investors' capital account balances in OPC. Should Ormat Nevada exercise this purchase option, it would thereupon revert to being sole owner of the power plants.

The Class B membership units are provided with a 5% residual economic interest in OPC. The 5% residual interest commences on achievement by the investors of a contractually stipulated return that triggers the Flip Date. The actual Flip Date is not known with certainty and is determined by the operating results of OPC. This residual 5% interest represents a noncontrolling interest and is not subject to mandatory redemption or guaranteed payments.

Our voting rights in OPC are based on a capital structure that is comprised of Class A and Class B membership units. We own, through our subsidiary, Ormat Nevada, all of the Class A membership units, which represent 75% of the

voting rights in OPC. The investors own all of the Class B membership units, which represent 25% of the voting rights of OPC. Other than in respect of customary protective rights, all operational decisions in OPC are decided by the vote of a majority of the membership units. Following the Flip Date, Ormat Nevada's voting rights will increase to 95% and the investor's voting rights will decrease to

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5%. Ormat Nevada retains the controlling voting interest in OPC both before and after the Flip Date and therefore has continued to consolidate OPC.

On October 30, 2009, Ormat Nevada acquired from Lehman-OPC LLC all of the Class B membership units of OPC held by Lehman-OPC LLC pursuant to a right of first offer for a purchase price of \$18.5 million.

Liquidity Impact of Uncertain Tax positions

As discussed in Note 15 to our Condensed Consolidated Financial Statements set forth in Item 1 of this quarterly report, we have a liability associated with unrecognized tax benefits and related interest and penalties in the amount of approximately \$4.1 million as of September 30, 2009. This liability is included in long-term liabilities in our consolidated balance sheet, because we generally do not anticipate that settlement of the liability will require payment of cash within the next twelve months. We are not able to reasonably estimate when we will make any cash payments required to settle this liability, but believe that the ultimate settlement of our obligations will not materially affect our liquidity.

Dividend

The following are the dividends declared by us during the past two years:

| Date Declared | Dividend Amount per Share | Record Date | Payment Date |
|----------------------|--------------------------------------|--------------------|---------------------|
| November 6, 2007 | \$ 0.05 | November 28, 2007 | December 12, 2007 |
| February 26, 2008 | \$ 0.05 | March 14, 2008 | March 27, 2008 |
| May 6, 2008 | \$ 0.05 | May 20, 2008 | May 27, 2008 |
| August 5, 2008 | \$ 0.05 | August 19, 2008 | August 29, 2008 |
| November 5, 2008 | \$ 0.05 | November 19, 2008 | December 2, 2008 |
| February 24, 2009 | \$ 0.07 | March 16, 2009 | March 26, 2009 |
| May 8, 2009 | \$ 0.06 | May 20, 2009 | May 27, 2009 |
| August 5, 2009 | \$ 0.06 | August 18, 2009 | August 27, 2009 |
| November 4, 2009 | \$ 0.06 | November 18, 2009 | December 1, 2009 |

Historical Cash Flows

The following table sets forth the components of our cash flows for the relevant periods indicated:

| | Nine Months Ended September 30, | |
|--|--|-------------|
| | 2009 | 2008 |
| Net cash provided by operating activities | \$ 77,696 | \$ 89,897 |
| Net cash used in investing activities | (248,881) | (303,702) |
| Net cash provided by financing activities | 156,919 | 204,721 |
| Effect of exchange rate changes on cash and cash equivalents | 216 | |
| Net change in cash and cash equivalents | (14,050) | (9,084) |

For the Nine Months ended September 30, 2009

Net cash provided by operating activities for the nine months ended September 30, 2009 was \$77.7 million, compared to \$89.9 million for the nine months ended September 30, 2008. The net decrease of \$12.2 million resulted primarily from: (i) the net increase in costs and estimated earnings in excess of billings on uncompleted contracts of \$27.1 million in the nine months ended September 30, 2009 compared to net decrease of \$16.1 million in the nine months ended September 30, 2008; and (ii) an increase in accounts payable and accrued expenses of \$0.4 million in the nine months ended September 30, 2009 compared to an increase of \$20.4 million in the nine months ended September 30, 2008. Such decrease was partially offset by: (i) the increase in net income to \$53.9 million in the nine months ended September 30, 2009 from \$37.9 million in the

