ORMAT TECHNOLOGIES, INC.
Form 10-Q
August 05, 2015

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 June 30, 2015

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to

Commission file number: 001-32347

ORMAT TECHNOLOGIES, INC.

(Exact name of registrant as specified in its charter)

DELAWARE	**88-0326081**
(State or other jurisdiction of	*(I.R.S. Employer*
incorporation or organization)	*Identification Number)*
6225 Neil Road, Reno, Nevada	**89511-1136**
(Address of principal executive offices)	*(Zip Code)*

(775) 356-9029

(Registrant's telephone number, including area code)

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

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

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

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: As of August 5, 2015, the number of outstanding shares of common stock, par value $0.001 per share, was 49,002,583.

ORMAT TECHNOLOGIES, INC.

FORM 10-Q

FOR THE QUARTER ENDED JUNE 30, 2015

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.

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

ORMAT TECHNOLOGIES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

	June 30, 2015	December 31, 2014
	(Dollars in thousands)	
ASSETS		
Current assets:		
Cash and cash equivalents	$137,665	$40,230
Restricted cash and cash equivalents (all related to VIEs)	104,870	93,248
Receivables:		
Trade	58,089	48,609
Related entity	—	451
Other	14,066	10,141
Due from Parent	—	1,337
Inventories	16,401	16,930
Costs and estimated earnings in excess of billings on uncompleted contracts	7,093	27,793
Deferred income taxes	267	251
Prepaid expenses and other	31,055	34,884
Total current assets	369,506	273,874
Deposits and other	18,038	20,044
Deferred income taxes	1,694	—
Deferred charges	36,512	37,567
Property, plant and equipment, net ($1,445,005 and $1,339,342 related to VIEs, respectively)	1,519,945	1,437,637
Construction-in-process ($167,814 and $162,006 related to VIEs, respectively)	277,990	296,722
Deferred financing and lease costs, net	25,836	27,057
Intangible assets, net	27,029	28,655
Total assets	$2,276,550	$2,121,556
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	$98,481	$88,276
Deferred income taxes	975	974
Short term revolving credit lines with banks (full recourse)	—	20,300
Billings in excess of costs and estimated earnings on uncompleted contracts	49,731	24,724
Current portion of long-term debt:		
Limited and non-recourse (all related to VIEs):		
Senior secured notes	32,981	34,368
Other loans	17,995	17,995
Full recourse	17,203	19,116

Total current liabilities	217,366	205,753
Long-term debt, net of current portion:		
Limited and non-recourse (all related to VIEs):		
Senior secured notes	320,235	360,366
Other loans	255,627	264,625
Full recourse:		
Senior unsecured bonds (plus unamortized premium based upon 7% of $667)	250,136	250,289
Other loans	26,737	34,351
Unconsolidated investments	5,215	3,617
Liability associated with sale of tax benefits	27,298	39,021
Deferred lease income	59,070	60,560
Deferred income taxes	73,887	66,220
Liability for unrecognized tax benefits	7,151	7,511
Liabilities for severance pay	19,424	20,399
Asset retirement obligation	19,894	19,142
Other long-term liabilities	697	2,956
Total liabilities	1,282,737	1,334,810
Commitments and contingencies (Note 10)		
Equity:		
The Company's stockholders' equity:		
Common stock, par value $0.001 per share; 200,000,000 shares authorized; 49,002,583 and 45,537,162 shares issued and outstanding as of June 30, 2015 and December 31, 2014, respectively	49	46
Additional paid-in capital	845,173	742,006
Retained earnings	59,155	41,539
Accumulated other comprehensive income	(8,519)	(8,668)
	895,858	774,923
Noncontrolling interest	97,955	11,823
Total equity	993,813	786,746
Total liabilities and equity	$2,276,550	$2,121,556

The accompanying notes are an integral part of the consolidated financial statements

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ORMAT TECHNOLOGIES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND

