ORMAT TECHNOLOGIES, INC.
Form 10-Q
November 08, 2018

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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, 2018

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)*
6140 Plumas Street, Reno, Nevada	**89519-6075**
(Address of principal executive offices)	*(Zip Code)*

(775) 356-9029

(Registrant's telephone number, including area code)

6225 Neil Road, Reno, Nevada 89511-1136

(Former name, former address and former fiscal year, if changed since last report)

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 every Interactive Data File required to be submitted 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, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act:

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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 November 6, 2018, the number of outstanding shares of common stock, par value $0.001 per share, was 50,672,520.

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ORMAT TECHNOLOGIES, INC.

FORM 10-Q

FOR THE QUARTER ENDED SEPTEMBER 30, 2018

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Certain Definitions

Unless the context otherwise requires, all references in this quarterly report to "Ormat", "the Company", "we", "us", "our company", "Ormat Technologies" or "our" refer to Ormat Technologies, Inc. and its consolidated subsidiaries.

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PART I - FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS
ORMAT TECHNOLOGIES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

	September 30, 2018	December 31, 2017
	(Dollars in thousands)	
ASSETS		
Current assets:		
Cash and cash equivalents	$71,965	$47,818
Restricted cash and cash equivalents (primarily related to VIEs)	83,101	48,825
Receivables:		
Trade	118,675	110,410
Other	18,328	13,828
Inventories	37,442	19,551
Costs and estimated earnings in excess of billings on uncompleted contracts	47,811	40,945
Prepaid expenses and other	44,452	40,269
Total current assets	421,774	321,646
Investment in an unconsolidated company	67,739	34,084
Deposits and other	20,109	21,599
Deferred income taxes	113,363	57,337
Deferred charges	—	49,834
Property, plant and equipment, net ($1,744,299 and $1,631,900 related to VIEs, respectively)	1,835,939	1,734,691
Construction-in-process ($106,977 and $142,717 related to VIEs, respectively)	351,288	293,542
Deferred financing and lease costs, net	5,878	4,674
Intangible assets, net	203,382	85,420
Goodwill	40,111	21,037
Total assets	$3,059,583	$2,623,864
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	$105,351	$153,796
Short term revolving credit lines with banks (full recourse)	209,500	51,500

Billings in excess of costs and estimated earnings on uncompleted contracts	21,760	20,241
Current portion of long-term debt:		
Limited and non-recourse (primarily related to VIEs):		
Senior secured notes	33,259	33,226
Other loans	21,495	21,495
Full recourse	5,000	3,087
Total current liabilities	396,365	283,345
Long-term debt, net of current portion:		
Limited and non-recourse (primarily related to VIEs):		
Senior secured notes (less deferred financing costs of $7,758 and $8,113, respectively)	386,379	311,668
Other loans (less deferred financing costs of $4,823 and $5,258, respectively)	225,782	242,385
Full recourse:		
Senior unsecured bonds (less deferred financing costs of $804 and $580, respectively)	303,528	203,752
Other loans (less deferred financing costs of $1,058 and $1,011, respectively)	43,942	46,489
Liability associated with sale of tax benefits	69,071	44,634
Deferred lease income	49,203	51,520
Deferred income taxes	56,753	61,961
Liability for unrecognized tax benefits	10,139	8,890
Liabilities for severance pay	19,903	21,141
Asset retirement obligation	37,946	27,110
Other long-term liabilities	22,354	18,853
Total liabilities	1,621,365	1,321,748
Commitments and contingencies (Note 10)		
Redeemable noncontrolling interest	8,522	6,416
Equity:		
The Company's stockholders' equity:		
Common stock, par value $0.001 per share; 200,000,000 shares authorized; 50,672,520 and 50,609,051 shares issued and outstanding as of September 30, 2018 and December 31, 2017, respectively	51	51
Additional paid-in capital	896,160	888,778
Retained earnings	410,870	327,255
Accumulated other comprehensive income (loss)	(1,386)	(4,706)
Total stockholders' equity attributable to Company's stockholders	1,305,695	1,211,378
Noncontrolling interest	124,001	84,322
Total equity	1,429,696	1,295,700
Total liabilities, redeemable noncontrolling interest and equity	$3,059,583	$2,623,864

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 September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
	(Dollars in thousands, except per share data)		(Dollars in thousands, except per share data)	
Revenues:				
Electricity	$116,891	$110,876	$371,559	$337,548
Product	48,439	44,912	152,026	186,621
Other	1,150	1,397	5,217	2,278
Total revenues	166,480	157,185	528,802	526,447
Cost of revenues:				
Electricity	79,845	64,444	234,563	193,676
Product	35,669	32,218	106,968	125,102
Other	2,174	1,330	7,645	3,573
Total cost of revenues	117,688	97,992	349,176	322,351
Gross profit	48,792	59,193	179,626	204,096
Operating expenses:				
Research and development expenses	706	716	3,065	2,368
Selling and marketing expenses	8,578	3,630	15,989	12,083
General and administrative expenses	13,606	10,877	43,325	33,027
Write-off of unsuccessful exploration activities	—	—	119	—
Operating income	25,902	43,970	117,128	156,618
Other income (expense):				
Interest income	214	255	516	861
Interest expense, net	(18,700)	(11,692)	(48,890)	(41,155)
Derivatives and foreign currency transaction gains (losses)	(383)	(1,001)	(2,511)	2,040
Income attributable to sale of tax benefits	4,066	3,506	14,983	14,019
Other non-operating income (expense), net	309	(1,592)	7,662	(1,678)
	11,408	33,446	88,888	130,705

Income from continuing operations before income taxes and equity in earnings (losses) of investees				
Income tax (provision) benefit	(1,184)	(6,224)	(3,347)	(49,993)
Equity in earnings (losses) of investees, net	(117)	337	1,481	(1,690)
Income from continuing operations	10,107	27,559	87,022	79,022
Net income attributable to noncontrolling interest	474	(3,599)	(7,276)	(11,228)
Net income attributable to the Company's stockholders	$10,581	$23,960	$79,746	$67,794
Comprehensive income:				
Net income	10,107	27,559	87,022	79,022
Other comprehensive income (loss), net of related taxes:				
Change in foreign currency translation adjustments	(91)	1,005	(1,059)	2,544
Change in unrealized gains or losses in respect of the Company's share in derivatives instruments of unconsolidated investment	1,012	618	4,175	271
Loss in respect of derivative instruments designated for cash flow hedge	20	20	60	113
Amortization of unrealized gains in respect of derivative instruments designated for cash flow hedge	(14)	(18)	(44)	(57)
Comprehensive income	11,034	29,184	90,154	81,893
Comprehensive income attributable to noncontrolling interest	458	(4,006)	(7,088)	(11,950)
Comprehensive income attributable to the Company's stockholders	$11,492	$25,178	$83,066	$69,943
Earnings per share attributable to the Company's stockholders:				
Basic:				
Net income	$0.21	$0.48	$1.58	$1.36
Diluted:				
Net income	$0.21	$0.47	$1.56	$1.34
Weighted average number of shares used in computation of earnings per share attributable to the Company's stockholders:				
Basic	50,645	50,367	50,627	49,942
Diluted	50,963	50,867	50,985	50,669

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

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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, 2016	49,667	$ 50	$ 869,463	$ 215,352	$ (8,175)	$ 1,076,690	$ 91,582	$ 1,168,272
Stock-based compensation	—	—	7,204	—	—	7,204	—	7,204
Exercise of options by employees and directors	930	1	16,382	—	—	16,383	—	16,383
Cash paid to noncontrolling interest	—	—	—	—	—	—	(18,032)	(18,032)
Cash dividend declared, $0.33 per share	—	—	—	(16,612)	—	(16,612)	—	(16,612)
Buyout of class B membership in ORTP	—	—	2,956	—	—	2,956	(6,964)	(4,008)
Net income	—	—	—	67,794	—	67,794	10,154	77,948
Other comprehensive income (loss), net of related taxes:								
Currency translation adjustment	—	—	—	—	1,822	1,822	722	2,544
Loss in respect of derivative instruments designated for cash flow hedge	—	—	—	—	113	113	—	113

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)	—	—	—	—	271	271	—	271
Amortization of unrealized gains in respect of derivative instruments designated for cash flow hedge (net of related tax of $35)	—	—	—	—	(57)	(57)	—	(57)
Balance at September 30, 2017	50,597	$ 51	$ 896,005	$ 266,534	$ (6,026)	$ 1,156,564	$ 77,462	$ 1,234,026
Balance at December 31, 2017	50,609	$ 51	$ 888,778	$ 327,255	$ (4,706)	$ 1,211,378	$ 84,322	$ 1,295,700
Stock-based compensation	—	—	7,382	—	—	7,382	—	7,382
Exercise of options by employees and directors	21	—	—	—	—	—	—	—
Cumulative effect of changes in accounting principles	—	—	—	25,635	—	25,635	—	25,635
Cash paid to noncontrolling interest	—	—	—	—	—	—	(7,902)	(7,902)
Cash dividend declared, $0.43 per share	—	—	—	(21,766)	—	(21,766)	—	(21,766)
Increase in noncontrolling interest in Guadeloupe	—	—	—	—	—	—	5,339	5,339
Increase in noncontrolling interest in Tungsten	—	—	—	—	—	—	996	996
Increase in noncontrolling interest in U.S. Geothermal	—	—	—	—	—	—	34,898	34,898
Net income	—	—	—	79,746	—	79,746	6,536	86,282
Other comprehensive income (loss), net of related taxes:								

Currency translation adjustment	—	—	—	—	(871)	(871)	(188)	(1,059)
Loss in respect of derivative instruments designated for cash flow hedge (net of related tax of $24)	—	—	—	—	60	60	—	60
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)	—	—	—	—	4,175	4,175	—	4,175
Amortization of unrealized gains in respect of derivative instruments designated for cash flow hedge (net of related tax of $18)	—	—	—	—	(44)	(44)	—	(44)
Balance at September 30, 2018	50,630	$ 51	$ 896,160	$ 410,870	$ (1,386)	$ 1,305,695	$ 124,001	$ 1,429,696

Dividend per share of $0.10 and $0.08 was declared for the three months ended September 30, 2018 and 2017, respectively.

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)

	Nine Months Ended September 30,	
	2018	2017
	(Dollars in thousands)	
Cash flows from operating activities:		
Net income	$87,022	$79,022
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	98,371	81,010
Accretion of asset retirement obligation	1,826	1,392
Stock-based compensation	7,382	7,204
Amortization of deferred lease income	(2,014)	(2,014)
Income attributable to sale of tax benefits, net of interest expense	(9,806)	(8,851)
Equity in losses (earnings) of investees	(1,774)	1,690
Mark-to-market of derivative instruments	1,202	(764)
Loss on disposal of property, plant and equipment	5,365	—
Write-off of unsuccessful exploration activities	119	—
Loss (gain) on severance pay fund asset	630	(1,463)
Deferred income tax provision and deferred charges	(6,612)	38,123
Liability for unrecognized tax benefits	1,249	568
Deferred lease revenues	(303)	(274)
Gain from insurance recoveries	(7,150)	—
Other	—	501
Changes in operating assets and liabilities, net of amounts acquired:		
Receivables	(9,704)	(10,808)
Costs and estimated earnings in excess of billings on uncompleted contracts	(6,866)	10,111
Inventories	(1,728)	(209)
Prepaid expenses and other	(4,183)	(636)
Deposits and other	10	1,231
Accounts payable and accrued expenses	(50,056)	(3,655)
Billings in excess of costs and estimated earnings on uncompleted contracts	1,519	(25,344)
Liabilities for severance pay	(1,238)	1,764
Other long-term liabilities	(105)	(2,065)
Net cash provided by operating activities	103,156	166,533
Cash flows from investing activities:		
Capital expenditures	(200,657)	(177,410)
Cash received from insurance recoveries related to destroyed equipment	7,150	—

Investment in unconsolidated companies	(3,800)	(37,867)
Buyout of Class B membership in ORTP	—	(2,357)
Cash paid for acquisition of controlling interest in a subsidiary, net of cash acquired	(95,093)	(35,300)
Intangible assets acquired	—	(868)
Decrease (increase) in severance pay fund asset, net of payments made to retired employees	850	529
Net cash used in investing activities	(291,550)	(253,273)
Cash flows from financing activities:		
Proceeds from sale of membership interests to noncontrolling interest, net of transaction costs	3,174	—
Proceeds from long-term loans, net of transaction costs	100,000	—
Proceeds from exercise of options by employees	—	16,382
Proceeds from the sale of limited liability company interest in Tungsten, net of transaction costs	32,403	—
Purchase of OFC Senior Secured Notes	—	(14,270)
Proceeds from revolving credit lines with banks	2,819,800	695,600
Repayment of revolving credit lines with banks	(2,661,800)	(661,700)
Cash received from noncontrolling interest	4,134	2,017
Repayments of long-term debt	(41,858)	(55,226)
Cash paid to noncontrolling interest	(9,555)	(18,032)
Payments of capital leases	(1,706)	(1,472)
Deferred debt issuance costs	(3,002)	(4,652)
Cash dividends paid	(21,766)	(16,612)
Net cash provided by (used in) financing activities	219,824	(57,965)
Net change in cash and cash equivalents and restricted cash and cash equivalents	31,430	(144,705)
Restricted cash and cash equivalents acquired in a business combination	26,993	—
Cash and cash equivalents and restricted cash and cash equivalents at beginning of period	96,643	264,476
Cash and cash equivalents and restricted cash and cash equivalents at end of period	$155,066	$119,771
Supplemental non-cash investing and financing activities:		
Increase (decrease) in accounts payable related to purchases of property, plant and equipment	$(10,390)	$982
Accrued liabilities related to financing activities	$5,864	$—

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 September 30, 2018, the consolidated results of operations and comprehensive income (loss) for the three and nine-month periods ended September 30, 2018 and 2017 and the consolidated cash flows for the nine-month periods ended September 30, 2018 and 2017.

The financial data and other information disclosed in the notes to the condensed consolidated financial statements related to these periods are unaudited. The results for the three and nine-month period ended September 30, 2018 are not necessarily indicative of the results to be expected for the year ending December 31, 2018.

These condensed unaudited 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/A for the year ended December 31, 2017. The condensed consolidated balance sheet data as of December 31, 2017 was derived from the Company's audited consolidated financial statements for the year ended December 31, 2017 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.

Galena 2 Power Purchase Agreement ("PPA") Termination

On September 30, 2018, the Company signed a termination agreement with NV Energy, Inc for the Galena 2 PPA under which it agreed to pay a termination fee of approximately $5 million. The Company entered into this termination agreement as it designated the Galena 2 geothermal power plant as a facility under the portfolio PPA with Southern California Public Power Authority (“SCPPA”). The Company expects to start selling electricity from the Galena 2 plant under the SCPPA portfolio in March 2019. The termination fee was included under “Selling and marketing expenses” for the three and nine months ended September 30, 2018 in the condensed consolidated statements of operations and comprehensive income.

Tungsten Mountain partnership transaction

On May 17, 2018, one of the Company’s wholly-owned subsidiaries that indirectly owns the 26 MW Tungsten Mountain Geothermal power plant entered into a partnership agreement with a private investor. Under the transaction documents, the private investor acquired membership interests in the Tungsten Mountain Geothermal power plant project for an initial purchase price of approximately $33.4 million and for which it will pay additional installments that are expected to amount to approximately $13 million. The Company will continue to operate and maintain the power plant and will receive substantially all the distributable cash flow generated by the power plant.

Under the agreements, prior to December 31, 2026 (“Target Flip Date”), the Company’s fully owned subsidiary, Ormat Nevada Inc. ("Ormat Nevada"), receives substantially all of the distributable cash flow generated by the project, while the private investor receives substantially all of the tax attributes of the project. Following the later of the Target Flip Date and the date in which the private investor reaches its target return, Ormat Nevada will receive 97.5% of the distributable cash and 95.0% of the taxable income, on a going forward basis.