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nine months ended September 30, 2008, mainly as a result of the increase in the operating income, as described above; (ii) an increase in receivables and prepaid expenses of \$4.2 million in the nine months ended September 30, 2009 compared to an increase of \$29.1 million in the nine months ended September 30, 2008; and (iii) deferred income tax provision of \$10.8 million in the nine months ended September 30, 2009 compared to an increase of \$4.2 million in the nine months ended September 30, 2008.

Net cash used in investing activities for the nine months ended September 30, 2009 was \$248.9 million, compared to \$303.7 million for the nine months ended September 30, 2008. The principal factors that affected our net cash used in investing activities during the nine months ended September 30, 2009 were capital expenditures of \$212.3 million, primarily for our facilities under construction and a \$36.2 million increase in restricted cash, cash equivalents and marketable securities. The principal factors that affected our net cash used in investing activities during the nine months ended September 30, 2008 were capital expenditures of \$298.6 million, primarily for our power facilities under construction and an \$18.2 million increase in restricted cash, cash equivalents and marketable securities, offset by a \$12.6 million decrease in marketable securities.

Net cash provided by financing activities for the nine months ended September 30, 2009 was \$156.9 million, compared to \$204.7 million for the nine months ended September 30, 2008. The principal factors that affected the net cash provided by financing activities during the nine months ended September 30, 2009 were: (i) the proceeds of \$105 million from the Olkaria III Loans; (ii) proceeds of \$42.0 million from the Amatitlan Loan; (iii) \$12.0 million drawn under revolving lines of credit from banks; and (iv) \$40 million proceeds from long-term loan agreements with two groups of institutional investors, offset by: (i) the repayment of debt to our parent in the amount of \$16.6 million; (ii) the repayment of long-term debt in the amount of \$13.0 million; and (iii) the payment of a dividend to our shareholders in the amount of \$8.6 million. The principal factors that affected our net cash provided by financing activities during the nine months ended September 30, 2008 were: (i) the net proceeds of \$149.7 million from the sale of 3,100,000 shares in block trade; (ii) the \$33.3 million net proceeds from our sale of 693,750 shares to our parent; and (iii) the \$63.1 million in net proceeds received from the institutional equity investors in OPC for the transfer of the Galena 3 geothermal project to OPC, relating to the second closing of the OPC Transaction, offset by: (i) the repayment of long-term debt in the amount of \$18.6 million, (ii) the repayment of debt to our parent in the amount of \$16.6 million; and (iii) the payment of a dividend to our shareholders in the amount of \$6.6 million.

Capital Expenditures

Our capital expenditures primarily relate to two principal components: (i) the enhancement of our existing power plants; and (ii) the development and construction of new power plants. We expect that the following enhancements of our existing power plants and the construction of new power plants will be funded initially from internally generated cash or other available corporate resources, which we expect to subsequently refinance with limited or non-recourse debt at the project level.

Puna Project. An enhancement program for the Puna project is underway to increase the output of the project by an estimated 8 MW and improve the performance of the wellfield. The enhancement includes recompletion of the major production and injection wells and the construction of two additional OEC units. We expect the resource work to be completed in the fourth quarter of 2009 and the construction to be completed in 2010. We signed an MOU with Hawaii Electric Light Company for the sale of additional electrical power from the Puna project and we are currently negotiating the final terms of the PPA.

OREG 2 Project. We have brought on line two of the four units of the OREG 2 REG project along the Northern Border natural gas pipeline, which have a net capacity of 5.5 MW each. We completed the construction of the third unit and it has been synchronized to the grid. The remaining unit is expected to be completed by the end of 2009.

East Brawley Project. We plan to construct and are in the process of manufacturing equipment and exploration drilling for an additional 30 MW power plant in the Brawley Known Geothermal Resource Area in Imperial County, California, adjacent to the North Brawley project. Completion of the project was initially projected for the end of 2009. We are still awaiting the required construction permits and therefore the project's completion is expected at the end of 2010 or in 2011.