COMPREHENSIVE INCOME

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
	(Dollars in thousands, except per share data)		(Dollars in thousands, except per share data)	
Revenue:				
Electricity	$90,926	$91,692	$180,879	$186,509
Product	49,561	35,911	79,839	83,530
Total revenue	140,487	127,603	260,718	270,039
Cost of revenue:				
Electricity	62,522	67,322	118,103	124,356
Product	27,182	20,324	47,807	52,267
Total cost of revenue	89,704	87,646	165,910	176,623
Gross margin	50,783	39,957	94,808	93,416
Operating expenses:				
Research and development expenses	414	232	777	145
Selling and marketing expenses	4,283	3,216	7,716	6,595
General and administrative expenses	7,443	6,072	17,647	13,668
Write-off of unsuccessful exploration activities	—	8,107	174	8,107
Operating income	38,643	22,330	68,494	64,901
Other income (expense):				
Interest income	44	90	53	201
Interest expense, net	(18,859)	(22,072)	(36,687)	(42,590)
Foreign currency translation and transaction losses	(571)	(55)	(1,937)	(693)
Income attributable to sale of tax benefits	4,731	6,130	10,283	12,847
Gain from sale of property, plant and equipment	—	7,628	—	7,628
Other non-operating income (expense), net	(1,675)	343	(1,392)	406
Income before income taxes and equity in losses of investees	22,313	14,394	38,814	42,700
Income tax provision	(6,056)	(4,967)	(11,515)	(11,287)
Equity in losses of investees, net	(984)	(114)	(1,759)	(311)
Net income	15,273	9,313	25,540	31,102
Net income attributable to noncontrolling interest	(859)	(177)	(1,094)	(414)
Net income attributable to the Company's stockholders	$14,414	$9,136	$24,446	$30,688
Comprehensive income:				
Net income	15,273	9,313	25,540	31,102

Other comprehensive income (loss), net of related taxes:				
Change in unrealized gains or losses in respect of the Company's share in derivatives instruments of unconsolidated investment	3,460	(4,088)	164	(4,088)
Loss in respect of derivative instruments designated for cash flow hedge	23	—	46	—
Amortization of unrealized gains in respect of derivative instruments designated for cash flow hedge	(31)	(36)	(61)	(72)
Comprehensive income	18,725	5,189	25,689	26,942
Comprehensive income attributable to noncontrolling interest	(859)	(177)	(1,094)	(414)
Comprehensive income attributable to the Company's stockholders	$17,866	$5,012	$24,595	$26,528
Earnings per share attributable to the Company's stockholders:				
Basic:				
Net income	$0.29	$0.20	$0.51	$0.67
Diluted:				
Net income	$0.28	$0.20	$0.49	$0.67
Weighted average number of shares used in computation of earnings per share attributable to the Company's stockholders:				
Basic	48,881	45,606	48,063	45,545
Diluted	50,600	45,963	49,444	45,827
Dividend per share declared	$0.06	$0.05	$0.12	$0.11

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

ORMAT TECHNOLOGIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF EQUITY

(Unaudited)

	The Company's Stockholders' Equity							
	Common Stock Shares	Amount	Additional Paid-in Capital	Retained Earnings (Accumulated Deficit)	Accumulated Other Income (Loss)	Total	Noncontrolling Interest	Total Equity
	(Dollars in thousands, except per share data)							
Balance at December 31, 2013	45,461	$ 46	$735,295	$ (3,088)	$ 487	$732,740	$ 12,371	$745,111
Stock-based compensation	—	—	2,806	—	—	2,806	—	2,806
Exercise of options by employees and directors	58	—	741	—	—	741	—	741
Cash paid to noncontrolling interest	—	—	—	—	—	—	(254)	(254)
Cash dividend declared, $0.11 per share	—	—	—	(5,003)	—	(5,003)	—	(5,003)
Increase in noncontrolling interest	—	—	—	—	—	—	257	257
Net income	—	—	—	30,688	—	30,688	414	31,102
Other comprehensive income (loss), net of related taxes:								
Change in unrealized gains or losses in respect of the Company's share in derivative instruments of unconsolidated investment (net of related tax of $0)	—	—	—	—	(4,088)	(4,088)	—	(4,088)
Amortization of unrealized gains in respect of derivative instruments designated for cash flow hedge (net of related tax of $44)	—	—	—	—	(72)	(72)	—	(72)