On the Target Flip Date, Ormat Nevada has the option to purchase the private investor’s interests at the then-current fair market value, plus an amount that may be needed to cause the private investor to reach its target return, if needed. If Ormat Nevada exercises this purchase option, it will become the sole owner of the project again.

ORMAT TECHNOLOGIES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Puna

On May 3, 2018, the Kilauea volcano located in close proximity to our Puna 38 MW geothermal power plant in the Puna district of Hawaii's Big Island erupted following a significant increase in seismic activity in the area. Before it recently stopped flowing, the lava covered the wellheads of three geothermal wells, the substation of the Puna complex and an adjacent warehouse that stored a drilling rig that was also consumed by the lava, all of which had a carrying value of approximately $4.9 million that was written-off during the second quarter of 2018. These property damages are expected to be covered by the Company’s insurance policies and therefore the Company recorded a provision for such recoveries out of which approximately $7.2 million was received and included in “Other income” as excess recoveries over the carrying value of the rig which was destroyed by the lava. The write-off and related insurance recoveries, excluding the excess portion, were recorded under “Electricity cost of revenues” in the condensed consolidated statements of operations and comprehensive income. The Company is in negotiations with the insurance companies regarding the reimbursement for loss of profits, damage to the property and the timing of when the loss of profit coverage comes into effect. The Company is currently assessing the damages to the Puna facilities, and continues to coordinate with Hawaii Electric Light Company ("HELCO") and local authorities to bring the power plant back to operation. The Company is in the process of building access roads to the site, opening the monitoring wells, removing the plugs from the production well and rebuilding the electrical substation. The Company continues to assess the accounting implications of this event on the assets and liabilities on its balance sheet and whether an impairment will be required. Any significant damage to the geothermal resource or continued shut-down following the recent stop of the lava of, the Puna facilities could have an adverse impact on the power plant's electricity generation and availability, which in turn could have a material adverse impact on our business and results of operations.

U.S. Geothermal (“USG”) transaction

On April 24, 2018, the Company completed the acquisition of USG. The total cash consideration (exclusive of transaction expenses) was approximately $110 million, comprised of approximately $106 million funded from available cash of Ormat Nevada Inc. (to acquire the outstanding shares of common stock of USG) and approximately $4 million funded from available cash of USG (to cash-settle outstanding in-the-money options for common stock of USG). As a result of the acquisition, USG became an indirect wholly owned subsidiary of Ormat, and Ormat indirectly acquired, among other things, interests held by USG and its subsidiaries in:

- three operating power plants at Neal Hot Springs, Oregon; San Emidio, Nevada; and Raft River, Idaho with a total net generating capacity of approximately 38 MW; and

- development assets which include a project at the Geysers, California; a second phase project at San Emidio, Nevada; a greenfield project in Crescent Valley, Nevada; and the El Ceibillo project located near Guatemala City, Guatemala.

As a result of the acquisition, the Company expanded its overall generation capacity and expects to improve the profitability of the purchased assets through cost reduction and synergies. The Company accounted for the transaction in accordance with Accounting Standard Codification ASC 805, Business Combinations and following the transaction, the Company consolidates USG, in accordance with Accounting Standard Codification ASC 810, Consolidation. Accounting guidance provides that the allocation of the purchase price may be modified for up to one year from the date of the acquisition to the extent that additional information is obtained about the facts and circumstances that existed as of the acquisition date. The Company deemed that the adoption of ASU 2017-01, Business Combinations, as further described under Note 2 to the condensed consolidated financial statements, did not have an effect on the USG transaction.

The Company deemed the transaction to not meet the significant subsidiary threshold and as a result did not provide certain additional related information, that otherwise would have been required.

The following table summarizes the purchase price allocation to the fair value of the assets acquired and liabilities assumed (in millions):

Cash and cash equivalents and restricted cash	$37.9
Property, plant and equipment and construction-in-process	77.3
Intangible assets [1]	127.0
Goodwill [2]	19.3
Total assets acquired	$261.5
Other working capital	$(8.2)
Deferred tax liability	(4.9)
Long-term term debt	(98.3)
Asset retirement obligation	(9.0)
Noncontrolling interest	(34.9)
Total liabilities assumed	$(155.3)
Total assets acquired, and liabilities assumed, net	$106.2

(1) Intangible assets are primarily related to long-term electricity power purchase agreements and depreciated over an average of 19 years.

(2) Goodwill is primarily related to the expected synergies in operations as a result of the purchase transaction and allocated to the Electricity segment.

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ORMAT TECHNOLOGIES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

The fair value of the noncontrolling interest of $34.9 million reflects the 40% minority interests in the Neal Hot Springs project that was evaluated using the income approach. The fair value of the noncontrolling interest is based on the following significant inputs: (i) forecasted cash flows assumed to be generated in correspondence with the remaining life of the related power purchase agreement which is approximately 20 years; (ii) revenues were estimated in accordance with the price and generation capacity of the related power purchase agreement; (iii) assumed terminal value based on the realizable value of the project at the end of the power purchase agreement term; and (iv) assumed discount rate of approximately 9%.

Total Electricity segment revenues and operating profit related to the three USG power plants of approximately $7.3 million and $1.6 million, respectively, for the three months ended September 30, 2018 and revenues and operating loss of approximately $10.7 million and $2.6 million, respectively, for the nine months ending September 30, 2018 were included in the Company’s consolidated statements of operations and comprehensive income for the same periods. The following unaudited pro forma summary presents consolidated information of the Company as if the business combination had occurred on January 1, 2017:

	Pro forma for the three months ended September 30, 2018	Pro forma for the three months ended September 30, 2017	Pro forma for the nine months ended September 30, 2018	Pro forma for the nine months ended September 30, 2017
	(Dollars in thousands)			
Electricity revenues	$ 116,891	$ 117,688	$ 382,856	$ 359,108
Total revenues	166,480	157,185	540,099	548,007
Operating income	25,902	43,210	115,582	157,609

Migdal Senior Unsecured Loan

On March 22, 2018, the Company entered into a definitive loan agreement (the "Migdal Loan Agreement") with Migdal Insurance Company Ltd., Migdal Makefet Pension and Provident Funds Ltd. and Yozma Pension Fund of Self-Employed Ltd., all entities within the Migdal Group, a leading insurance company and institutional investor in Israel. The Migdal Loan Agreement provides for a loan by the lenders to the Company in an aggregate principal amount of $100 million (the “Migdal Loan”). The Migdal Loan will be repaid in 15 semi-annual payments of $4.2 million each, commencing on September 15, 2021, with a final payment of $37 million on March 15, 2029. The Migdal Loan bears interest at a fixed rate of 4.8% per annum, payable semi-annually, subject to adjustment in certain circumstances as described below.

The Migdal Loan is subject to early redemption by the Company prior to maturity from time to time (but not more frequently than once per quarter) and at any time in whole or in part, at a redemption price set forth in the Migdal Loan Agreement. If the rating of the Company is downgraded to "ilA-", by Standard and Poor’s Global Ratings Maalot Ltd. (“Maalot”), the interest rate applicable to the Migdal Loan will be increased by 0.50%. If the rating of the Company is further downgraded to a lower level, the interest rate applicable to the Migdal Loan will be increased by 0.25% for each additional downgrade. In no event will the cumulative increase in the interest rate applicable to the Migdal Loan exceed 1% regardless of the cumulative rating downgrade. A subsequent upgrade or reinstatement of a rating by Maalot will reduce the interest rate applicable to the Migdal Loan by 0.25% for each upgrade (but in no event will the interest rate applicable the Migdal Loan fall below the base interest rate of 4.8%). Additionally, if the ratio between short-term and long-term debt to financial institutions and bondholders, deducting cash and cash equivalents to EBITDA is equal to or higher than 4.5, the interest rate on all amounts then outstanding under the Migdal Loan shall be increased by 0.5% per annum over the interest rate then-applicable to the Migdal Loan.

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The Migdal Loan constitutes senior unsecured indebtedness of the Company and will rank equally in right of payment with any existing and future senior unsecured indebtedness of the Company, and effectively junior to any existing and future secured indebtedness, to the extent of the security therefore.

The Migdal Loan Agreement includes various affirmative and negative covenants, including a covenant that the Company maintain (i) a debt to adjusted EBITDA ratio below 6, (ii) a minimum equity amount (as shown on its consolidated financial statements, excluding noncontrolling interests) of not less than $650 million, and (iii) an equity attributable to Company's stockholders to total assets ratio of not less than 25%. In addition, the Migdal Loan Agreement restricts the Company from making dividend payments if its equity falls below $800 million and otherwise restricts dividend payments in any one year to not more than 50% of the net income of the Company of such year as shown on the Company’s consolidated annual financial statements as long as any of the Company's bonds issued in Israel prior to March 27, 2018 remain outstanding. The Migdal Loan Agreement includes other customary affirmative and negative covenants and events of default. As of September 30, 2018, the Company was in compliance with all such covenants.

Other comprehensive income

For the nine months ended September 30, 2018 and 2017, the Company classified $16,000 and $56,000, respectively, related to derivative instruments designated as cash flow hedges, from accumulated other comprehensive income, of which $22,000 and $21,000, respectively, were recorded to reduce interest expense and $5,000 and $(35,000), respectively, were recorded against the income tax provision, in the condensed consolidated statements of operations and comprehensive income. For the three months ended September 30, 2018 and 2017, the Company classified $6,000 and $2,000, respectively, related to derivative instruments designated as cash flow hedges, from accumulated other comprehensive income, of which $6,000 and $(9,000), respectively, were recorded to reduce interest expense and $0 and $(11,000), respectively, were recorded against the income tax provision, in the condensed consolidated statements of operations and comprehensive income. The accumulated net loss included in Other comprehensive income as of September 30, 2018 is $0.9 million.

Write-offs of unsuccessful exploration activities

Write-offs of unsuccessful exploration activities for the three and nine months ended September 30, 2018 were $0 and $0.1 million, respectively. There were no write-offs of unsuccessful exploration activities for the three and nine months ended September 30, 2017.

Reconciliation of Cash and cash equivalents and Restricted cash and cash equivalents

The following table provides a reconciliation of Cash and cash equivalents and Restricted cash and cash equivalents reported on the balance sheet that sum to the total of the same amounts shown on the statement of cash flows:

	September 30, 2018	**December 31, 2017**
	(Dollars in thousands)	
Cash and cash equivalents	$71,965	$ 47,818
Restricted cash and cash equivalents	83,101	48,825
Total Cash and cash equivalents and restricted cash and cash equivalents	$155,066	$ 96,643

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.

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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, 2018 and December 31, 2017, the Company had deposits totaling $20.9 million and $21.2 million, respectively, in ten U.S. financial institutions that were federally insured up to $250,000 per account. At September 30, 2018 and December 31, 2017, the Company's deposits in foreign countries amounted to approximately $76.8 million and $32.8 million, respectively.

At September 30, 2018 and December 31, 2017, accounts receivable related to operations in foreign countries amounted to approximately $92.6 million and $78.1 million, respectively. At September 30, 2018 and December 31, 2017, accounts receivable from the Company's primary customers amounted to approximately 53% and 57% of the Company's accounts receivable, respectively.

Sierra Pacific Power Company and Nevada Power Company (subsidiaries of NV Energy, Inc.) accounted for 13.6% and 16.3% of the Company's total revenues for the three months ended September 30, 2018 and 2017, respectively, and 15.7% and 17.4% of the Company's total revenues for the nine months ended September 30, 2018 and 2017, respectively.

Southern California Public Power Authority ("SCPPA") accounted for 13.7% and 9.1% of the Company's total revenues for the three months ended September 30, 2018 and 2017, respectively, and 14.9% and 8.9% of the Company's total revenues for the nine months ended September 30, 2018 and 2017.

Kenya Power and Lighting Co. Ltd. accounted for 18.6% and 17.6% of the Company's total revenues for the three months ended September 30, 2018 and 2017, respectively, and 16.7% and 15.7% of the Company's total revenues for the nine months ended September 30, 2018 and 2017, respectively.

The Company has historically been able to collect on substantially all of its receivable balances and believes it will continue to be able to collect all amounts due. 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, 2018

Income Taxes

In March 2018, the Financial Accounting Standards Board ("FASB") issued ASU 2018-05, Income Taxes (Topic 740). The amendments in this update add several SEC paragraphs pursuant to the issuance of the SEC Staff Accounting Bulletin No. 118, Income Tax Accounting Implications of the Tax Cuts and Jobs Act (“SAB 118”) in December 2017. The amendments in this update are effective immediately. For additional information, see Note 11 to the consolidated financial statements.

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. ASU 2014-09 also prescribes additional financial presentations and disclosures. In March 2016, the FASB issued ASU 2016-08, Principal versus Agent Considerations. This update did not change the core principles of the guidance and was intended to clarify the implementation guidance on principal versus agent considerations. When another entity is involved in providing goods or services to a customer, an entity is required to determine if the nature of its promise is to provide the specific good or service itself (that is, the entity is a principal) or to arrange for that good or service to be provided by the other party (that is, the entity is an agent). The guidance included indicators to assist an entity in determining whether it acts as a principal or agent in a specified transaction.

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The Company adopted this update effectively as of January 1, 2018 using the modified retrospective approach with one-time cumulative adjustment to the opening balance of retained earnings as further described below and applied the five-step model described above on identified outstanding contracts at the date of adoption, under which revenues are generated. Under ASC 606, an entity must identify the performance obligations in a contract, determine the transaction price and allocate the price to specific performance obligations and recognize the revenue when the obligation is completed. A performance obligation is a promise in a contract to transfer a distinct good or service to the customer. A contract’s transaction price is allocated to each distinct performance obligation and recognized as revenue when, or as, the performance obligation is satisfied. The standard also requires disclosure of sufficient information to allow users to understand the nature, amount, timing and uncertainty of revenue and cash flow arising from contracts.

The adoption of ASC 606, Revenues from Contracts with Customers, as described above, did not have an impact on our Electricity, Product and Other segment revenues in 2018, however, the adoption did have an impact on our accounting for investment in an unconsolidated company as further described in the following table and in the disclosure under the heading "Investment in an unconsolidated company" within this note below. Additionally, the following table below summarizes the impact of the adoption of ASC 606 on the Company’s consolidated financial statements as of January 1, 2018, followed by further information for each of the line items in the table:

	(Dollars in millions)
Electricity segment revenues	$ –
Product segment revenues	–
Other segment revenues	–
Investment in an unconsolidated company	24.0

Electricity segment revenues: Electricity revenues are primarily related to sale of electricity from geothermal and recovered energy-based power plants owned and operated by the Company. Revenues related to the sale of electricity from geothermal and recovered energy-based power plants and capacity payments are recorded based upon output delivered and capacity provided at rates specified under relevant contract terms. For power purchase agreements (“PPAs”) agreed to, modified, or acquired in business combinations on or after July 1, 2003, the Company determines whether such PPAs contain a lease element requiring lease accounting. Revenue from such PPAs is accounted for in electricity revenues. The lease element of the PPAs is also assessed in accordance with the revenue arrangements with multiple deliverables guidance, which requires that revenues be allocated to the separate earnings processes based on their relative fair value. PPAs with minimum lease rentals which vary over time are generally recognized on the straight-line basis over the term of the PPAs. PPAs with contingent rentals are recognized when earned. In the Electricity segment, revenues for all but three power plants are accounted for under ASC 840 (Leases) as operating leases, and therefore equipment related to geothermal and recovered energy generation power plants is considered held for leasing. For power plants in the scope of ASC 606, the Company identified electricity as a separate performance obligation. Performance obligations identified were evaluated and determined to be satisfied over time and qualified for the invoicing practical expedient since the invoiced amounts reasonably represented the value to customers of performance obligations fulfilled to date. The transaction price is determined based on the price per actual mega-watt output or available capacity as agreed to in the respective PPA. Customers are generally billed on a monthly basis and payment is typically due within 30 to 60 days after the issuance of the invoice.