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GRE Project. We are developing a 5.3 MW recovered energy generation project for Great River Energy, which will be located along the Northern Border pipeline in Martin County, Minnesota. We signed a 20-year power purchase agreement with Great River Energy. We expect this power plant to be commissioned by the end of 2009.

Jersey Valley Project. We are currently developing the Jersey Valley project on Bureau of Land Management leases located in Nevada. We plan to build the project with two units. The first unit of 15MW is expected to come on line by the end of 2010 and the second unit is expected to follow up to 12 months later.

We have budgeted approximately \$364 million for the projects described above and have invested approximately \$141 million of such budget as of September 30, 2009, we expect to invest approximately \$11 million in the rest of 2009.

In addition to the above projects, our operating power plants have capital expenditure requirements for 2009 of approximately \$5 million. We plan to start other construction and enhancement of additional projects for a total amount of \$9 million and we have various leases for geothermal resources, in which we have started exploration activity, for a total investment amount of approximately \$6 million for the rest of 2009.

In addition, in order to finalize the construction of the North Brawley power plant we plan to invest approximately \$20 million in such power plant in the rest of 2009. In the past quarter, we have been working to resolve the injection challenges in the North Brawley power plant. We conducted a successful, one-month injection test in one well and we are now taking delivery of equipment that will allow us to replicate the same procedure on multiple wells.

Exposure to Market Risks

The recent worldwide financial and credit crisis has reduced the availability of liquidity and credit to fund the continuation and expansion of industrial business operations worldwide. While, based on current conditions, we believe that we have sufficient financial resources to fund our activities and execute our business plan in 2009, if worldwide economic conditions worsen, the cost of obtaining financing for our project needs may increase significantly or such financing may not be available at all. In addition, a prolonged economic slowdown could reduce worldwide demand for energy, including our geothermal energy, REG and other products.

One market risk to which power plants are typically exposed is the volatility of electricity prices. Our exposure to such market risk is limited currently because our long-term power purchase agreements have fixed or escalating rate provisions that limit our exposure to changes in electricity prices. However, beginning in May 2012, the energy payments under the power purchase agreements for the Heber 1 and 2 power plants, the Ormesa complex and the Mammoth power plants will be determined by reference to the relevant power purchaser's short run avoided costs. The decline in oil prices that impact Hawaii Electric Light Company's avoided costs reduced the energy rates for the Puna plant and may reduce it further if oil prices continue to decline. However, the energy rates in the Puna power plant are higher than the floor under the Puna power purchase agreement. As of September 30, 2009, 68.5% of our consolidated long-term debt (including amounts owed to our parent) was in the form of fixed rate securities, and therefore, not subject to interest rate volatility risk. As of such date, 31.5% of our debt was in the form of a floating rate instrument, exposing us to changes in interest rates in connection therewith. As of September 30, 2009, \$183.2 million of our debt remained subject to some floating rate risk.

We currently maintain our surplus cash in short-term, interest-bearing bank deposits, money market securities, commercial paper (with a minimum investment grade rating of AA by Standard & Poor's Ratings Services).

Our cash equivalents and our portfolio of marketable securities are subject to market risk due to changes in interest rates. Fixed rate securities may have their market value adversely impacted due to a rise in interest rates, while

floating rate securities may produce less income than expected if interest rates fall. Due in part to these factors, our future investment income may fall short of expectation due to changes in interest rates or we may suffer losses in principal if we are forced to sell securities that decline in market value due to changes in

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interest rates. However, because we classify our debt securities as available-for-sale, no gains or losses are recognized due to changes in interest rates unless such securities are sold prior to maturity or declines in fair value are determined to be other-than-temporary. Auction rate securities are securities that are structured with short-term interest rate reset dates of generally less than ninety days but with contractual maturities that can be well in excess of ten years. At the end of each reset period, which depending on the security can occur on a daily, weekly, or monthly basis, investors can sell or continue to hold the securities at par. These securities are subject to fluctuations in fair value depending on the supply and demand at each auction.