Balance at June 30, 2014	45,519	$ 46	$ 738,842	$ 22,597	$ (3,673)	$ 757,812	$ 12,788	$ 770,600
Balance at December 31, 2014	45,537	$ 46	$ 742,006	$ 41,539	$ (8,668)	$ 774,923	$ 11,823	$ 786,746
Stock-based compensation	—	—	2,156	—	—	2,156	—	2,156
Exercise of options by employees and directors	469	—	3,966	—	—	3,966	—	3,966
Share exchange with Parent (Note 1)	2,996	3	25,754	—	—	25,757	—	25,757
Cash paid to noncontrolling interest	—	—	—	—	—	—	(432)	(432)
Cash dividend declared, $0.14 per share	—	—	—	(6,830)	—	(6,830)	—	(6,830)
Issuance of shares to noncontrolling interest, net of transaction costs	—	—	71,291	—	—	71,291	85,470	156,761
Net income	—	—	—	24,446	—	24,446	1,094	25,540
Other comprehensive income (loss), net of related taxes:								
Loss in respect of derivative instruments designated for cash flow hedge (net of related tax of $27)	—	—	—	—	46	46	—	46
Change in unrealized gains or losses in respect of the Company's share in derivative instruments of unconsolidated investment (net of related tax of $0)	—	—	—	—	164	164	—	164
Amortization of unrealized gains in respect of derivative instruments designated for cash flow hedge (net of related tax of $38)	—	—	—	—	(61)	(61)	—	(61)
Balance at June 30, 2015	49,002	$ 49	$ 845,173	$ 59,155	$ (8,519)	$ 895,858	$ 97,955	$ 993,813

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

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ORMAT TECHNOLOGIES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Six Months Ended June 30,	
	2015	**2014**
	(Dollars in thousands)	
Cash flows from operating activities:		
Net income	$25,540	$31,102
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	52,559	48,819
Amortization of premium from senior unsecured bonds	(154)	(153)
Accretion of asset retirement obligation	752	743
Stock-based compensation	2,156	2,806
Amortization of deferred lease income	(1,342)	(1,343)
Income attributable to sale of tax benefits, net of interest expense	(6,720)	(7,540)
Equity in losses of investees	1,759	311
Mark-to-market of derivative instruments	4,140	(302)
Loss on disposal of property, plant and equipment	531	—
Write-off of unsuccessful exploration activities	174	8,107
Gain on severance pay fund asset	(572)	(396)
Gain on sale of a subsidiary	—	(7,628)
Deferred income tax provision	7,024	8,887
Liability for unrecognized tax benefits	(360)	639
Deferred lease revenues	(148)	(124)
Other	484	(181)
Changes in operating assets and liabilities, net of amounts acquired:		
Receivables	(12,775)	19,959
Costs and estimated earnings in excess of billings on uncompleted contracts	20,700	(4,701)
Inventories	529	3,997
Prepaid expenses and other	(300)	(8,738)
Deposits and other	(362)	86
Accounts payable and accrued expenses	(2,600)	(11,094)
Due from/to related entities, net	451	—
Billings in excess of costs and estimated earnings on uncompleted contracts	25,007	20,282
Liabilities for severance pay	(975)	(47)
Other long-term liabilities	(2,259)	313
Due from/to Parent	(513)	(225)
Net cash provided by operating activities	112,726	103,579
Cash flows from investing activities:		
Cash acquired in organizational restructuring and share exchange with parent (Note 1)	15,391	—
Net change in restricted cash, cash equivalents and marketable securities	(11,622)	(3,012)

Cash received from sale of a subsidiary	—	35,250
Capital expenditures	(86,142)	(89,125)
Cash grant received from the U.S. Treasury under Section 1603 of the ARRA	—	27,427
Investment in unconsolidated companies	—	(631)
Decrease in severance pay fund asset, net of payments made to retired employees	2,940	1,079
Net cash used in investing activities	(79,433)	(29,012)
Cash flows from financing activities:		
Proceeds from sale of membership interests to noncontrolling interest, net of transaction costs	156,761	—
Proceeds from exercise of options by employees	3,966	392
Purchase of OFC Senior Secured Notes	(30,638)	(12,860)
Proceeds from revolving credit lines with banks	598,800	1,742,383
Repayment of revolving credit lines with banks	(619,100)	(1,729,800)
Cash received from non-controlling interest	1,654	2,234
Repayments of long-term debt	(29,404)	(41,078)
Cash paid to non-controlling interest	(7,418)	(5,398)
Deferred debt issuance costs	(3,649)	(2,671)
Cash dividends paid	(6,830)	(5,003)
Net cash provided by (used in) financing activities	64,142	(51,801)
Net change in cash and cash equivalents	97,435	22,766
Cash and cash equivalents at beginning of period	40,230	57,354
Cash and cash equivalents at end of period	$137,665	$80,120
Supplemental non-cash investing and financing activities:		
Increase (decrease) in accounts payable related to purchases of property, plant and equipment	$12,612	$(7,289)