Product segment revenues: Product segment revenues are primarily related to sale of geothermal and recovered energy-based power plants, including equipment, engineering, construction and installation and operating services. Revenues from the supply and/or construction of geothermal and recovered energy-based power plant equipment and other equipment to third parties are recognized over time since control is transferred continuously to our customers. The majority of our contracts include a single performance obligation which is essentially the promise to transfer the individual goods or services that are not separately identifiable from other promises in the contracts and therefore deemed as not distinct. Performance obligations are satisfied over-time if the customer receives the benefits as we perform work, if the customer controls the asset as it is being constructed, or if the product being produced for the customer has no alternative use and we have a contractual right to payment. In our Product segment, revenues are spread over a period of one to two years and are recognized over time based on the cost incurred to date in ratio to total estimated costs which represents the input method that best depicts the transfer of control over the performance obligation to the customer. Costs include direct material, labor, and indirect costs. Selling, marketing, general, and administrative costs are expensed as incurred. Provisions for estimated losses on uncompleted contracts are made in the period in which such losses are determined.

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In contracts for which we determine that control is not transferred continuously to the customer, we recognized revenues at the point in time when the customer obtains control of the asset. Revenues for such contracts are recorded upon delivery and acceptance by the customer. This generally is the case for the sale of spare parts, generators or similar products.

Accounting for product contracts that are satisfied over time includes use of several estimates such as variable consideration related to bonuses and penalties and total estimated cost for completing the contract. The estimated amount of variable consideration will be included in the transaction price only to the extent that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved. These estimates are based on historical experience, anticipated performance and our best judgment at the time.

The nature of our product contracts give rise to several modifications or change requests by our customers. Substantially all of the modifications are treated as cumulative catch-ups to revenues since the additional goods are not distinct from those already provided. We include the additional revenues related to the modifications in our transaction price when both parties to the contract approved the modification. As a significant change in one or more of these estimates could affect the profitability of our contracts, we review and update our contract-related estimates regularly. We recognize adjustments in Product revenues on contracts under the cumulative catch-up method. If at any time the estimate of contract profitability indicates an anticipated loss on the contract, we recognize the total loss in the period in which it is identified.

The Company generally provides a one-year warranty against defects in workmanship and materials related to the sale of products for electricity generation. The Company considered the warranty as an assurance type warranty since the warranty provides the customer the assurance that the product complies with agreed-upon specifications. Estimated future warranty obligations are included in operating expenses in the period in which the related revenue is recognized. Such charges are immaterial for the three and nine months ended September 30, 2018 and 2017.

Contract Assets and Liabilities related to our Product segment: Contract assets reflect revenue recognized and performance obligations satisfied in advance of customer billing. Contract liabilities relate to payments received in advance of the satisfaction of performance under the contract. We receive payments from customers based on the terms established in our contracts. Total contract assets and contract liabilities as of September 30, 2018 and December 31, 2017 are as follows:

	September 30, 2018	**December 31, 2017**
	(Dollars in thousands)	
Contract assets (*)	$ 47,811	$ 40,945
Contract liabilities (*)	(21,760)	(20,241)
Contract assets, net	$ 26,051	$ 20,704

(*) Contract assets and contract liabilities are presented as "Costs and estimated earnings in excess of billings on uncompleted contracts" and "Billings in excess of costs and estimated earnings on uncompleted contracts", respectively, on the consolidated balance sheet.

The following table presents the significant changes in the contract assets and contract liabilities for the nine months ended September 30, 2018:

	Contract assets	**Contract liabilities**
	(Dollars in thousands)	
Recognition of contract liabilities as revenue as a result of performance obligations satisfied	$ -	$ 22,504
Cash received in advance for which revenues have not yet recognized, net expenditures made	-	(29,796)
Reduction of contract assets as a result of rights to consideration becoming unconditional	(87,510)	-
Contract assets recognized, net of recognized receivables	100,150	-
Net change in contract assets and contract liabilities	12,640	(7,292)

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The timing of revenue recognition, billings and cash collections results in accounts receivable, contract assets and contract liabilities on the condensed consolidated balance sheet. In our Products segment, amounts are billed as work progresses in accordance with agreed-upon contractual terms, or upon achievement of contractual milestones. Generally, billing occurs subsequent to the recognition of revenue, resulting in contract assets. However, we sometimes receive advances or deposits from our customers before revenue can be recognized, resulting in contract liabilities. These assets and liabilities are reported on the consolidated balance sheet on a contract-by-contract basis at the end of each reporting period. The timing of billing our customers and receiving advance payments vary from contract to contract. We typically receive a down payment of between 10% and 20% of total contract consideration upon signing, followed by additional milestone payments for which timing varies from contract to contract. The majority of payments are received no later than the completion of the project and satisfaction of our performance obligation.

On September 30, 2018, we had approximately $226.4 million of remaining performance obligations not yet satisfied or partly satisfied related to our Product segment. We expect to recognize approximately 99% of this amount as Product revenues during the next 24 months and the rest will be recognized thereafter.

The following schedule reconciles revenues accounted for under ASC 840, Leases, and ASC 606, Revenues from Contracts with Customers, to total consolidated revenues for the three and nine months ended September 30, 2018:

	Three Months Ended September 30, 2018	**Nine Months Ended September 30, 2018**
	(Dollars in thousands)	**(Dollars in thousands)**
Electricity Revenues accounted under ASC 840, Leases	$ 111,114	$ 353,859

Electricity and Product revenues accounted under ASC 606	55,366	174,943
Total consolidated revenues	$ 166,480	$ 528,802

Disaggregated revenues from contracts with customers for the three and nine months ended September 30, 2018 are shown under Note 9 – Business Segments, to the condensed consolidated financial statements.

Investment in an unconsolidated company: The Company also reviewed the impact of the adoption of ASC 606 on its investment in an unconsolidated company. As a result of the adoption, the Company recorded one-time cumulative credit adjustment to the opening balance of retained earnings of approximately $24.0 million as of January 1, 2018. This impact is a result of the unconsolidated company's variable consideration related to the construction of its power plant for which, under the new guidance, is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty is resolved. As such, the comparative information will not be restated and shall continue to be reported under the accounting standards in effect for those periods.

The following schedule quantifies the impact of adopting ASC 606 on the statement of operations for the three and nine months ended September 30, 2018:

	Three months ended September 30, 2018 under previous standard	**Effect of the New Revenue Standard**	**As reported for the three months ended September 30, 2018**
	(Dollars in thousands)		
Equity in earnings (losses) of investees, net	$ (15)	$ (102)	$ (117)
Income from continuing operations	10,209	(102)	10,107
Net income attributable to the Company's stockholders	10,683	(102)	10,581
Retained earnings as of the end of the period	410,972	(102)	410,870

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	Nine months ended September 30, 2018 under previous standard	Effect of the New Revenue Standard	As reported for the nine months ended September 30, 2018
	(Dollars in thousands)		
Equity in earnings (losses) of investees, net	$(1,308)	$ 2,789	$ 1,481
Income from continuing operations	84,233	2,789	87,022
Net income attributable to the Company's stockholders	76,957	2,789	79,746
Retained earnings as of the end of the period	408,081	2,789	410,870

Other segment revenues: Other segment revenues are primarily related to energy storage, demand-response and energy management related services. Revenues are recorded based on energy management of load curtailment capacity delivered or service provided at rates specified under the relevant contract terms. The Company determined that the Other segment revenues are in the scope of ASC 606 and identified energy management as a separate performance obligation. Performance obligations are satisfied once the Company provides verification to the electric power grid operator or utility of its ability to meet the committed capacity or power curtailment requirements and thus entitled to cash proceeds. Such verification may be provided by the Company bi-weekly, monthly or under any other frequency as set by the related program and are typically followed by a payment shortly after. Performance obligations identified were evaluated and determined to be satisfied over time and qualified for the invoicing practical expedient since the amounts included in the verification document reasonably represent the value of performance obligations fulfilled to date. The transaction price is determined based on mechanisms specified in the contract with the customer.

Compensation - Stock Compensation

In May 2017, the FASB issued ASU 2017-09, Compensation—Stock Compensation (Topic 718). The amendments in this update provide guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting in Topic 718. The amendments in this update require that an entity should account for the effects of a modification unless all of the following are met: (1) The fair value of the modified award is the same as the fair value of the original award immediately before the original award is modified; (2) The vesting conditions of the modified award are the same as the vesting conditions of the original award immediately before the original award is modified; (3) The classification of the modified award as an equity instrument or a liability instrument is the same as the classification of the original award immediately before the original award is modified. The current disclosure requirements under Topic 718 apply regardless of whether an entity is required to apply modification accounting under the amendments in this update. The amendments in this update are effective for all entities for annual periods, and interim periods within those annual periods, beginning after December 15, 2017. The amendments in this update should be applied prospectively to an award modified on or after the adoption date. The adoption of this guidance did not have a material impact on the Company’s consolidated financial statements.

Business Combinations

In January 2017, the FASB issued ASU 2017-01, Business Combinations (Topic 805). The update clarifies the definition of a business with the objective of adding guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The amendments in this update primarily provide a screen to determine when a set of assets and activities is not a business and by that reduces the number of transactions that need to be further evaluated. The amendments in this update should be applied prospectively and are effective for financial statements issued for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. The adoption of this guidance did not have an impact on the Company’s condensed consolidated financial statements.

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Statement of Cash Flow

In November 2016, the FASB issued ASU 2016-18, Statement of Cash Flows (Topic 230) – Restricted Cash. The amendments in this update require that a statement of cash flows explain the changes during the period in total cash, cash equivalents, and the amounts generally described as restricted cash or cash equivalents. Therefore, amounts of restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The amendments in this update should be applied retrospectively for each period presented and are effective for financial statements issued for fiscal years beginning after December 15, 2017 and interim periods within those fiscal years. The Company adopted this guidance retrospectively in its consolidated financial statements for the three month period ending March 31, 2018 and adjusted its disclosure accordingly.

Intra-Entity Transfers of Assets Other than Inventory

In October 2016, the FASB issued ASU 2016-16, Accounting for Income Taxes: Intra-Entity Asset Transfers of Assets Other than Inventory. The amendments in this update require that the entity would recognize the tax expense from the sale of the asset in the seller’s tax jurisdiction when the transfer occurs, even though the pre-tax effects of that transaction are eliminated in consolidation. Any deferred tax asset that arises in the buyer’s jurisdiction would also be recognized at the time of the transfer. The new guidance does not apply to intra-entity transfers on inventory. The amendments in this update should be applied for each period presented and are effective for financial statements issued for fiscal years beginning after December 15, 2017 and interim periods within those fiscal years. The modified retrospective approach is required for transition to the new guidance, with cumulative-effect adjustment recorded in retained earnings as of the beginning of the period of adoption. The Company adopted this guidance in its consolidated financial statements for the three months ending March 31, 2018 using the modified retrospective approach and recorded a net cumulative-effect adjustment to retained earnings of approximately $1.8 million with a corresponding adjustment to deferred charges and deferred income taxes on the condensed consolidated balance sheet of approximately $49.8 million and $51.6 million, respectively.

Statement of Cash Flows: Classification of Certain Cash Receipts and Cash payments (Topic 230)

In August 2016, the FASB issued ASU 2016-15, Statement of Cash-Flows (Topic 230). This update addresses eight specific cash flow classification issues with the objective of reducing diversity in practice. One of the issues addressed in this update is debt prepayment or debt extinguishment costs which under the new guidance should be classified as cash outflows for financing activities. Additionally, the update addressed contingent consideration payments made after a business combination. Such cash payments made soon after the acquisition date to settle a contingent consideration liability should be classified as cash outflows for investing activities. Payments made thereafter should be classified as cash outflows for financing activities up to the amount of the original contingent consideration liability. Payments made in excess of the amount of the original contingent consideration liability should be classified as cash outflows for operating activities. The amendments in this update are effective for fiscal years beginning after December 15, 2017 and interim periods within those fiscal years. The amendments in this update should be applied using a retrospective transition method to each period presented. The Company adopted this guidance and expects that the impact from the adoption of the update will result in a reclassification of approximately $8.0 million of cash paid for achievement of production threshold in Guadeloupe during the fourth quarter of 2017 from cash outflows from investing activities to cash outflows from financing activities as required by this update.

Recognition and Measurement of Financial Assets and Financial Liabilities

In January 2016, the FASB issued ASU 2016-01, Recognition and Measurement of Financial Assets and Financial Liabilities. The update primarily requires that an entity present separately, in other comprehensive income, the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk if the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments. The application of this update should be by means of cumulative-effect adjustment to the balance sheet as of the beginning of the fiscal year of adoption. The amendments in this update are effective for financial statements issued for fiscal years beginning after December 15, 2017 and interim periods within those fiscal years. The adoption of this update did not have a material impact on the Company’s consolidated financial statements.

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New accounting pronouncements effective in future periods

Derivatives and Hedging

In August 2017, the FASB issued ASU 2017-12, Targeted Improvements to Accounting for Hedging Activities. The amendments in this update better align an entity's risk management activities and financial reporting for hedging relationships through changes to both the designation and measurement guidance for qualifying hedging relationships and the presentation of hedge results. To meet that objective, the amendments expand and refine hedge accounting for both nonfinancial and financial risk components and align the recognition and presentation of the effects of the hedging instrument and the hedged item in the financial statements. The amendments in this update are effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Early application is permitted in any interim period after issuance of the update. The Company is currently evaluating the potential impact, if any, of the adoption of these amendments on its consolidated financial statements.

Intangibles –Goodwill and Other

In January 2017, the FASB issued ASU 2017-04, Intangibles – Goodwill and Other (Topic 350). The amendments in this update require the entity to perform its annual or interim goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. An entity should recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value. However, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. Additionally, an entity should consider the income tax effects from any tax-deductible goodwill on the carrying amount of the reporting unit when measuring the goodwill impairment loss, if applicable. This update eliminated Step 2 from the goodwill impairment test under the current guidance. Step 2 measures a goodwill impairment loss by comparing the implied fair value of reporting unit's goodwill with the carrying amount of that goodwill. The amendments in this update should be applied on a prospective basis. An entity is also required to disclose the nature of and the reason for the change in accounting principle upon transition. That disclosure should be provided in the first annual period and the interim period within the first annual period when the entity initially adopts the amendments in this update. The amendments in this update are effective for the annual or any interim goodwill impairment tests in fiscal years beginning after December 15, 2019. Early adoption is permitted for interim or annual impairment tests performed on testing dates after January 1, 2017. The Company is currently evaluating the potential impact, if any, of the adoption of these amendments on its consolidated financial statements.