Another market risk to which we are exposed is primarily related to potential adverse changes in foreign currency exchange rates, in particular the fluctuation of the U.S. dollar versus the New Israeli Shekel (NIS). Risks attributable to fluctuations in currency exchange rates can arise when any of our foreign subsidiaries borrows funds or incurs operating or other expenses in one type of currency but receives revenues in another. In such cases, an adverse change in exchange rates can reduce such subsidiary's ability to meet its debt service obligations, reduce the amount of cash and income we receive from such foreign subsidiary, or increase such subsidiary's overall expenses. Risks attributable to fluctuations in foreign currency exchange rates can also arise when the currency denomination of a particular contract is not the U.S. dollar. Substantially all of our power purchase agreements in the international markets are either U.S. dollar-denominated or linked to the U.S. dollar. Our construction contracts from time to time contemplate costs which are incurred in local currencies. The way we often mitigate such risk is to receive part of the proceeds from the sale contract in the currency in which the expenses are incurred. Through most of 2008, we did not use any material foreign currency exchange contracts or other derivative instruments to reduce our exposure to this risk. Currently, we have forward and option contracts in place to reduce our foreign currency exposure, and expect to continue to use currency exchange and other derivative instruments to the extent we deem such instruments to be the appropriate tool for managing such exposure. We do not believe that our exchange rate exposure has or will have a material adverse effect on our financial condition, results of operations or cash flows.

Concentration of Credit Risk

Our credit risk is currently concentrated with a limited number of major customers: Southern California Edison, Hawaii Electric Light Company, and Sierra Pacific Power Company and Nevada Power Company (subsidiaries of NV Energy, Inc.). If any of these electric utilities fails to make payments under its power purchase agreements with us, such failure would have a material adverse impact on our financial condition.

Southern California Edison accounted for 24.8% and 29.8% of our total revenues for the three months ended September 30, 2009 and 2008, respectively, and 21.6% and 30.2% of our total revenues for the nine months ended September 30, 2009 and 2008, respectively. Southern California Edison is also the power purchaser and revenue source for our Mammoth power plants, which we account for separately under the equity method of accounting.

Hawaii Electric Light Company accounted for 3.8% and 16.1% of our total revenues for the three months ended September 30, 2009 and 2008, respectively, and 6.0% and 17.6% of our total revenues for the nine months ended September 30, 2009 and 2008, respectively.

Sierra Pacific Power Company and Nevada Power Company accounted for 9.8% and 9.5% of our total revenues for the three months ended September 30, 2009 and 2008, respectively, and 11.7% and 11.9% of our total revenues for the nine months ended September 30, 2009 and 2008, respectively.

Government Grants and Tax Benefits

On February 17, 2009, President Obama signed into law the ARRA, which extended the existing tax subsidy for companies that use geothermal steam or fluid to generate electricity. The existing tax subsidy is a production tax

credit, which in 2009 is 2.1 cents per kWh and is adjusted annually for inflation. The production tax credit may be claimed for ten years on the electricity output of new geothermal power plants put into service by December 31, 2013. The ARRA also allows companies that generate electricity from certain renewable sources, including geothermal steam or fluid, to forego the production tax credit and elect instead a one-time investment tax credit equal to 30% of the cost of the renewable energy production facility.