The accompanying notes are an integral part of the 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 (collectively, 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, these unaudited condensed consolidated interim financial statements reflect all adjustments, which include normal recurring adjustments, necessary for a fair statement of the Company's consolidated financial position as of June 30, 2015, the consolidated results of operations and comprehensive income (loss) for the six-month periods ended June 30, 2015 and 2014 and the consolidated cash flows for the six-month periods ended June 30, 2015 and 2014.

The financial data and other information disclosed in the notes to the condensed consolidated financial statements related to these periods are unaudited. The results for the six-month period ended June 30, 2015 are not necessarily indicative of the results to be expected for the year ending December 31, 2015.

These condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company's annual report on Form 10-K for the year ended December 31, 2014. The condensed consolidated balance sheet data as of December 31, 2014 was derived from the audited consolidated financial statements for the year ended December 31, 2014, 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.

OFC Senior Secured Notes prepayment

In June 2015, the Company repurchased $30.6 million aggregate principal amount of our OFC Senior Secured Notes from the OFC noteholders. As a result of the repurchase, the Company recognized a loss of $1.7 million, including amortization of deferred financing cost of $0.5 million, which is included in other non-operating income (expense), net in the consolidated statements of operations and comprehensive income for the three and six months ended June 30, 2015.

Northleaf transaction

On April 30, 2015, Ormat Nevada Inc. (“Ormat Nevada”), a wholly-owned subsidiary of the Company, closed the sale of approximately 36.75% of the aggregate membership interests in ORPD LLC (“ORPD”), a new holding company and subsidiary of Ormat Nevada, that indirectly owns the Puna geothermal power plant in Hawaii, the Don A. Campbell geothermal power plant in Nevada, and nine power plant units across three recovered energy generation assets known as OREG 1, OREG 2 and OREG 3 to Northleaf Geothermal Holdings, LLC for $162.3 million. The net proceeds to the Company were $156.8 million after payment of $5.5 million of transaction costs. The sale was made under the Agreement for Purchase of Membership Interests dated February 5, 2015. This transaction closed on April 30, 2015 and resulted in a taxable gain in the U.S. of approximately $102.1 million, for which the Company will utilize a portion of its Net Operating Loss (“NOL”) and tax credit carryforwards to fully offset the tax impact of the gain.

Subsequent to closing the transaction, the Company maintained control of ORPD and as such continue to consolidate the entity with non-controlling interest being recorded. Consequently, the Company recorded the net proceeds from the issuance of membership interests as an increase to additional paid-in capital of $71.3 million and non-controlling interests of $85.5 million. See Note 11 for tax details.

Share exchange transaction

On February 12, 2015, the Company completed the share exchange transaction with its then-parent entity, Ormat Industries Ltd. ("OIL") following which, the Company became a noncontrolled public company and its public float increased from approximately 40% to approximately 76% of its total shares outstanding. Under the terms of the share exchange, OIL shareholders received 0.2592 shares in the company for each share in OIL, or an aggregate of approximately 30.2 million shares, reflecting a net issuance of approximately 3.0 million shares (after deducting the 27.2 million shares that OIL held in the Company). Consequently, the number of total shares of the Company increased from approximately 45.5 million shares to approximately 48.5 million shares as of the closing of the share exchange.

ORMAT TECHNOLOGIES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

In exchange, the Company also received $15.4 million in cash, $0.6 million in other assets and $12.1 million in land and buildings and assumed $0.5 million in liabilities. OIL's principal business purpose was to hold its interest in the Company and the transaction resulted in a transfer of non-material assets from OIL to the Company. Therefore, it does not represent a change in reporting entity and the Company recognized the transfer of net assets at their carrying value as presented in OIL's financial statements. Any activities of OIL will be accounted for prospectively by the Company.