Leases

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842). This update introduces a number of changes and simplifies previous guidance, primarily the recognition of lease assets and lease liabilities by lessees for those leases classified as operating leases. The update retains the distinction between finance leases and operating leases and the classification criteria between the two types remains substantially similar. Also, lessor accounting remains largely unchanged from previous guidance. However, key aspects of the update were aligned with the revenue recognition guidance in Topic 606. Additionally, the update defines a lease as a contract, or part of a contract, that conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Control over the use of the identified asset means that the customer has both (a) the right to obtain substantially all of the economic benefits from the use of the asset and (b) the right to direct the use of the asset. This update requires the modified retrospective transition approach, which requires lessees and lessors to recognize and measure leases at the beginning of the earliest period presented. The modified retrospective approach includes a number of optional practical expedients related to identification and classification of leases that commenced before the effective date, initial direct costs for leases that commenced before the effective date and the ability to use hindsight in evaluating lessee options to extend or terminate a lease or to purchase the underlying asset. An entity that elects to apply the practical expedients will, in effect, continue to account for leases that commenced before the effective date in accordance with the previous generally accepted accounting principles in the United States unless the lease is modified, except that lessees are required to recognize a right-of-use asset and a lease liability for all operating leases at each reporting date based on the present value of the remaining minimum rental payments that were tracked and disclosed under previous generally accepted accounting principles in the United States. In July 2018, the FASB issued ASU 2018-11, Leases, which provided an additional optional transition method for the adoption of the standard as well as additional codification improvements. Under this new transition method, an entity initially applies the new lease standard at the adoption date and recognizes a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. Consequently, the comparative periods presented in the financial statements in which the standard is adopted will continue to be in accordance with the current GAAP. The amendments in this update are effective for annual reporting periods beginning after December 15, 2018, including interim periods within those reporting periods. Early adoption is permitted. The Company is currently in the process of performing a comprehensive evaluation of the impact from adopting the standard on its financial statements which includes, among others, utilizing internal resources to lead the implementation efforts and supplementing them with external resources and accounting professionals, reviewing the Company's existing lease portfolio and assessing the impact to its business processes and internal control over financial reporting. As the review process is underway, the Company is still evaluating the impact of the adoption of these amendments on its consolidated financial statements. The Company expects that there will be an increase to assets and liabilities related to the recognition of a lease asset and a liability on its existing lease portfolio, however, it does not expect the adoption of the standard to have a material impact on its consolidated statement of operations and comprehensive income.

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Reclassification of Certain Tax Effects from Accumulated Other Comprehensive income

In February 2018, the FASB issued ASU 2018-02, Income Statement – Reporting Comprehensive Income (Topic 220). The amendments in this update allow a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting for the Tax Cuts and Jobs Act of 2017 (the "Tax Act"). The guidance is effective for the fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Early adoption is permitted. The Company is currently evaluating the potential impact of the adoption of these amendments on its consolidated financial statements, however, such impact, if any, is not expected to be material.

NOTE 3 — INVENTORIES

Inventories consist of the following:

	September 30, 2018	December 31, 2017
	(Dollars in thousands)	
Raw materials and purchased parts for assembly	$26,604	$ 12,007
Self-manufactured assembly parts and finished products	10,838	7,544
Total	$37,442	$ 19,551

ORMAT TECHNOLOGIES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

(Unaudited)

NOTE 4 — INVESTMENT IN AN UNCONSOLIDATED COMPANY

Unconsolidated investments consist of the following:

	September 30, 2018	**December 31, 2017**
	(Dollars in thousands)	
Sarulla	$67,739	$ 34,084

The Sarulla Project

The Company holds a 12.75% equity interest in a consortium that developed the 330 MW Sarulla geothermal power plant project in Tapanuli Utara, North Sumatra, Indonesia. The Sarulla project is comprised of three separately constructed 110 MW units, the most recent of which, NIL 2, was completed in April 2018. The Sarulla project is owned and operated by the consortium members under the framework of a joint operating contract and energy sales contract that were both executed on April 4, 2013. Under the joint operating contract, PT Pertamina Geothermal Energy, the concession holder for the project, provided the consortium with the right to use the geothermal field, and under the energy sales contract, PT PLN, the state electric utility, is the off-taker at Sarulla for a period of 30 years.

During the three and nine months ended September 30, 2018, the Company made additional cash equity investments in the Sarulla project of approximately $0 and $3.8 million, respectively, for a total of $62.0 million since inception.

The Sarulla consortium entered into interest rate swap agreements with various international banks, effective as of June 4, 2014, and 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, are recorded in other comprehensive income. The Company's share of such gains (losses) recorded in other comprehensive income (loss) are as follows:

	Three Months Ended September 30,		**Nine Months Ended September 30,**	
	2018	**2017**	**2018**	**2017**
	(Dollars in thousands)		**(Dollars in thousands)**	
Change, net of deferred tax, in unrealized gains (losses) in respect of the Company's share in derivative instruments of unconsolidated investment	$1,012	$618	$4,175	$271

The related accumulated loss recorded by the Company in other comprehensive income (loss) as of September 30, 2018 is $0.9 million.

As further described above under the heading "New accounting pronouncement effective in the nine-month period ended September 30, 2018" in Note 2 to the condensed consolidated financial statements, the Company adopted ASC 606, Revenue from Contracts with Customers, on January 1, 2018. The impact of the adoption of this standard on its investment in an unconsolidated company amounted to $24.0 million at January 1, 2018. This impact was a result of the unconsolidated company's variable consideration related to the construction of its power plant for which, under the new guidance, is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty is resolved. The Company adopted the new standard using the modified retrospective approach with a one-time cumulative adjustment to the opening balance of retained earnings of approximately $24.0 million at January 1, 2018, the date of initial application.

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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 September 30, 2018 and December 31, 2017 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 September 30, 2018	September 30, 2018 Fair Value Total	Level 1	Level 2	Level 3
	(Dollars in thousands)				
Assets:					
Current assets:					
Cash equivalents (including restricted cash accounts)	$15,941	$15,941	$15,941	$—	$—
Derivatives:					
Contingent receivable [1]	105	105	—	—	105
Liabilities:					
Current liabilities:					
Derivatives:					
Contingent payables [1]	(13,798)	(13,798)	—	—	(13,798)
Currency forward contracts [2]	(210)	(210)	—	(210)	—
	$2,038	$2,038	$15,941	$(210)	$(13,693)

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ORMAT TECHNOLOGIES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

(Unaudited)

	December 31, 2017				
	Carrying Value at December 31, 2017	Fair Value			
		Total	Level 1	Level 2	Level 3
	(Dollars in thousands)				
Assets					
Current assets:					
Cash equivalents (including restricted cash accounts)	$18,359	$18,359	$18,359	$—	$—
Derivatives:					
Contingent receivable [1]	108	108	—	—	108
Currency forward contracts [2]	992	992	—	992	—
Liabilities:					
Current liabilities:					
Derivatives:					
Contingent payables [1]	(13,904)	(13,904)	—	—	(13,904)
Warrants [1]	(3,967)	(3,967)	—	—	(3,967)
	$1,588	$1,588	$18,359	$992	$(17,763)

(1) These amounts relate to contingent receivables and payables and warrants relating to acquisition of substantially all of the assets of Viridity Energy, Inc. and to the Guadeloupe power plant purchase transaction, valued primarily based on unobservable inputs and are included within "Prepaid expenses and other", "Accounts payable and accrued expenses" and "Other long-term liabilities" on September 30, 2018 and 2017 in the consolidated balance sheets with the corresponding gain or loss being recognized within Derivatives and foreign currency transaction gains (losses) in the consolidated statement of operations and comprehensive income.

(2) These amounts relate to currency forward contracts valued primarily based on observable inputs, including forward and spot prices for currencies, net of contracted rates and then multiplied by notional amounts, and are included within "Prepaid expenses and other" and "Accounts payable and accrued expenses", as applicable, on September 30, 2018 and December 31, 2017, in the consolidated balance sheet with the corresponding gain or loss being recognized within "Derivatives and foreign currency transaction gains (losses)" in the

consolidated statement of operations and comprehensive income.

The amounts set forth in the tables above include investments in debt instruments and money market funds (which are included in cash equivalents). Those securities and deposits are classified within Level 1 of the fair value hierarchy because they are valued using quoted market prices in an active market.

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ORMAT TECHNOLOGIES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

(Unaudited)

The following table presents the amounts of gain (loss) recognized in the consolidated statements of operations and comprehensive income on derivative instruments not designated as hedges (in thousands):

Derivatives not designated as hedging instruments	**Location of recognized gain (loss)**	**Amount of recognized gain (loss)**			
		Three Months Ended September 30,		**Nine Months Ended September 30,**	
		2018	**2017**	**2018**	**2017**
Put options on natural gas price	Derivatives and foreign currency transaction gains (losses)	—	(121)	—	(362)
Contingent considerations	Derivative and foreign currency transaction gains (losses)	—	(19)	—	(114)
Currency forward contracts	Derivative and foreign currency and transaction gains (losses)	(198)	(887)	(1,655)	2,832
		$(198)	$(1,027)	$(1,655)	$2,356

In January 2017, the Company entered into Henry Hub Natural Gas Future contracts under which it bought a number of put options covering a notional quantity of approximately 4.1 million British Thermal Units with exercise prices of $3 per put option and expiration dates ranging from January 26, 2017 until November 27, 2017 in order to reduce its exposure to fluctuations in natural gas prices under its PPAs with Southern California Edison. The Company paid an aggregate amount of approximately $0.7 million for these put options.

The foregoing future and forward transactions were not designated as hedge transactions and are marked to market with the corresponding gains or losses recognized within “Derivatives and foreign currency transaction gains (losses)”.

There were no transfers of assets or liabilities between Level 1, Level 2 and Level 3 during the nine months ended September 30, 2018.

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ORMAT TECHNOLOGIES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

(Unaudited)

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

	Fair Value		Carrying Amount	
	September 30, 2018	December 31, 2017	September 30, 2018	December 31, 2017
	(Dollars in millions)		(Dollars in millions)	
Olkaria III Loan - OPIC	214.2	234.6	215.1	228.6
Olkaria IV Loan - DEG 2	50.1	50.7	50.0	50.0
Amatitlan Loan	30.8	32.8	30.6	33.3
Senior Secured Notes:				
OrCal Geothermal Inc. ("OrCal")	24.7	34.2	24.0	32.1
OFC 2 LLC ("OFC 2")	215.9	234.6	221.8	232.5
Don A. Campbell 1 ("DAC 1")	79.0	85.5	84.7	88.3
USG Prudential - NV	29.4	—	28.2	—
USG Prudential - ID	18.7	—	18.9	—
USG DOE	47.2	—	51.4	—
Senior Unsecured Bonds	195.7	200.3	204.3	204.3
Senior Unsecured Loan	99.7	—	100.0	—
Other long-term debt	5.4	7.0	6.4	7.9

The fair value of the long-term debt is determined by a valuation model, which is based on a conventional discounted cash flow methodology and utilizes assumptions of current borrowing rates. The fair value of revolving lines of credit is determined using a comparison of market-based price sources that are reflective of similar credit ratings to those of the Company.

The carrying value of financial instruments such as revolving lines of credit and deposits approximates fair value.

The following table presents the fair value of financial instruments as of September 30, 2018:

	Level 1	Level 2	Level 3	Total
	(Dollars in millions)			
Olkaria III - OPIC	—	—	214.2	214.2
Olkaria IV - DEG 2	—	—	50.1	50.1
Amatitlan Loan	—	30.8	—	30.8
Senior Secured Notes:				
OrCal Senior Secured Notes	—	—	24.7	24.7
OFC 2 Senior Secured Notes	—	—	215.9	215.9
DAC 1 Senior Secured Notes	—	—	79.0	79.0
USG Prudential - NV	—	—	29.4	29.4
USG Prudential - ID	—	—	18.7	18.7
USG DOE	—	—	47.2	47.2
Senior Unsecured Bonds	—	—	195.7	195.7
Senior Unsecured Loan	—	—	99.7	99.7
Other long-term debt	—	—	5.4	5.4
Revolving lines of credit	—	209.5	—	209.5
Deposits	14.2	—	—	14.2

ORMAT TECHNOLOGIES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

(Unaudited)

The following table presents the fair value of financial instruments as of December 31, 2017:

	Level 1	Level 2	Level 3	Total
	(Dollars in millions)			
Olkaria III Loan - OPIC	$—	$—	$234.6	$234.6
Olkaria IV - DEG 2			50.7	50.7
Amatitlan Loan	—	32.8	—	32.8
Senior Secured Notes:				
OFC Senior Secured Notes	—	—	—	—
OrCal Senior Secured Notes	—	—	34.2	34.2
OFC 2 Senior Secured Notes	—	—	234.6	234.6
DAC 1 Senior Secured Notes	—	—	85.5	85.5
Senior Unsecured Bonds	—	—	200.3	200.3
Other long-term debt	—	—	7.0	7.0
Revolving lines of credit	—	51.5	—	51.5
Deposits	15.6	—	—	15.6

NOTE 6 — STOCK-BASED COMPENSATION

The 2012 Incentive Compensation Plan

In May 2012, the Company’s shareholders adopted the 2012 Incentive Plan, which provides for the grant of the following types of awards: incentive stock options, non-qualified stock options, restricted stock, stock appreciation rights “(SARs”), stock units, performance awards, phantom stock, incentive bonuses, and other possible related dividend equivalents to employees of the Company, directors and independent contractors. Under the 2012 Incentive Plan, a total of 4,000,000 shares of the Company’s common stock were reserved for issuance, all of which could be issued as options or as other forms of awards. Options and SARs granted to employees under the 2012 Incentive Plan typically vest and become exercisable as follows: 25% vest 24 months after the grant date, an additional 25% vest 36 months after the grant date, and the remaining 50% vest 48 months after the grant date. Options granted to non-employee directors under the 2012 Incentive Plan will vest and become exercisable one year after the grant date. Restricted stock units granted to directors and members of senior management vest according to a vesting schedule as follows: for the directors, 100% on the first anniversary of the grant date and for members of senior management, 25% on each of the first, second, third and fourth anniversaries of the grant date. The term of stock-based awards typically ranges from six to ten years from the grant date. The shares of common stock issued in respect of awards under the 2012 Incentive Plan are issued from the Company's authorized share capital upon exercise of options or SARs. The 2012 Incentive Plan expired in May 2018 upon adoption of the 2018 Incentive Compensation Plan ("2018 Incentive Plan"), except as to stock-based awards outstanding under the 2012 Incentive Plan on that date.

The 2018 Incentive Compensation Plan

On May 7, 2018, the Company held its 2018 Annual Meeting of Stockholders at which the Company's stockholders approved the 2018 Incentive Plan. The 2018 Incentive Plan provides for the grant of the following types of awards: incentive stock options, restricted stock units ("RSUs"), SARs, stock units, performance awards, phantom stock, incentive bonuses and other possible related dividend equivalents to employees of the Company, directors and independent contractors. Under the 2018 Incentive Plan, a total of 5,000,000 shares of the Company's common stock were authorized and reserved for issuance, all of which could be issued as options or as other forms of awards. SARs and RSUs granted to employees under the 2018 Incentive Plan typically vest and become exercisable as follows: 50% on the second anniversary of the grant date and 25% on each of the third and fourth anniversaries of the grant date. SARs and Restricted stock units granted to directors under the 2018 Incentive Plan typically vest and become exercisable (100%) on the first anniversary of the grant date. The term of stock-based awards typically ranges from six to ten years from the grant date. The shares of common stock issued in respect of awards under the 2018 Incentive Plan are issued from the Company's authorized share capital upon exercise of options or SARs.

On May 8, 2018, the Company granted an aggregate of 295,671 SARs and 40,489 RSUs to the CEO and one of the directors under the Company's 2018 Incentive Plan. The exercise price of each SAR is $55.16, which represented the fair market value of the Company's common stock on the grant date. The SARs and RSUs will expire in five and a half years from the date of grant and will vest according to a vesting schedule as follows: for the directors, 100% after a half year from the grant date and for the CEO, 22% on each of the first and second anniversaries of the grant date and 28% on the third and fourth anniversaries of the grant date.

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(Unaudited)

The fair value of each SAR for the director and the CEO on the grant date was $14.56 and $14.57, respectively. The fair value of each RSU for the director and the CEO on the grant date was $54.92 and $54.23, respectively. The Company calculated the fair value of each SAR and RSU on the grant date using the Exercise Multiple-Based Lattice Pricing model based on the following assumptions:

Risk-free interest rate	2.84	%
Expected life (in years)	5.5	
Dividend yield	0.79	%
Expected volatility	25.24	%
Forfeiture rate	0.0	%
Sub-Optimal Exercise Factor	2.5	

On June 25, 2018, the Company granted its employees and members of its senior management an aggregate of 838,117 SARs and 19,848 RSUs under the Company's 2018 Incentive Plan. The exercise price of each SAR is $53.44, which represented the fair market value of the Company's common stock on the grant date. The SARs and RSUs will expire in six years from the date of grant and will vest according to a vesting schedule as follows: 50% on the second anniversary of the grant date and 25% on each of the third and fourth anniversaries of the grant date.