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The investment tax credit is claimed when the qualifying facility is placed in service for federal income tax purposes. The owner of the project must choose between the production tax credit and the 30% investment tax credit described above. In either case, under current tax rules, any unused tax credit has a 1-year carry back and a 20-year carry forward. Whether we claim the production tax credit or the investment tax credit, we are also permitted to depreciate most of the plant for tax purposes over five years on an accelerated basis, meaning that more of the cost may be deducted in the first few years than during the remainder of the depreciation period. For certain projects that we place into service in 2009, we may be able to claim a depreciation bonus that, in addition to accelerated depreciation, would permit us to deduct 50% of the plant cost in 2009. If we claim the investment tax credit, our tax base in the plant that we can recover through depreciation and the depreciation bonus must be reduced by half of the tax credit; if we claim a production tax credit, there is no reduction in the tax basis for depreciation. Companies that begin construction on qualifying energy facilities during 2009 or 2010 (and complete such facilities no later than 2013), or place qualifying facilities in service during 2009 or 2010, may choose to apply for a cash grant from the U.S. Department of Treasury in an amount equal to the investment tax credit. Under the ARRA, the U.S. Department of Treasury is instructed to pay the cash grant within 60 days of the application or the date on which the qualifying facility is placed in service. We believe that a number of our new geothermal plants may qualify for the cash grant from the Department of Treasury. Although some questions remain open regarding the scope of the new subsidies under the ARRA, we expect them to lead to increased sources of capital for our business.

Production of electricity from geothermal resources is also supported under the new Temporary Program For Rapid Deployment of Renewable Energy and Electric Power Transmission Projects established with the U.S. Department of Energy as part of the Department of Energy's existing Innovative Technology Loan Guarantee Program. The new program: (i) extends the scope of the existing federal loan guarantee program to cover renewable energy projects, renewable energy component manufacturing facilities and electricity transmission projects that embody established commercial, as well as innovative, technologies; and (ii) provides an appropriation to cover the credit subsidy costs of such projects (meaning the estimated average costs to the federal government from issuing the loan guarantee, equivalent to a lending bank's loan loss reserve).

To be eligible for a guarantee under the new program, a supported project must break ground, and the guarantee must be issued, by September 30, 2011. A project supported by the federal guarantee under the new program must pay prevailing federal wages.

Based on the appropriation of \$6 billion dollars to pay the credit subsidy costs of guarantees issued under the new program, it is likely that between \$60 billion to \$120 billion of financing (assuming average subsidy requirements between 10% and 5%, respectively) will be available to eligible projects, including geothermal power plants.

Our subsidiary, Ormat Systems, received Benefited Enterprise status under Israel's Law for Encouragement of Capital Investments, 1959 (the Investment Law), with respect to two of its investment programs. As a Benefited Enterprise, Ormat Systems was exempt from Israeli income taxes with respect to income derived from the first benefited investment for a period of two years that started in 2004, and thereafter such income is subject to reduced Israeli income tax rates of 25% for an additional five years. Ormat Systems is also exempt from Israeli income taxes with respect to income derived from the second benefited investment for a period of two years that started in 2007, and thereafter such income is subject to reduced Israeli income tax rates of 25% for an additional five years. These benefits are subject to certain conditions, including among other things, that all transactions between Ormat Systems and our affiliates are at arm's length, and that the management and control of Ormat Systems will be from Israel during the whole period of the tax benefits. A change in control should be reported to the Israeli Tax Authorities in order to maintain the tax benefits. In addition, as an industrial company, Ormat Systems is entitled to accelerated depreciation on equipment used for its industrial activities. Under the provisions of certain tax regulations published in Israel in 2005, industrial companies whose operations are mostly Eligible Operations are entitled to claim accelerated depreciation at the rate of 100% on machinery and equipment acquired from July 1, 2005 to December 31, 2006.

Accelerated depreciation is to be claimed over two years. In the year in which the equipment was acquired, the regular depreciation rate is to be claimed, with the remainder to be claimed in the second year. Under the provisions of certain tax regulations published in Israel in July 2008, industrial companies whose operations are mostly Eligible Operations are entitled to claim accelerated depreciation at the rate of 50%

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on machinery and equipment acquired from June 1, 2008 to May 31, 2009 and placed in service at the later of six months after acquisition or before May 31, 2009.

ITEM 3. *QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK*

We incorporate by reference the information appearing under *Exposure to Market Risks* and *Concentration of Credit Risk* in Part I, Item 2 of this quarterly report on Form 10-Q.