OFC 2 loan prepayment

On June 20, 2014, Phase I of the Tuscarora Facility achieved Project Completion under the OFC 2 Note Purchase Agreement. In accordance with the terms of the Note Purchase Agreement and following recalibration of the financing assumptions, the loan amount was adjusted through a principal prepayment of $4.3 million.

Solar project sale

On March 26, 2014, the Company signed an agreement with RET Holdings, LLC to sell the Heber Solar project in Imperial County, California for $35.25 million. The Company received the first payment of $15.0 million during the first quarter of 2014 and the second payment for the remaining $20.25 million in the second quarter of 2014. The Company recognized pre-tax gain of approximately $7.6 million in the second quarter of 2014.

Other comprehensive income

For the six months ended June 30, 2015 and 2014, the Company classified $15,000 and $72,000, respectively, from accumulated other comprehensive income, of which $25,000 and $116,000, respectively, were recorded to reduce interest expense and $10,000 and $44,000, respectively, were recorded against the income tax provision, in the condensed consolidated statements of operations and comprehensive income. For the three months ended June 30, 2015 and 2014, the Company classified $8,000 and $36,000, respectively, from accumulated other comprehensive income, of which $14,000 and $58,000, respectively, were recorded to reduce interest expense and $5,000 and $22,000, respectively, were recorded against the income tax provision, in the condensed consolidated statements of operations and comprehensive income.

Write-off of unsuccessful exploration activities

There were no write-offs of unsuccesful exploration activities for the three months ended June 30, 2015. Write-off of unsuccessful activities for the three and six months ended June 30, 2014, was $8.1 million. This represents the write-off of exploration costs related to the Company’s exploration activities in the Wister site in California, which the Company determined in the second quarter of 2014 would not support commercial operations.

Concentration of credit risk

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

The Company places its temporary cash investments with high credit quality financial institutions located in the United States (“U.S.”) and in foreign countries. At June 30, 2015 and December 31, 2014, the Company had deposits totaling $49,931,000 and $23,488,000, respectively, in seven U.S. financial institutions that were federally insured up to $250,000 per account. At June 30, 2015 and December 31, 2014, the Company’s deposits in foreign countries amounted to approximately $22,796,000 and $24,304,000, respectively.

At June 30, 2015 and December 31, 2014, accounts receivable related to operations in foreign countries amounted to approximately $33,024,000 and $21,935,000, respectively. At June 30, 2015 and December 31, 2014, accounts receivable from the Company’s primary customers amounted to approximately 59.5% and 69.0%, respectively, of the Company’s accounts receivable.

Sierra Pacific Power Company and Nevada Power Company (subsidiaries of NV Energy, Inc.) accounted for 20.0% and 17.4% of the Company’s total revenue for the three months ended June 30, 2015 and 2014, respectively and 21.8% and 17.5% for the six months ended June 30, 2015 and 2014, respectively.

Southern California Edison accounted for 10.3% and 13.5% of the Company’s total revenue for the three months ended June 30, 2015 and 2014, respectively, and 9.7% and 12.7% for the three months ended June 30, 2015 and 2014, respectively.

ORMAT TECHNOLOGIES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

(Unaudited)

Kenya Power and Lighting Co. Ltd. accounted for 15.4% and 16.9% of the Company's total revenue for the three months ended June 30, 2015 and 2014, respectively and 16.5% and 15.6% for the six months ended June 30, 2015 and 2014, 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 six-month period ended June 30, 2015

Service Concession Arrangements

In January 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-05, Service Concession Arrangements, Topic 853. The update provides that an operating entity should not account for a service concession arrangement within the scope of this update as a lease in accordance with Topic 840, Leases. The amendments also specify that the infrastructure used in a service concession arrangement should not be recognized as property, plant, and equipment of the operating entity. A service concession arrangement is an arrangement between a public-sector entity grantor and an operating entity under which the operating entity operates the grantor's infrastructure and may provide the construction, upgrading, or maintenance services of the grantor's infrastructure. The amendments apply to an operating entity of a service concession arrangement entered into with a public-sector entity grantor when the arrangement meets both of the following conditions: (1) the grantor controls or has the ability to modify or approve the services that the operating entity must provide with the infrastructure, to whom it must provide them, and at what price and (2) The grantor controls, through ownership, beneficial entitlement, or otherwise, any residual interest in the infrastructure at the end of the term of the arrangement. The guidance was applied on a modified retrospective basis to service concession arrangements in existence at January 1, 2015. The adoption of this guidance did not have a material impact on the Company's consolidated financial statements.