The fair value of each SAR for the employees and members of senior management on the grant date was $13.82 and $14.64, respectively. The fair value of each RSU for the employees and members of senior management on the grant date was $52.03 and $52.09, respectively. The Company calculated the fair value of each SAR and RSU on the grant date using the Exercise Multiple-Based Lattice Pricing model based on the following assumptions:

Risk-free interest rate	2.79	%
Expected life (in years)	6	
Dividend yield	0.92	%
Expected volatility	25.64	%
Forfeiture rate for employees	2.78	%
Forfeiture rate for members of the senior management	0.0	%
Sub-Optimal Exercise Factor for employees	2.0	
Sub-Optimal Exercise Factor for members of the senior management	2.8	

NOTE 7 — INTEREST EXPENSE, NET

The components of interest expense are as follows:

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2018	2017	2018	2017
Interest related to sale of tax benefits	$2,916	$1,607	$6,086	$5,468
Interest expense	16,571	13,299	45,298	41,620
Less — amount capitalized	(787)	(3,214)	(2,494)	(5,933)
	$18,700	$11,692	$48,890	$41,155

NOTE 8 — EARNINGS PER SHARE

Basic earnings per share attributable to the Company's stockholders is computed by dividing net income or loss 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-based awards.

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

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2018	2017	2018	2017
Weighted average number of shares used in computation of basic earnings per share	50,645	50,367	50,627	49,942
Add:				
Additional shares from the assumed exercise of employee stock options	318	500	358	727
Weighted average number of shares used in computation of diluted earnings per share	50,963	50,867	50,985	50,669

The number of stock-based awards that could potentially dilute future earnings per share and that were not included in the computation of diluted earnings per share because to do so would have been anti-dilutive was 388,193 and 8,851 for the three months ended September 30, 2018 and 2017, respectively, and 205,990 and 6,494 for the nine months ended September 30, 2018 and 2017, respectively.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

(Unaudited)

NOTE 9 — BUSINESS SEGMENTS

In 2018, the Company started disclosing its energy storage and power load management business activity under the Other segment as such operations met the reportable segment criteria of ASC 280, Segment Reporting. As such, starting in 2018 the Company has three reporting segments: the Electricity segment, the Product segment and the Other segment. 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 PPAs. 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. The Other segment is engaged in management of curtailable customer loads under contracts with U.S. retail energy providers and directly with large commercial and industrial customers as well as battery storage as a service.

Transfer prices between the operating segments are determined based on current market values or cost-plus markup of the seller's business segment.

Summarized financial information concerning the Company's reportable segments is shown in the following tables, including, as further described under Note 1 to the consolidated financial statements, the Company's disaggregated revenues from contracts with customers as required by ASC 606:

	Electricity	Product	Other	Consolidated
	(Dollars in thousands)			
Three Months Ended September 30, 2018:				
Revenues from external customers:				
United States [(1)]	$64,905	$281	$1,150	$ 66,336
Foreign [(2)]	51,986	48,158	—	100,144
Net revenue from external customers	116,891	48,439	1,150	166,480
Intersegment revenue	—	9,236	—	9,236
Segment assets at period end [(3)] [(*)]	2,859,354	125,881	74,348	3,059,583

* Including unconsolidated investments	67,739	—	—	67,739
Three Months Ended September 30, 2017:				
Net revenue from external customers	$110,876	$44,912	1,397	157,185
Intersegment revenue	—	28,248	—	28,248
Operating income	37,279	7,765	(1,074)	43,970
Segment assets at period end (3) (*)	2,319,083	131,883	52,772	2,503,738
* Including unconsolidated investments	25,367	—	—	25,367
Nine Months Ended September 30, 2018:				
Revenues from external customers:				
United States (1)	$221,727	$502	$5,217	$ 227,446
Foreign (2)	149,832	151,524	—	301,356
Net revenues from external customers	371,559	152,026	5,217	528,802
Intersegment revenues	—	45,516	—	45,516
Operating income	94,024	27,614	(4,510)	117,128
Segment assets at period end (3) (*)	2,859,354	125,881	74,348	3,059,583
* Including unconsolidated investments	67,739	—	—	67,739
Nine Months Ended September 30, 2017:				
Net revenues from external customers	$337,548	$186,621	$2,278	$ 526,447
Intersegment revenues	—	61,026	—	61,026
Operating income	116,191	43,398	(2,971)	156,618
Segment assets at period end (3) (*)	2,319,083	131,883	52,772	2,503,738
* Including unconsolidated investments	25,367	—	—	25,367

(1) Electricity segment revenues in the United States are all accounted under ASC 840, Leases, except for $5.8 million and $17.7 million in the three and nine months ended September 30, 2018 that are accounted under ASC 606 starting in 2018. Product and Other segment revenues in the United States are accounted under ASC 606, as further described under Note 2 to the consolidated financial statements.

(2) Electricity segment revenues in foreign countries are all accounted under ASC 840, Leases, and Product revenues in foreign countries are accounted under ASC 606 as further described under Note 2 to the consolidated financial statements.

(3) Electricity segment assets include goodwill in the amount of $26.7 million and $6.8 million as of September 30, 2018 and 2017, respectively. Other segment assets include goodwill in the amount of $13.5 million as of September 30, 2018 and 2017.

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ORMAT TECHNOLOGIES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

(Unaudited)

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Revenue:				
Total segment revenue	$166,480	$157,185	$528,802	$526,447
Intersegment revenue	9,236	28,248	45,516	61,026
Elimination of intersegment revenue	(9,236)	(28,248)	(45,516)	(61,026)
Total consolidated revenue	$166,480	$157,185	$528,802	$526,447
Operating income:				
Operating income	$25,902	$43,970	$117,128	$156,618
Interest income	214	255	516	861
Interest expense, net	(18,700)	(11,692)	(48,890)	(41,155)
Derivatives and foreign currency transaction gains (losses)	(383)	(1,001)	(2,511)	2,040
Income attributable to sale of tax benefits	4,066	3,506	14,983	14,019
Other non-operating income (expense), net	309	(1,592)	7,662	(1,678)
Total consolidated income before income taxes and equity in income of investees	$11,408	$33,446	$88,888	$130,705

ORMAT TECHNOLOGIES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

(Unaudited)

NOTE 10 — COMMITMENTS AND CONTINGENCIES

On September 11, 2018, the Klein derivative action was filed against the Company, our board and our Chief Executive Officer and Chief Financial Officer in the United States District Court for the District of Nevada, and on October 22, 2018, the Matthew derivative action was filed in the same court against the company, certain named present and former board members (Barniv, Beck, Boehm, Clark, Falk, Freedland, Granot, Joyal, Nishigori, Sharir, Stern and Wong) in the US District Court, District of Nevada. To date, neither complaint has been served. The Klein complaint asserts four derivative causes of action generally arising from Ormat's restatement of its financial statements: (i) the individual defendants allegedly breached their fiduciary duties by allowing the company to improperly report its financials; (ii) the individual defendants allegedly were unjustly enriched by being compensated while breaching their fiduciary duties; (iii) the individual defendants allegedly committed corporate waste in paying officers and directors and by incurring legal costs and potential liability; and (iv) the director defendants allegedly breached Section 14(a) of the Exchange Act in connection with the issuance of 2018 proxy. The Matthew complaint similarly alleges derivatively a breach of fiduciary duties, abuse of control, gross mismanagement, and corporate waste by the named directors.

Following the announcement of the Company's acquisition of U.S. Geothermal Inc. ("USG"), a number of putative shareholder class action complaints were initially filed on behalf of USG shareholders between March 8, 2018 and March 30, 2018 against USG and the individual members of the USG board of directors. All of the purported class action suits filed in Federal Court in Idaho have been voluntarily dismissed. The single remaining class action complaint is a purported class action filed in the Delaware Chancery Court, entitled Riche v. Pappas, et al., Case No. 2018-0177 (Del. Ch., Mar. 12, 2018). An amended complaint was filed on May 24, 2018 under seal, under a confidentiality agreement that was executed by plaintiff.   The amended Riche complaint alleges state law claims for breach of fiduciary duty against former USG directors and seeks post-closing damages.

On June 11, 2018, a putative class action was filed by Mac Costas on behalf of alleged shareholders that purchased or acquired the Company's ordinary shares between August 8, 2017 and May 15, 2018 was commenced in the United States District Court for the District of Nevada against the Company and its Chief Executive Officer and Chief Financial Officer. The complaint asserts claim against all defendants pursuant to Section 10(b) of the Exchange Act, as amended, and Rule 10b-5 thereunder and against its officers pursuant to Section 20(a) of the Exchange Act. The complaint alleges that the Company's Form 10-K for the years ended December 31, 2016 and 2017, and Form 10-Qs for each of the quarters in the nine months ended September 30, 2017 contained material misstatements or omissions, among other things, with respect to the Company's tax provisions and the effectiveness of its internal control over financial reporting, and that, as a result of such alleged misstatements and omissions, the plaintiffs suffered damages. Following the Mac Costas claim filing, four additional complaints of similar content were filed by other complainants. The Company has not yet responded to the complaints. The Company believes that it has valid defenses under law and intends to defend itself vigorously.

On May 21, 2018, a motion to certify a class action was filed in Tel Aviv District Court against Ormat Technologies, Inc. and 11 officers and directors. The alleged class is defined as "All persons who purchased Ormat shares on the Tel Aviv Stock Exchange between August 3, 2017 and May 13, 2018". The motion alleges that the Company violated Sections 31(a)(1) and 38C of the Israeli Securities Law because it allegedly: (1) misled investors by stating in its financial statements that it maintains effective internal controls over its accounting policies and procedures, however the Company's internal controls had material weaknesses which led to erroneous accounting in its 2017 unaudited quarterly reports that had to be restated, including adjustments to the Company’s net income and shareholders’ equity; and (2) failed to issue an immediate report in Israel until May 16, 2018, analogous to the report that was released in the United States on May 11, 2018 stating, inter alia, that the errors in its financial reports affected its balance sheet and would be remedied in its 2017 annual report. The Company filed an agreed motion to the Tel Aviv District Court to stay the proceedings in Israel until a final decision in the U.S. case (Mac Costas) is adjudicated.

On February 18, 2018, Western Watersheds Project ("WWP") filed a notice of appeal and petition for standing with respect to the January 16, 2018 BLM decision approving Addendum 2 to Operation Plan & Utilization Plan for the McGinness Hills Geothermal Project. The appeal alleges that the January 2018 BLM decision authorizing construction and operation of Phase 3 of McGinness Hills causes harm to WWP and its members by allowing degradation of the wildlife habitat of the Greater sage-grouse in that area. The Company has filed a motion to intervene as an interested party in support of the BLM. The litigation was resolved and the settlement for an immaterial amount was approved by the Interior Board of Land appeals.

ORMAT TECHNOLOGIES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

(Unaudited)

On August 5, 2016, George Douvris, Stephanie Douvris, Michael Hale, Cheryl Cacocci, Hillary E. Wilt and Christina Bryan, acting for themselves and on behalf of all other similarly situated residents of the lower Puna District, filed a complaint in the Third Circuit Court for the State of Hawaii seeking certification of a class action for preliminary and permanent injunctive relief, consequential and punitive damages, attorney's fees and statutory interest against Puna Geothermal Venture ("PGV") and other presently unknown defendants. On December 12, 2016, the District Court granted plaintiffs' motion for joinder of HELCO as a co-defendant, and the case, which had been removed prior to the U.S. District Court for the District of Hawaii, was remanded back to the Third Circuit Court. The amended complaint purports that injuries and other damages in an undisclosed amount were caused to the plaintiffs as a result of an alleged toxic release by PGV in the wake of Hurricane Iselle in August 2014. On June 14, 2017, the Third Circuit Court denied HELCO's motion to dismiss the complaint against itself which it had filed on March 25, 2017 and agreed to the Company's request to add two third party defendants, who are, respectively, the distributor and manufacturer of the pressure release valve that failed to reseat during Hurricane Iselle. Discovery is underway. The Company believes that it has valid defenses under law and intends to defend itself vigorously.

On March 29, 2016, a former local sales representative in Chile, Aquavant, S.A., filed a claim on the basis of unjust enrichment against Ormat's subsidiaries in the 27th Civil Court of Santiago, Chile. The claim requests that the court order Ormat to pay Aquavant $4.6 million in connection with its activities in Chile, including the EPC contract for the Cerro Pabellon project and various geothermal concessions, plus 3.75% of Ormat geothermal products sales in Chile over the next 10 years. Pursuant to various motions submitted by the defendants and the plaintiffs to various courts, including the Court of Appeals, the case was removed from the original court and then refiled before the 11th Civil Court of Santiago. The Civil Court has issued a "statement of facts" to be proved. The Company believes that it has valid defenses under law and intends to defend itself vigorously.

Jon Olson and Hilary Wilt, together with Puna Pono Alliance filed a complaint on February 17, 2015 in the Third Circuit Court for the State of Hawaii, requesting declaratory and injunctive relief requiring that PGV comply with an ordinance that the plaintiffs allege will prohibit PGV from engaging in night drilling operations at its KS-16 well site. On May 17, 2015, the original complaint was amended to add the county of Hawaii and the State of Hawaii Department of Land and Natural Resources as defendants to the case. On October 10, 2016, the Third Circuit Court issued its decision in response to each of the plaintiffs' and defendants' motions for summary judgment, denying plaintiffs' motion and granting defendant PGV's and the County of Hawaii's cross motions for summary judgment, effectively rendering the plaintiffs' action moot. On January 23, 2017, the plaintiffs filed motion requesting the Intermediate Court of Appeals to address appellate jurisdiction, which was denied by the court on April 20, 2017 as premature, and where the court denied other motions as moot.

In addition, from time to time, the Company is named as a party to various other lawsuits, claims and other legal and regulatory proceedings that arise in the ordinary course of our 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, the Company accrues reserves when a loss is probable, and the amount of such loss can be reasonably estimated. It is the opinion of the Company’s management that the outcome of these proceedings, individually and collectively, will not be material to the Company’s consolidated financial statements as a whole.

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ORMAT TECHNOLOGIES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

(Unaudited)

NOTE 11 — INCOME TAXES

The Company’s effective tax rate expense (benefit) for the three months ended September 30, 2018 and 2017 was 10.4% and 18.6%, respectively, and 3.8% and 38.2% for the nine months ended September 30, 2018 and 2017, respectively. The effective rate differs from the federal statutory rate of 21% for the nine months ended September 30, 2018 due to: (i) the impact of the newly enacted global intangible low tax income (“GILTI”); (ii) a partial valuation allowance release against the Company’s U.S. deferred tax assets; (iii) forecasted generation of production tax credits; (iv) impact of U.S. permanent tax adjustments; (v) higher tax rate in Kenya of 37.5% partially offset by a lower tax rate in Israel of 16% and (vi) a tax credit and tax exemption related to the Company’s subsidiaries in Guatemala and Honduras.

The Tax Cuts and Jobs Act (the “Tax Act”) was enacted on December 22, 2017. The Tax Act (1) reduced the U.S. federal corporate income tax rate from 35 percent to 21 percent; (2) required companies to include in taxable income an amount on certain unrepatriated earnings of foreign subsidiaries; (3) generally eliminated U.S. federal income taxes on dividends from foreign subsidiaries; (4) required a current inclusion in U.S. federal taxable income of certain earnings of controlled foreign corporations; (5) eliminated the corporate alternative minimum tax (“AMT”) and changed how existing AMT credits can be realized; (6) created the base erosion anti-abuse tax (“BEAT”), a new minimum tax; (7) created a new limitation on deductible interest expense; and (8) changed rules related to uses and limitations of net operating loss carryforwards created in tax years beginning after December 31, 2017.