ITEM 4. *CONTROLS AND PROCEDURES*

a. *Evaluation of disclosure controls and procedures*

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures to ensure that the information required to be disclosed in our filings pursuant to Rule 13a-15 under the Securities and Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms and to ensure that such information is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer as appropriate to allow timely decisions regarding required disclosure. Based on that evaluation as of September 30, 2009, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended) were effective.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

b. *Changes in internal controls over financial reporting*

There were no changes in our internal controls over financial reporting in the third quarter of 2009 that have materially affected or are reasonably likely to materially affect our internal controls over financial reporting.

PART II OTHER INFORMATION

ITEM 1. *LEGAL PROCEEDINGS*

There were no material developments in any legal proceedings to which the Company is a party during the three months period ended September 30, 2009.

From time to time, we (and our subsidiaries) are a party to various lawsuits, claims and other legal and regulatory proceedings that arise in the ordinary course of our (and their) business. These actions typically seek, among other things, compensation for alleged personal injury, breach of contract, property damage, punitive damages, civil penalties or other losses, or injunctive or declaratory relief. With respect to such lawsuits, claims and proceedings, we accrue reserves in accordance with accounting principles generally accepted in the U.S. We do not believe that any of these proceedings, individually or in the aggregate, would materially and adversely affect our business, financial condition, future results and cash flows.

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, 2008 filed with the SEC on March 2, 2009.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

There were no unregistered sales of equity securities of the Company during the third fiscal quarter of 2009.

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ITEM 3. *DEFAULTS UPON SENIOR SECURITIES*

Our management believes that we are currently in compliance with our covenants with respect to our third-party debt.

ITEM 4. *SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS*

No matters were submitted to a vote of our security holders in the quarter ended September 30, 2009.

ITEM 5. *OTHER INFORMATION*

None.

ITEM 6. *EXHIBITS*

| Exhibit No. | Document |
|--------------------|---|
| 3.1 | Second Amended and Restated Certificate of Incorporation, incorporated by reference to Exhibit 3.1 to Ormat Technologies, Inc. Registration Statement on Form S-1 (File No. 333-117527) to the Securities and Exchange Commission on July 20, 2004. |
| 3.2 | Third Amended and Restated By-laws, incorporated by reference to Exhibit 3.2 to Ormat Technologies, Inc. Current Report on Form 8-K to the Securities and Exchange Commission on February 26, 2009. |
| 3.3 | Amended and Restated Limited Liability Company Agreement of OPC LLC dated June 7, 2007, by and among Ormat Nevada Inc., Morgan Stanley Geothermal LLC, and Lehman-OPC LLC, incorporated by reference to Exhibit 3.1 to Ormat Technologies, Inc. Current Report on Form 8-K to the Securities and Exchange Commission on June 13, 2007. |
| 4.3 | Form of Rights Agreement by and between Ormat Technologies, Inc. and American Stock Transfer & Trust Company, incorporated by reference to Exhibit 4.3 to Ormat Technologies, Inc. Registration Statement Amendment No. 2 on Form S-1 (File No. 333-117527) to the Securities and Exchange Commission on October 22, 2004. |
| 4.4 | Indenture for Senior Debt Securities, dated as of January 16, 2006, between Ormat Technologies, Inc. and Union Bank of California, incorporated by reference to Exhibit 4.2 to Ormat Technologies, Inc. Registration Statement Amendment No. 1 on Form S-3 (File No. 333-131064) to the Securities and Exchange Commission on January 26, 2006. |
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| 10.1.13 | Membership Interest Purchase Agreement, dated as of October 30, 2009, by and among Lehman-OPC LLC, Ormat Nevada Inc. and OPC LLC, incorporated by reference to Exhibit 10.1.13 to Ormat Technologies, Inc. Current Report on Form 8-K to the Securities and Exchange Commission on November 3, 2009. |
| 31.1 | Certification of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, filed herewith. |
| 31.2 | Certification of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, filed herewith. |
| 32.1 | Certification of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, filed herewith. |

- 32.2 Certification of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, filed herewith.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

ORMAT TECHNOLOGIES, INC.

Name: Joseph Tenne
By: /s/ Joseph Tenne
Title: Chief Financial Officer
Date: November 4, 2009

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