New accounting pronouncements effective in future periods

Amendments to Fair Value Measurement

In June 2015, the FASB issued ASU 2015-10, Amendment to Fair Value Measurement, Subtopic 820-10. The amendment provides that the reporting entity shall disclose for each class of assets and liabilities measured at fair value in the statement of financial position the following information: for recurring fair value measurements, the fair value measurement at the end of the reporting period, and for non-recurring fair vale measurement, the fair value measurement at the relevant measurement date and the reason for the measurement. The amendments in this update are effective for annual reporting periods beginning after December 15, 2015, including interim periods within that reporting period. The Company is currently evaluating the potential impact, if any, of the adoption of this update on its consolidated financial statements.

Amendments to the Consolidation Analysis

In February 2015, the FASB issued ASU 2015-02, Amendments to the Consolidation Analysis, Topic 810. The update provides that all reporting entities that hold a variable interest in other legal entities will need to re-evaluate their consolidation conclusions and potentially revise their disclosures. This amendment affects both variable interest entity ("VIE") and voting interest entity ("VOE") consolidation models. The update does not change the general order in which the consolidation models are applied. A reporting entity that holds an economic interest in, or is otherwise involved with, another legal entity (has a variable interest) should first determine if the VIE model applies, and if so, whether it holds a controlling financial interest under that model. If the entity being evaluated for consolidation is not a VIE, then the VOE model should be applied to determine whether the entity should be consolidated by the reporting entity. Since consolidation is only assessed for legal entities, the determination of whether there is a legal entity is important. It is often clear when the entity is incorporated, but unincorporated structures can also be legal entities and judgment may be required to make that determination. The update contains a new example that highlights the judgmental nature of this legal entity determination. The update is effective for annual reporting periods beginning after December 15, 2015, including interim periods within that reporting period. The Company is currently evaluating the potential impact, if any, of the adoption of this update on its consolidated financial statements.

ORMAT TECHNOLOGIES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

(Unaudited)

Simplifying the Presentation of Debt Costs

In April 2015, the FASB issued ASU 2015-03, Interest-Imputation of Interest: Simplifying the Presentation of Debt Costs, Subtopic 835-30. The update provides that debt issuance costs related to a recognized debt liability be presented in the balance sheet as direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The amendments in this update are effective for financial statements issued for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. Early adoption is permitted. The Company plans to adopt this update in its interim period beginning January 1, 2016 and expects the potential impact to be a reclassification of the debt issuance costs totaling $21.7 million as of June 30, 2015.

Revenues from Contracts with Customers

In May 2014, the FASB issued ASU 2014-09, Revenues from Contracts with Customers, Topic 606, which was a joint project of the FASB and the International Accounting Standards Board to clarify the principles for recognizing revenue and to develop a common revenue standard for U.S. GAAP and International Financial Reporting Standards. The update provides that an entity should recognize revenue in connection with the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, an entity is required to apply each of the following steps: (1) identify the contract(s) with the customer; (2) identify the performance obligations in the contracts; (3) determine the transaction price; (4) allocate the transaction price to the performance obligation in the contract; and (5) recognize revenue when (or as) the entity satisfies a performance obligation. The amendments in this update are effective for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period. Early adoption is not permitted. The Company is currently evaluating the potential impact, if any, of the adoption of these amendments on its consolidated financial statements.