The SEC staff issued SAB 118, which provides guidance on accounting for the tax effects of the Tax Act. SAB 118 provides a measurement period that should not extend beyond one year from the Tax Act enactment date for companies to complete the accounting under ASC 740. In accordance with SAB 118, a company must reflect the income tax effects of those aspects of the Tax Act for which the accounting under ASC 740 is complete. To the extent that a company’s accounting for certain income tax effects of the Tax Act is incomplete but it is able to determine a reasonable estimate, it must record a provisional estimate in the financial statements. If a company cannot determine a provisional estimate to be included in the financial statements, it should continue to apply ASC 740 on the basis of the provision of the tax laws that were in effect immediately before the enactment of the Tax Act.

The Company is applying the guidance in SAB 118 when accounting for the enactment date effects of the Act. As of December 31, 2017, the Company made provisional estimates related to (1) deemed repatriation transition tax; (2) GILTI; (3) valuation allowance; and (4) uncertain tax positions. As of September 30, 2018, the Company made updates to its provisional estimates related to GILTI and valuation allowance. The Company will continue to refine the estimates as it continues its analysis of the statutory provisions and related interpretations. Any changes to a provisional estimate of the tax effect of the Tax Act, that were recorded as of December 31, 2017, will be recorded as a discrete item in the interim period.

The Company continues to analyze specific provisions of the Act, including the newly created requirement that GILTI earned by controlled foreign corporations (CFCs) must be included currently in gross income of the CFC’s U.S. shareholder. In the second quarter of 2018, certain officials from the Treasury and the IRS made public comments about a plan to propose regulations related to GILTI that will confirm how to allocate certain income in the GILTI calculation. The method of allocation is different than the analysis of the law at March 31, 2018 and resulted in a year to date tax benefit of $27.5 million for the decrease of the valuation allowance related to foreign tax credits and production tax credits compared to tax benefit of $44.4 million at March 31, 2018. This change has been reflected as a discrete item.

The U.S. Department of the Treasury and the IRS recently published proposed regulations under IRC Section 965 (Transition Tax). The Company recorded a tax expense of $29.8 million to reflect the reduction of the deferred tax asset related to foreign tax credits. This amount was offset by a tax benefit of the same amount to reflect the reduction to the related valuation allowance. The Company will continue to evaluate this and other guidance as it completes its accounting related to the Tax Cuts and Jobs Act of 2017, which was enacted on December 22, 2017.

ORMAT TECHNOLOGIES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

(Unaudited)

NOTE 12 — SUBSEQUENT EVENTS

Cash dividend

On November 6, 2018, the Board of Directors of the Company declared, approved and authorized payment of a quarterly dividend of $5.1 million ($0.10 per share) to all holders of the Company’s issued and outstanding shares of common stock on November 20, 2018, payable on December 4, 2018.

Stock based awards

On November 7, 2018, the Company granted its directors an aggregate of 15,395 SARs and 17,338 Restricted Stock Units (“RSUs”) under the Company’s 2018 Incentive Plan. The exercise price of each SAR will be the closing share price on November 7, 2018. The grant value for each of the directors is $120,000 and to the chairman of the board is $180,000. Such SARs and RSUs will expire in six years and will vest fully on the first anniversary of the grant date. The fair value of each SAR for the directors on the grant date was $14.8. The fair value of each RSU for the directors on the grant date was $52.6.

Platanares finance agreement

On October 31, 2018, the Company announced that it completed the closing of the finance agreement of the 35 MW Platanares geothermal power plant in Honduras for a total of $124.7 million in the aggregate with Overseas Private Investment Corporation (OPIC), the United States government’s development finance institution, as the sole lender. Following the closing, the Company received a disbursement of $114.7 million representing the full amount of Tranche I of the loan. The second tranche of up to $10 million is expected to be received during the first half of 2019. The Platanares loan is a project finance, non-recourse, loan which carries a fixed interest rate of 7.02% per annum and matures in approximately 14 years.

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

Cautionary Note Regarding Forward-Looking Statements

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 negative o 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 attributable to a number of risks and uncertainties, many of which are beyond our control.

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;

geothermal resource risk (such as the heat content, useful life and geological formation of the reservoir);

operating risks, including equipment failures and the amounts and timing of revenues and expenses;

financial market conditions and the results of financing efforts;

weather and other natural phenomena including earthquakes, volcanic eruption, drought and other natural disasters;

political, legal, regulatory, governmental, administrative and economic conditions and developments in the United States ("U.S."), Turkey and other countries in which we operate and, in particular, possible import tariffs, possible late payments, the impact of recent and future federal, state and local regulatory proceedings and changes, including legislative and regulatory initiatives regarding deregulation and restructuring of the electric utility industry, public policies and government incentives that support renewable energy and enhance the economic feasibility of our projects at the federal and state level in the U.S., Turkey and elsewhere, and carbon-related legislation;

risks and uncertainty with respect to our internal control over financial reporting, including the identification of a material weakness which, if not timely remediated, may adversely affect the accuracy and reliability of our financial statements;

the impact of fluctuations in oil and natural gas prices under certain of our power purchase agreements ("PPAs")

the competition with other renewable sources or a combination of renewable sources on the energy price component under future PPAs;

risks and uncertainties with respect to our ability to implement strategic goals or initiatives in segments of the clean energy industry or new or additional geographic focus areas;

risk and uncertainties associated with our future development of storage projects which may operate as "merchant" facilities without long-term sales agreements, including the variability of revenues and profitability of such projects;

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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 authorizations;

construction or other project delays or cancellations;

the enforceability of long-term PPAs for our power plants;

contract counterparty risk, including late payments;

changes in environmental and other laws and regulations to which our company is subject, as well as changes in the application of existing laws and regulations;

current and future litigation;

our ability to successfully identify, integrate and complete acquisitions;

our ability to access the public markets for debt or equity capital quickly;

competition from other geothermal energy projects and new geothermal energy projects developed in the future, and from alternative electricity producing technologies;

market or business conditions and fluctuations in demand for energy or capacity in the markets in which we operate;

when, if and to what extent opportunities under our commercial cooperation agreement with ORIX Corporation may in fact materialize;

the direct or indirect impact on our Company’s business of various forms of hostilities including the threat or occurrence of war, terrorist incidents or cyber-attacks or responses to such threatened or actual incidents or attacks, including the effect on the availability of and premiums on insurance;

our new strategic plan to expand our geographic markets, customer base and product and service offerings may not be implemented as currently planned or may not achieve our goals as and when implemented;

development and construction of solar photovoltaic (“Solar PV”) and energy storage projects, if any, may not materialize as planned; and

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.

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. Other than as required by law, 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/A for the year ended December 31, 2017 and any updates contained herein as well as those set forth in our reports and other filings made with the Securities and Exchange Commission (“SEC”).

General

Overview

We are a leading vertically integrated company that is currently primarily engaged in the geothermal and recovered energy power business. With the objective of becoming a leading global provider of renewable energy, we focus on several key initiatives under our strategic plan, as described below.

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We design, develop, build, sell, own, and operate clean, environmentally friendly geothermal and recovered energy-based power plants, usually using equipment that we design and manufacture.

Our geothermal power plants include both power plants that we have built and power plants that we have acquired. We have built all of our recovered energy-based plants. In 2017, we expanded our operations to include the provision of services in the energy storage, demand response and energy management markets. We currently conduct our business activities in three business segments:

- In the Electricity segment we develop, build, own and operate geothermal and recovered energy-based power plants in the U.S. and geothermal power plants in other countries around the world and sell the electricity they generate;
- In the Product segment we design, manufacture and sell equipment for geothermal and recovered energy-based electricity generation and remote power units and provide services relating to the engineering, procurement, construction, operation and maintenance of geothermal, Solar PV and recovered energy-based power plants; and
- In the Other segment, we provide energy storage, demand response and energy management related services as well as services relating to the engineering, procurement, construction, operation and maintenance of energy storage units through our Viridity Energy Solutions Inc. ("Viridity") business.

In March 2017, we expanded our operations by entering the energy storage, demand response and energy management markets following the acquisition of substantially all of the business and assets of Viridity Energy, Inc., a Philadelphia-based company, by our wholly owned subsidiary Viridity. The acquired business and assets comprise our Other segment. We intend to use our Viridity business to accelerate long-term growth, expand our market presence in a growing market, and further develop our energy storage, demand response and energy management services, including the VPower™ software platform. We plan to continue providing services and products to existing Viridity customers, while expanding our service offerings to include development and engineering procurement and construction ("EPC") into new regions and targeting a broader potential customer base.

Our operations are conducted in the U.S. and the rest of the world. Our current generating portfolio includes geothermal power plants in the U.S., Kenya, Guatemala, Honduras, Guadeloupe and Indonesia, as well as recovered energy generation power plants and storage activity in the U.S.

For the nine months ended September 30, 2018, Electricity segment revenues were $371.6 million, compared to $337.5 million for the nine months ended September 30, 2017, an increase of 10.1% from the prior year period. Product segment revenues for the nine months ended September 30, 2018 were $152.0 million, compared to $186.6 million during the nine months ended September 30, 2017, a decrease of 18.5% from the prior year period. Our Other segment revenues were $5.2 million for the nine months ended September 30, 2018 compared to $2.3 million for the nine months ended September 30, 2017.

For the nine months ended September 30, 2018, our total revenues increased by 0.4% (from $526.4 million to $528.8 million) compared to the corresponding period in 2017.

During the nine months ended September 30, 2018 and 2017, our consolidated power plants generated 4,280,980 megawatt hours (“MWh”) and 3,995,221 MWh, respectively, an increase of 7.2%.

For the nine months ended September 30, 2018, our Electricity segment generated approximately 70.3% of our total revenues, our Product segment generated approximately 28.7% of our total revenues, and our Other segment generated approximately 1.0% of our total revenues. For the nine months ended September 30, 2017, our Electricity segment generated approximately 64.1% of our total revenues, our Product segment generated approximately 35.4% of our total revenues and our Other segment generated approximately 0.4% of our total revenues.

For the nine months ended September 30, 2018, approximately 90.7% of our Electricity segment revenues were from PPAs with fixed energy rates that are not affected by fluctuations in energy commodity prices. We have variable price PPAs in California and Hawaii that provide for payments based on the local utilities’ 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.

The energy rates under the PPAs in California for each of the Heber 2 power plant in the Heber complex and the G2 power plant in the Mammoth complex, a total of between 30 megawatts (“MW”) and 40 MW, change primarily based on fluctuations in natural gas prices.

The prices paid for electricity pursuant to the 25 MW PPA for the Puna complex in Hawaii change primarily as a result of variations in the price of oil as well as other commodities.

To comply with obligations under their respective PPAs, certain of our project subsidiaries are structured as special purpose, bankruptcy remote entities and their assets and liabilities are ring-fenced. Such assets are not generally available to pay our debt, other than debt at the respective project subsidiary level. However, these project subsidiaries are allowed to pay dividends and make distributions of cash flows generated by their assets to us, subject in some cases to restrictions in debt instruments, as described below.

Electricity segment revenues are also subject to seasonal variations and can be affected by higher-than-average ambient temperatures, as described below under "Seasonality".

Revenues attributable to our Product segment are based on the sale of our products, EPC contracts and the provision of various services to our customers. Product segment revenues may vary from period to period because of the timing of our receipt of purchase orders and the progress of our equipment manufacturing and execution of the relevant project.

Revenues attributable to our Other segment are partly derived from the sale of ancillary services in the open electricity markets or through programs initiated by different energy providers. Pricing of such services and products are dependent on market supply and demand trends, market volatility, the need and price for ancillary services and other factors that may change over time.

Recent Developments

The most significant developments in our company and business since January 1, 2018 are described below.

On October 31, 2018, we announced the completion of the financial closing of the finance agreement totaling $124.7 million in the aggregate for the 35 MW Platanares geothermal power plant in Honduras, with the Overseas Private Investment Corporation (OPIC), the United States government's development finance institution, as the sole lender. Following the closing we received a disbursement of $114.7 million representing the full amount of Tranche I of the OPIC non-recourse project finance loan that carries a fixed interest rate of 7.02% per annum with a maturity of approximately 14 years. The second tranche of up to $10 million is expected during the first half of 2019.

On September 30, 2018, we signed the termination of the Galena 2 Power Purchase Agreement (PPA) with NV Energy, Inc. and agreed to pay a termination fee of approximately $5 million. The Galena 2 geothermal power plant was designated as a facility under the portfolio PPA that we signed with Southern California Public Power Authority (SCPPA) in October 2016 and it is expected to start selling electricity to SCPPA in March 2019. The energy rate under the SCPPA PPA is $75.5 per MWh, more than 50% higher than the current energy price under the terminated PPA.

In July 2018 we received a full notice to proceed for the $36 million EPC contract with Cyrq Energy Inc. for the Soda Lake 3 geothermal project in Nevada. This contract will contribute revenues to the Product segment in 2018 as well as in 2019.

On June 27, 2018, we announced that the 11 MW Plant 1 expansion project in the Olkaria III complex in Kenya successfully completed its tests and commenced commercial operation on June 2, 2018. Between 2000 and 2016, the Company developed and expanded the Olkaria III complex in phases and increased its generating capacity from 13 MW to 139 MW. With the completion of the 11 MW expansion project, the total generating capacity of the complex is now 150 MW. The scope of the project included drilling of new wells, adding a new Ormat Energy Converter (“OEC”) unit, and optimizing other existing units.

On May 17, 2018, one of the Company’s wholly-owned subsidiaries that indirectly owns the 26 MW Tungsten Mountain Geothermal power plant entered into a partnership agreement with a private investor. Under the transaction documents, the private investor acquired membership interests in the Tungsten Mountain Geothermal power plant project for an initial purchase price of approximately $33.4 million and for which it will pay additional installments that are expected to amount to approximately $13 million. The Company will continue to operate and maintain the power plant and will receive substantially all the distributable cash flow generated by the power plant.

On May 8, 2018, the Company announced that NIL 2, the third unit of the Sarulla geothermal power plant, commenced commercial operation on May 4, 2018, and the Sarulla power plant reached its full capacity of 330 MW. SIL, the first unit of the power plant commenced commercial operation in March 2017 and NIL 1, the second unit, commenced commercial operation in October 2017.

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Located in North Sumatra, Indonesia, the 330 MW Sarulla power plant is one of the world's largest geothermal power plants and it includes three units of approximately 110 MW each, utilizing both steam and brine extracted from the geothermal field to increase the power plant’s efficiency. In addition to being one of the sponsors, the Company also provided the initial conceptual design of the Geothermal Combined Cycle Unit power plant and supplied its OEC. The OECs are producing over 40% of the total power by utilizing low-pressure steam and the separated brine, and as such maximizing resource exploitation for maximum power output.

On May 3, 2018, the Kilauea volcano located in close proximity to our Puna 38 MW geothermal power plant in the Puna district of Hawaii's Big Island erupted following a significant increase in seismic activity in the area. Before it recently stopped flowing, the lava covered the wellheads of three geothermal wells, monitoring wells and the substation of the Puna complex and an adjacent warehouse that stored a drilling rig that was also consumed by the lava. The Company is in negotiations with the insurance companies regarding the reimbursement for loss of profits, damage to the property and the timing of when the loss of profit coverage comes into effect. The Company is currently assessing the damages in the Puna facilities and continue to coordinate with HELCO and local authorities to bring the power plant back to operation. The Company is in the process of building access roads to the site, opening the monitoring wells removing the plugs from the production well and rebuilding the electrical substation. The Company continues to assess the accounting implications of this event on the assets and liabilities on its balance sheet and whether an impairment will be required. Any significant physical damage to the geothermal resource or continued shut-down following the recent stop of the lava of the Puna facilities could have an adverse impact on the power plant's electricity generation and availability, which in turn could have a material adverse impact on our business and results of operations.

On April 24, 2018, we completed our acquisition of U.S. Geothermal Inc. (“USG”). The total cash consideration (exclusive of transaction expenses) was approximately $110 million, comprised of approximately $106 million funded from available cash of Ormat Nevada Inc. (Ormat Nevada) (to acquire the outstanding shares of common stock of USG) and approximately $4 million funded from available cash of USG (to cash-settle outstanding in-the-money options for common stock of USG). As a result of the acquisition, USG became an indirect wholly owned subsidiary of the Company, and the Company indirectly acquired, among other things, interests held by USG and its subsidiaries in

o three operating power plants at Neal Hot Springs, Oregon, San Emidio, Nevada and Raft River, Idaho with a total net generating capacity of approximately 38 MW (the USG Operating Projects); and

o development assets at the Geysers, California; a second phase project at San Emidio, Nevada; a greenfield project in Crescent Valley, Nevada; and the El Ceibillo project located near Guatemala City, Guatemala (the “USG Development Projects”)

USG Operating Projects. USG subsidiaries hold equity interests representing approximately 60% of the outstanding equity interests in a joint venture that owns the Neal Hot Springs generation facility; Enbridge Inc. owns the balance of those equity interests. Otherwise, USG subsidiaries own 100% of the outstanding equity interests in the USG Operating Projects. We currently plan to continue operating all of the USG Operating Projects. We plan to make some investments and technological and operational changes in some of those projects, which are expected to improve the overall financial performance of those assets. One of the operational changes currently being implemented is closing the USG Boise, Idaho "headquarters" and terminating employment of personnel and leases for office space and equipment there. The headquarters staff functions are being performed by current Ormat employees in the region.

USG Development Projects. We are currently evaluating each of the USG Development Projects, on a case-by-case basis, to determine whether and how best to proceed with each one. This includes, among other things, current and projected market conditions in the electricity markets the USG Development Projects would serve, our current and projected cost of capital, other alternative uses of resources available to us and the size and type of generation facility the geothermal resources associated with the USG Development Projects could be expected to support.

We acquired USG subject to all of its existing (actual or contingent) liabilities. This includes, among other liabilities, litigation claims challenging various aspects of the acquisition, as described under the heading "Commitments and Contingencies" in the footnotes to our financial statements. These claims are subject to insurance obtained by USG, subject to retention, maximum coverage and other terms of those policies, as well as various legal defenses.

On April 16, 2018, we announced that our Viridity subsidiary expects to start construction of two 20MW/20MWh utility scale, in-front-of-the-meter battery energy storage systems (BESS) located in Plumsted Township and Alpha, New Jersey. One system is expected to come online at the end of 2018 and the second system is expected in the first quarter of 2019. Through Viridity, we will finance, construct, own and operate the projects. The BESS will be utilized to provide ancillary services to assist PJM Interconnection, a regional transmission organization, in balancing the electric grid, and will also be available as a capacity asset. The projects are expected to generate, in 2019, average revenues of between $7 million and $8 million, mainly from ancillary services. The projects derive revenue from the PJM ancillary service and electricity market which is a merchant market and subject to fluctuation.

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These projects are added to a new behind-the-meter 1 MWh project which will serve Atlantic County Utility Authority's unique ecological green facility using a battery storage as a service (BSAAS) model, optimizing the facility economics as well as providing PJM Interconnection with grid ancillary services.

On March 22, 2018, we entered into a loan agreement with affiliates of the Migdal Group, one of Israel's leading insurance companies and institutional investors, to provide us with a $100.0 million senior unsecured loan. The loan will be repaid in 15 semi-annual payments of $4.2 million each, commencing on September 15, 2021, with a final payment of $37 million on March 15, 2029. The average duration of the loan is 7 years. The loan bears interest at a fixed rate of 4.8% per annum, payable semi-annually, subject to adjustments in certain cases.

Trends and Uncertainties

Different trends, factors and uncertainties may impact our operations and financial condition, including many that we do not or cannot foresee. However, we believe that our results of operations and financial condition for the foreseeable future will be primarily affected by the following trends, factors and uncertainties that are from time to time also subject to market cycles:

There has been increased demand for energy generated from geothermal and other renewable resources in the U.S. as costs for electricity generated from renewable resources have become more competitive. Much of this is attributable to legislative and regulatory requirements and incentives, such as state renewable portfolio standards ("RPS") and federal tax credits such as production tax credits ("PTCs") or investment tax credits ("ITCs") (which are discussed in more detail in the section entitled "Government Grants and Tax Benefits" below). We believe that future demand for energy generated from geothermal and other renewable resources in the U.S. will be driven primarily by further commitment to and implementation of state RPS and greenhouse gas initiatives.

We accelerated our efforts to expand business development activities in developing countries where geothermal is considered a local resource that can provide a stable and cost-effective solution to increase access to power. We expect that a variety of local governmental initiatives will create new opportunities for the development of new projects with the potential to realize higher returns on our equity 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 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 payments under long-term PPAs related to fully-contracted power plants. As a result of the operational improvements and technological advancements that were implemented and that we plan to continue to implement in our operating portfolio including capacity additions, geographical expansion and re-contracting of existing power plants, we expect that the Electricity segment contribution to our operating income will increase further in the future. The increased contribution of the Electricity segment will increase our profitability and our stability. We also intend to continue to pursue opportunities as they arise in our recovered energy business, in the Solar PV sector, in the energy storage market and in other forms of clean energy. In addition, pursuant to our strategic plan, we acquired our Viridity business that operates in the energy storage, demand response and energy management markets and generates revenues derived primarily from software license fees and the provision of services. We are also pursuing PPAs with enterprises that will increase our potential customer base.

We have adopted a strategic plan for the growth of our Company, in terms of geographic scope, customer base, and technology platforms covered by our product and service offerings, with a focus on increasing net income from operations. Under this plan, we will continue to focus on organic growth and increasing operational efficiency of our existing business lines. In addition, we are actively pursuing domestic and international acquisition opportunities, both within our existing business lines and the solar power generation and energy storage businesses, all of which are targeted as part of the plan. For example, we acquired our interest in the Bouillante geothermal power plant in Guadeloupe and, as noted above, recently acquired USG, a renewable energy company focused on the development, production and sale of electricity from geothermal energy. We also completed the acquisition of our Viridity business during fiscal year 2017. As part of our services offering expansion through our Viridity business, we have developed our BSAAS strategy to provide comprehensive holistic solutions for energy storage, demand response and energy management through nimble and flexible business models, technology and product solutions. We plan to develop, build, own and operate energy storage facilities and provide related services in diversified markets. We will face a number of challenges and uncertainties in implementing this plan, including the integration of the acquired assets as well as potential new acquisitions, and we may revise elements of the plan in response to market conditions or other factors as we move forward with the plan.

In the Electricity segment, we expect intense domestic competition from the solar and wind power generation industries to continue and increase as well as increased competition from the solar combined with storage projects. While we believe the expected demand for renewable energy will be large enough to accommodate increased competition, any such increase in competition, including increasing amounts of renewable energy under contract as well as any further decline in natural gas prices attributable to increased production and reduction in energy storage costs are contributing to a reduction in electricity prices. However, despite increased competition from the solar and wind power generation industries, we believe that firm and flexible, base-load electricity, such as geothermal-based energy, will continue to be an important source of renewable energy in areas with commercially viable geothermal resources. In the geothermal industry, we have experienced a decrease in the upfront fee required to secure geothermal leases largely as a result of reduced competition for such leases.

In the Product segment, we see new opportunities in New Zealand, the U.S., Asia Pacific and Central and South America. We have experienced increased competition from binary power plant equipment suppliers including the major steam turbine manufacturers. While we believe that we have a distinct competitive advantage based on our technology, accumulated experience and current worldwide share of installed binary generation capacity, an increase in competition may impact our ability to secure new purchase orders from potential customers. The increased competition also leads to further reductions in the prices that we are able to charge for our binary equipment, as we recently experienced in Turkey, which in turn may reduce our profitability. We experience such competition in other places where we are operating. As a result this competition may have an impact on prices and profitability.

The 38 MW Puna complex has three PPAs, one of which (a 25 MW PPA) has a monthly variable energy rate based on the local utility's avoided costs. A decrease in the price of oil as well as in other commodities will result in a decrease in the incremental cost that the power purchaser avoids by not generating its electrical energy needs from oil, which will result in a reduction of the energy rate that we may charge under this PPA. In order to reduce our exposure to oil we signed fixed rate PPAs for the remaining 13 MW. The Puna power plant was shut-down on May 3, 2018 due to the volcano eruption in the Big Island, Hawaii (see further discussion under Recent Developments above).

The pricing under our PPAs for the G2 power plant in the Mammoth complex and Heber 2 power plant in the Heber complex for a total of between 30 MW and 40 MW are variable rates based on short run avoided cost ("SRAC") pricing that is impacted by natural gas prices. In 2016, we signed a fixed rate PPA that reduced our exposure to fluctuations in natural gas prices at the Ormesa complex starting November 30, 2017.

The amounts that we are paid under our PPAs for electricity, capacity and other energy attributes vary for a number of reasons, including:

- market conditions when the PPA is signed;
- the competitive environment in the power market where the power plant is located, and the power and other energy attributes are sold; and

- in the case of contracts described in the prior bullets with variable pricing components, current oil and natural gas prices.

This means, among other things, that the average price per MWh, which is one of the metrics some investors may use to evaluate power plant revenues, can fluctuate from period to period. Based on total Electricity segment revenues, we earned, on average, $88.3 and $89.7 per MWh in the three months ended September 30, 2018 and 2017, respectively. Oil and natural gas prices, together with other factors that affect our Electricity segment revenues, could cause changes in our average price per MWh in the future.

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 and injection 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 that we face in connection with our growth expectations.

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As our power plants (including their respective well fields) 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 PPAs as a result of any decrease in availability.

Our foreign operations are subject to significant political, economic, financial and collection risks which vary by country as well as hostilities that may arise in the countries we operate. As of the date of this report, those risks include security conditions in Israel, the partial privatization of the electricity sector in Guatemala and the political uncertainty currently prevailing in some of the countries, and specifically in Kenya and Honduras, in which we operate as further described in the “Risk Factors” section of our Annual Report on Form 10-K/A for the year ended December 31, 2017. All such risks may affect our ability to further grow our activity in these countries including our ability to collects overdue payments. Although we maintain, among other things, political risk insurance for most of our investments in foreign power plants to mitigate these risks, insurance does not provide complete coverage with respect to all such risks.

Turkey’s geothermal market is one of the fastest growing markets in the geothermal industry worldwide, mainly due to governmental and regulatory support. Turkey is ranked seventh globally with an installed geothermal capacity of approximately 1,000 MW. Since 2006, we have supplied our state-of-the-art binary equipment to over 32 projects in Turkey, which account for over 45% of the total installed geothermal capacity in Turkey as of September 2018. As a major equipment supplier in the Turkish geothermal market we are involved in a number of projects that are currently under construction and plan to continue our marketing efforts to secure new contracts. Our revenue exposure to the Turkish market increased in 2018 and is expected to remain significant in 2019, as we signed a number of new contracts in Turkey. The continued deterioration in the Turkish economy, devaluation in the Turkish Lira and increase in local interest rates or a decline in government support for the development of geothermal power in the country could affect local demand for the geothermal equipment and services we provide, collection from our customers or the prices we may charge for such equipment and services. We are monitoring any change in the political and business environments that may affect our future business and operations in the country. We established a facility in Turkey in order to locally produce several power plant components that entitle our customers to increased incentives under the renewable energy laws. The use of local equipment in renewable energy based generating facilities in Turkey entitles such facilities to significant benefits under Turkish law, provided such facilities have obtained a renewable energy resource (“RER”) certificate from the Energy Market Regulatory Authority, which requires the issuance of a local certificate. If we do not obtain the local certificate, then some of our customers under the relevant supply agreements in Turkey may not be issued a RER Certificate based on the equipment we supply to them, and we will be required to make a payment to such customers equal to the amount of the expected lost benefit.

The Federal Energy Regulatory Commission (“FERC”) is allowed under the Public Utility Regulatory Policies Act, as amended, to terminate, upon the request of a utility, the obligation of the utility 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. FERC has granted the California investor owned utilities a waiver of the mandatory purchase obligations from Qualifying Facilities above 20 MW. If the utilities in the regions in which our domestic power plants 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 PPA, which could have an adverse effect on our revenues.

While the recently enacted Tax Act reduces the corporate tax rate, it is also expected to increase the cost of capital for renewable energy projects. Such projects often rely on "tax equity" as a core financing tool. Tax equity is a form of financing that is repaid partly in tax benefits and partly in cash. There are two types of federal income tax benefits on renewable energy projects: a tax credit and depreciation, or the ability to deduct the cost of the project. The reduction in the corporate tax rate from 35 percent to 21 percent reduces the value of the depreciation. Therefore, less tax equity can be raised on projects. The gap in the capital structure must be filled with debt and/or more expensive sponsor equity. The Tax Act allowed the full cost of equipment acquired after September 27, 2017 to be deducted immediately. However, the tax equity market is not expected to be interested in this tax benefit and, in fact, because of the way tax equity works, the Company has had in some tax equity deals to take depreciation on a straight-line basis over 12 years rather than on a front-loaded basis over five years, which leads to some further erosion in the present value of the depreciation. Other effects of the Tax Act were discussed earlier under Note 11 – Income Taxes to our condensed consolidated financial statements.

Revenues

We generate our revenues from the sale of electricity from our geothermal and recovered energy-based power plants; the design, manufacture and sale of equipment for electricity generation and the construction, installation and engineering of power plant equipment and the sale of BSAAS systems and demand response and energy management services.

Revenues attributable to our Electricity segment are derived from the sale of electricity from our power plants pursuant to long-term PPAs. While approximately 90.7% of our Electricity revenues for the nine months ended September 30, 2018 were derived from PPAs with fixed price components, we have variable price PPAs in California and Hawaii. Our Standard Offer #4 type of PPAs totaling between 30 MW and 40 MW in California are subject to the impact of fluctuations in natural gas prices while the prices paid for electricity pursuant to the 25 MW PPA for the Puna complex in Hawaii is impacted by the price of oil as well as other commodities. Accordingly, our revenues from those power plants may fluctuate.

Our Electricity segment revenues are also subject to seasonal variations, as more fully described in “Seasonality” below.

Our PPAs generally provide for energy payments alone, 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 PPAs provide for bonus payments in the event that we are able to exceed certain target capacity levels and the potential forfeiture of payments if we fail to meet certain minimum target capacity 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 avoided costs. Our more recent PPAs generally provide for energy payments alone with an obligation to compensate the off-taker for its incremental costs as a result of shortfalls in our supply.

Revenues attributable to our Product segment fluctuate between periods, primarily based on our ability to receive customer orders, the status and timing of such orders, delivery of raw materials and the completion of manufacturing. Larger customer orders for our products are typically the result of our sales efforts, our participation in and winning tenders or requests for proposals issued by potential customers in connection with projects they are developing and orders by returning customers. Such projects often take a significant amount of time to design and develop and are subject to various contingencies, such as the customer’s ability to raise the necessary financing for a project. Consequently, 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, revenues from our Product segment fluctuate (sometimes, extensively) from period to period.

Revenues attributable to our Others segment are mainly derived from BSAAS systems, demand response and energy management services.