NOTE 3 — INVENTORIES

Inventories consist of the following:

	June 30, 2015	**December 31, 2014**
	(Dollars in thousands)	
Raw materials and purchased parts for assembly	$341	$ 4,840
Self-manufactured assembly parts and finished products	16,060	12,090
Total	$16,401	$ 16,930

ORMAT TECHNOLOGIES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

(Unaudited)

NOTE 4 — UNCONSOLIDATED INVESTMENTS

Unconsolidated investments consist of the following:

	June 30, 2015	December 31, 2014
	(Dollars in thousands)	
Sarulla	$(5,215)	$ (3,617)

The Sarulla Project

The Company is a 12.75% member of a consortium which is in the process of developing the Sarulla geothermal power project in Indonesia with expected generating capacity of approximately 330 megawatts (“MW”). The Sarulla 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 (“JOC”) and Energy Sales Contract (“ESC”) that were signed on April 4, 2013. Under the JOC, PT Pertamina Geothermal Energy (“PGE”), the concession holder for the project, has provided the consortium with the right to use the geothermal field, and under the ESC, PT PLN, the state electric utility, will be the off-taker at Sarulla for a period of 30 years. In addition to its equity holdings in the consortium, the Company designed the Sarulla plant and is expected to supply its Ormat Energy Converters to the power plant. The supply contract was signed in October 2013.

The consortium has started preliminary testing and development activities at the site and signed an engineering procurement and construction agreement (“EPC”) with an unrelated third party. The project will be constructed in three phases of approximately 110 MW each, utilizing both steam and brine extracted from the geothermal field to increase the power plant’s efficiency.

On May 16, 2014, the consortium closed $1.17 billion in financing for the development of the Sarulla project with a consortium of lenders comprised of Japan Bank for International Cooperation (“JBIC”), the Asian Development Bank and six commercial banks and obtained construction and term loans on a limited recourse basis backed by a political risk guarantee from JBIC.

Of the $1.17 billion, $0.1 billion (which was drawn down by the Sarulla project company on May 23, 2014) bears a fixed interest rate and $1.07 billion bears interest at a rate linked to LIBOR.

The Sarulla consortium entered into interest rate swap agreements with various international banks in order to fix the Libor interest rate on up to $0.96 billion of the $1.07 billion credit facility at a rate of 3.4565%. The interest rate swap became effective as of June 4, 2014 along with the second draw-down by the project company of $50.0 million.

The Sarulla project company accounted for the interest rate swap as a cash flow hedge upon which changes in the fair value of the hedging instrument, relative to the effective portion, will be recorded in other comprehensive income. As such, during the six months ended June 30, 2015, the project recorded a gain equal to $3.0 million, of which the Company's share was $0.4 million which was recorded in other comprehensive income. The accumulated loss as of June 30, 2015 is $7.7 million.

The first phase of operations is expected to commence in 2016 and the remaining two phases of operations are scheduled to commence within 18 months thereafter. The Company will supply its Ormat Energy Converters to the power plant and has added the $255.6 million supply contract to its product segment backlog. According to the current plan, the Company started to recognize revenue from the project during the third quarter of 2014 and will continue to recognize revenue over the course of the next three to four years. The Company has eliminated the related intercompany profit of $1.6 million against equity in loss of investees.

During the six months ended June 30, 2015, the Company did not make any additional investment contributions to the Sarulla project.

ORMAT TECHNOLOGIES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

(Unaudited)

NOTE 5— FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value measurement guidance clarifies that fair value is an exit price, representing the amount that would be received upon selling an asset or paid upon transferring 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. The guidance 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 June 30, 2015 and December 31, 2014 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.

	Carrying Value at June 30, 2015	June 30, 2015 Fair Value Total	Level 1	Level 2	Level 3
	(Dollars in thousands)				
Assets:					
Current assets:					
Cash equivalents (including restricted cash accounts)	$164,053	$164,053	$164,053	$—	$ —
Derivatives:					
Swap transaction on natural gas price (1)	—	—	—	—	—
Currency forward contracts (2)	707	707		707	
Liabilities:					
Current liabilities:					
Derivatives:					
Swap transaction on natural gas price (1)	(11)	(11)	—	(11)	—
Currency forward contracts (2)	(2,899)	(2,899)	—	(2,899)	—
	$161,850	$161,850	$164,053	$(2,203)	$ —

ORMAT TECHNOLOGIES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

(Unaudited)

	December 31, 2014				
		Fair Value			
	Carrying Value at December 31, 2014	Total	Level 1	Level 2	Level 3
	(Dollars in thousands)				
Assets					