Revenues attributable to our demand response and energy management services are derived by two methods. The first method is a fixed monthly or annual recurring fee for managing the customer's energy assets and monetizing them in either the energy markets or through reducing the customer's charges from their utility. The second method is through sharing the revenues or savings generated from monetizing their flexible electricity in the energy markets (revenue) or through reducing the customer's bill from the utility (savings). The second method is subject to energy price fluctuations and the available flexible electricity.

Revenues attributable to our Software as a Service are based on a fixed monthly or annual fee for energy management information and analytical services. Contract periods are typically 12 months or above. To date, we have experienced minimal customer churn.

BSAAS are battery storage deals that are financed, owned and operated by the Company. BSAAS revenues are a combination of sales of the electricity back to the utilities and energy markets based on the prevailing market price for the electricity or for the energy or ancillary services. The energy and ancillary services revenue includes frequency regulation, standby capacity, synchronized reserve, reactive power and other related services. Additionally, when providing a "behind the customer meter solution" we also generate revenue from sharing savings generated from reducing the customer's utility bill. We also act as a general contractor on turnkey BESS for customers. BESS systems are owned by the customer and we provide the EPC for the project, delivering to the customer a fully operational system. Along with the BESS we also provide the management and operation of the battery for the customer for the life of the system which is typically 10 to 20 years. The EPC portion of the turnkey BESS revenue is a one-time charge and usually will be based on mile-stones or upon delivery.

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

	Revenue (dollars in thousands)				% of Revenue for Period Indicated			
	Three Months Ended		Nine Months Ended		Three Months Ended		Nine Months Ended	
	September 30,		September 30,		September 30,		September 30,	
	2018	2017	2018	2017	2018	2017	2018	2017
Revenues:								
Electricity	$116,891	$110,876	$371,559	$337,548	70.2%	70.5%	70.3%	64.1%
Product	48,439	44,912	152,026	186,621	29.1	28.6	28.7	35.4
Other	1,150	1,397	5,217	2,278	0.7	0.9	1.0	0.4
Total	$166,480	$157,185	$528,802	$526,447	100 %	100 %	100 %	100 %

The following table sets forth the geographic breakdown of the revenues attributable to our Electricity, Product and Other segments for the periods indicated;

	Revenue (dollars in thousands)				% of Revenue for Period Indicated			
	Three Months Ended		Nine Months Ended		Three Months Ended		Nine Months Ended	
	September 30,		September 30,		September 30,		September 30,	
	2018	2017	2018	2017	2018	2017	2018	2017
Electricity Segment:								
United States	$64,905	$69,269	$221,727	$216,214	55.5 %	62.5 %	59.7 %	64.1 %
Foreign	51,986	41,607	149,832	121,334	44.5	37.5	40.3	35.9
Total	$116,891	$110,876	$371,559	$337,548	100 %	100 %	100 %	100 %
Product Segment:								
United States	$281	$271	$502	$946	0.6 %	0.6 %	0.3 %	0.5 %
Foreign	48,158	44,641	151,524	185,675	99.4	99.4	99.7	99.5
Total	$48,439	$44,912	$152,026	$186,621	100 %	100 %	100 %	100 %
Other Segment:								
United States	$1,150	$1,397	$5,217	$2,278	100.0%	100.0%	100.0%	100.0%
Foreign	—	—	—	—	0.0	0.0	0.0	0.0
Total	$1,150	$1,397	$5,217	$2,278	100 %	100 %	100 %	100 %

The contribution of our domestic and foreign operations within our Electricity segment and Product segment to combined pre-tax income differ in a number of ways.

Electricity Segment. Our Electricity segment domestic revenues were approximately 48% and 78% higher than our Electricity segment foreign revenues for the nine months ended September 30, 2018 and 2017, respectively, and approximately 25% and 66% higher for the three months ended September 30, 2018 and 2017, respectively. However, domestic operations in our Electricity segment have higher costs of revenues and expenses than the foreign operations in our Electricity segment. Our foreign power plants are located in lower-cost regions, like Kenya, Guatemala, Honduras and Guadeloupe, which favorably impact payroll and maintenance expenses among other items. They are also newer than most of our domestic power plants and therefore tend to have lower maintenance costs and higher availability factors than our domestic power plants.

Product Segment. Our Product segment foreign revenues were approximately 99% of our total Product segment revenues for both the three and nine months ended September 30, 2018 and 2017. Our Product segment foreign activity also benefits from lower costs of revenues and expenses than Product segment domestic activity such as labor and transportation costs. Accordingly, our Product segment foreign activity contributes more than our Product segment domestic activity to our pre-tax income from operations.

Relative Contributions. While our combined (domestic and foreign) Electricity segment revenues exceeded our combined Product segment revenues by approximately $220 million and $151 million, respectively, for the nine months ended September 30, 2018 and 2017, and by approximately $68 million and $66 million, respectively, for the three months ended September 30, 2018 and 2017, respectively, Product segment revenues resulted in higher pre-tax income (primarily from foreign operations) for both of those periods. In the Other segment, all revenues and related pre-tax income are from domestic operations.

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Seasonality

Electricity generation from some of our geothermal power plants is subject to seasonal variations; in the winter, our geothermal power plants produce more energy primarily attributable to the lower ambient temperature, which has a favorable impact on the energy component of our Electricity segment revenues. The prices (primarily for capacity) paid for electricity under the PPAs with Southern California Edison and Pacific Gas and Electricity ("PG&E") in California for the Heber 2 power plant in the Heber complex, the Mammoth complex and the North Brawley power plant are higher in the months of June through September. The higher payments payable by Southern California Edison and PG&E in the summer months partly offset the negative impact on our revenues from lower generation in the summer attributable to the higher ambient temperature. As a result, we receive, and expect to continue to receive in the future, lower revenues from these power plants and complexes during such months.

Breakdown of Cost of Revenues

Electricity Segment

The principal cost of revenues attributable to our operating power plants includes operation and maintenance expenses comprised of 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, insurance and, for some of our projects, purchases of make-up water for use in our cooling towers and also depreciation and amortization. In our California power plants, our principal cost of revenues also includes transmission charges and scheduling charges. In some of our Nevada power plants, we also incur transmission and wheeling charges. 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 power plants from quarter to quarter. Payments made to government agencies and private entities on account of site leases where power 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. Royalties constituted approximately 4.3% and 4.1% of Electricity segment revenues for the nine months ended September 30, 2018 and September 30, 2017, respectively, and approximately 4.3% and 4.0% of Electricity segment revenues for the three months September 30, 2018 and September 30, 2017, respectively.

Product Segment

The principal cost of revenues attributable to our Product segment includes materials, salaries and related employee benefits, expenses related to subcontracting activities, and transportation expenses. Sales commissions to sales representatives are included in selling and marketing expenses. 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.

Other Segment

The principal cost of revenues attributable to our Other segment includes direct costs attributable to providing services and equipment to our Viridity's customers, direct costs associated with software development and the direct cost of operating batteries that are owned by our Viridity. Direct costs include labor costs of our network operations center, the labor costs for engineering and implementation of services to customers, consulting services provided to customers and developing software and the labor associated with operations and maintenance for customer and our Viridity owned energy assets. Cost of revenues attributable to our Other segment also include cost of equipment sold to customers in delivering our automated demand response and software services at a customer's location, the cost of batteries or other associated equipment that is sold to customers and for any third party related costs such as local construction, local engineering or other similar costs incurred in implementing and managing the customers' energy assets.

Cash and Cash Equivalents and Restricted Cash and Cash Equivalents

Our cash and cash equivalents and restricted cash and cash equivalents increased to $155.1 million as of September 30, 2018 from $96.6 million as of December 31, 2017. This increase was primarily attributable to (i) $103.2 million derived from operating activities during the nine months ended September 30, 2018, (ii) $100.0 million of proceeds from a senior unsecured loan, (iii) net proceeds of $158.0 million from our revolving credit lines with commercial banks (iv) restricted cash held by USG at acquisition date of $27.0 million, (v) cash received from insurance recoveries of $7.2 million; and (vi) proceeds from sale of limited liability company interest in Tungsten, net of transaction costs of $32.4 million. This increase was partially offset by: (i) our use of $200.7 million to fund capital expenditures, (ii) cash paid for acquisition of controlling interest in USG, net of cash acquired of $95.1 million, (iii) repayment of $41.9 million of long-term debt, (iv) a $21.8 million dividend paid, (v) $9.6 million paid to noncontrolling interest and (vi) an investment in an unconsolidated company of $3.8 million. Our corporate borrowing capacity under committed lines of credit with different commercial banks as of September 30, 2018 was $468.0 million, as described below under “Liquidity and Capital Resources”. As of September 30, 2018, we have utilized $375.8 million of our corporate borrowing capacity of which $159.5 million were utilized for cash withdrawals and the remainder for other letters of credit.

Critical Accounting Estimates and Assumptions

A comprehensive discussion of our critical accounting estimates and assumptions 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/A for the year ended December 31, 2017.

New Accounting Pronouncements

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

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Results of Operations

Our historical operating results in dollars and as a percentage of total revenues are presented below. Starting 2018, we disclose our energy storage, demand response and energy management services under the Other segment and as such, the two tables below show our revenues, cost of revenues and gross profit for our three reportable segments: Electricity, Product and Other. A comparison of the different periods described below may be of limited utility primarily as a result of (i) our recent construction or disposition of new power plants and enhancement of acquired power plants; and (ii) fluctuation in revenues from our Product segment.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
	(Dollars in thousands, except per share data)		(Dollars in thousands, except per share data)	
Statements of Operations Historical Data:				
Revenues:				
Electricity	$116,891	$110,876	$371,559	$337,548
Product	48,439	44,912	152,026	186,621
Other	1,150	1,397	5,217	2,278
	166,480	157,185	528,802	526,447
Cost of revenues:				
Electricity	79,845	64,444	234,563	193,676
Product	35,669	32,218	106,968	125,102
Other	2,174	1,330	7,645	3,573
	117,688	97,992	349,176	322,351
Gross profit				
Electricity	37,046	46,432	136,996	143,872
Product	12,770	12,694	45,058	61,519
Other	(1,024)	67	(2,428)	(1,295)
	48,792	59,193	179,626	204,096
Operating expenses:				
Research and development expenses	706	716	3,065	2,368
Selling and marketing expenses	8,578	3,630	15,989	12,083
General and administrative expenses	13,606	10,877	43,325	33,027
Write-off of unsuccessful exploration activities	—	—	119	—
Operating income	25,902	43,970	117,128	156,618
Other income (expense):				
Interest income	214	255	516	861
Interest expense, net	(18,700)	(11,692)	(48,890)	(41,155)
Derivatives and foreign currency transaction gains (losses)	(383)	(1,001)	(2,511)	2,040
Income attributable to sale of tax benefits	4,066	3,506	14,983	14,019

Other non-operating income (expense), net	309	(1,592)	7,662	(1,678)
Income from continuing operations before income taxes and equity in losses of investees	11,408	33,446	88,888	130,705
Income tax (provision) benefit	(1,184)	(6,224)	(3,347)	(49,993)
Equity in earnings (losses) of investees, net	(117)	337	1,481	(1,690)
Net income	10,107	27,559	87,022	79,022
Net income attributable to noncontrolling interest	474	(3,599)	(7,276)	(11,228)
Net income attributable to the Company's stockholders	$10,581	$23,960	$79,746	$67,794
Earnings per share attributable to the Company's stockholders:				
Basic:				
Net income	$0.21	$0.48	$1.58	$1.36
Diluted:				
Net income	$0.21	$0.47	$1.56	$1.34
Weighted average number of shares used in computation of earnings per share attributable to the Company's stockholders:				
Basic	50,645	50,367	50,627	49,942
Diluted	50,963	50,867	50,985	50,669

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	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2018	2017	2018	2017
Statements of Operations Data:				
Revenues:				
Electricity	70.2 %	70.5 %	70.3 %	64.1 %
Product	29.1	28.6	28.7	35.4
Other	0.7	0.8	1.0	0.4
	100.0	100.0	100.0	100.0
Cost of revenues:				
Electricity	68.3	58.1	63.1	57.4
Product	73.6	71.7	70.4	67.0
Other	189.0	95.2	146.5	156.8
	70.7	62.3	66.0	61.2
Gross profit				
Electricity	31.7	41.9	36.9	42.6
Product	26.4	28.3	29.6	33.0
Other	(89.0)	4.8	(46.5)	(56.8)
	29.3	37.7	34.0	38.8
Operating expenses:				
Research and development expenses	0.4	0.5	0.6	0.4
Selling and marketing expenses	5.2	2.3	3.0	2.3
General and administrative expenses	8.2	6.9	8.2	6.3
Write-off of unsuccessful exploration activities	0.0	0.0	0.0	0.0
Operating income	15.6	28.0	22.1	29.8
Other income (expense):				
Interest income	0.1	0.2	0.1	0.2
Interest expense, net	(11.2)	(7.4)	(9.2)	(7.8)
Derivatives and foreign currency transaction gains (losses)	(0.2)	(0.6)	(0.5)	0.4
Income attributable to sale of tax benefits	2.4	2.2	2.8	2.7
Other non-operating income (expense), net	0.2	(1.0)	1.4	(0.3)
Income from continuing operations before income taxes and equity in losses of investees	6.9	21.3	16.8	24.8
Income tax (provision) benefit	(0.7)	(4.0)	(0.6)	(9.5)
Equity in earnings (losses) of investees, net	(0.1)	0.2	0.3	(0.3)
Net income	6.1	17.5	16.5	15.0
Net income attributable to noncontrolling interest	0.3	(2.3)	(1.4)	(2.1)
Net income attributable to the Company's stockholders	6.4 %	15.2 %	15.1 %	12.9 %

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Comparison of the Three Months Ended September 30, 2018 and the Three Months Ended September 30, 2017

Total Revenues

Total revenues for the three months ended September 30, 2018 were $166.5 million, compared to $157.2 million for the three months ended September 30, 2017, which represented an increase of 5.9% from the prior year period. This increase was attributable to both our Electricity and Product segments, in which revenues increased by 5.4% and 7.9%, compared to the corresponding period in 2017. The increase was partially offset due to a decrease of $0.3 million of revenues in our Other segment compared to the corresponding period in 2017.

Electricity Segment

Revenues attributable to our Electricity segment for the three months ended September 30, 2018 were $116.9 million, compared to $110.9 million for the three months ended September 30, 2017, representing a 5.4% increase from the prior period. This increase was primarily attributable to (i) the commencement of commercial operation of our Platanares power plant in Honduras, effective September 2017, with revenues of $8.8 million for the three months ended September 30, 2018 compared to $1.6 million for the three months ended September 30, 2017, (ii) the commencement of commercial operation of our Tungsten Mountain power plant in Nevada, effective December 2017, with revenues of $3.4 million for the three months ended September 30, 2018 and the commencement of commercial operation of our Plant 1 expansion project in the Olkaria III complex in Kenya, effective June 2018; and (iii) the consolidation of USG which was acquired on April 24, 2018, with revenues of $7.2 million for the three months ended September 30, 2018. The increase was partially offset due to (i) a decrease in revenues at our Puna power plant that was immediately shut down following the Kilauea volcanic eruption on May 3, 2018 and (ii) by a decrease in generation at some of our power plants that were taken offline to address maintenance issues and enhancements, high ambient temperature and curtailments.

Power generation in our power plants increased by 7.1% from 1,236,003 MWh in the three months ended September 30, 2017 to 1,323,701 MWh in the three months ended September 30, 2018 primarily because of the increase in generation due to the commencement of commercial operation of our Platanares power plant in Honduras, Tungsten Mountain power plant in Nevada, Plant 1 expansion in Kenya, and due to the acquisition of USG. The increase was partially offset by a decrease in generation at (i) our Puna power plant due to the Kilauea volcanic eruption and (ii) some of our other power plants mainly due to maintenance issues and high ambient temperature.