ORMAT TECHNOLOGIES, INC.
Form 10-Q/A
June 19, 2018

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q/A

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

For the quarterly period ended June 30, 2017

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

(775) 356-9029

(Registrant's telephone number, including area code)

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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. (Check one):

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: As of August 3, 2017, the number of outstanding shares of common stock, par value $0.001 per share, was 49,910,280.

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Certain Definitions

For convenience purposes in this filing on Form 10-Q/A, all references to "Ormat", "the Company", "we", "us", "our compa "Ormat Technologies" or "our" refer to Ormat Technologies, Inc. and its consolidated subsidiaries.

Explanatory Note

This Amendment No. 1 to Form 10-Q (this "Amendment") amends the Quarterly Report on Form 10-Q for the three and six months ended June 30, 2017 originally filed with the Securities and Exchange Commission ("SEC") on August 8, 2017 (the "Original Filing") by Ormat Technologies, Inc..

Restatement

As further discussed in Note 1 to our unaudited condensed consolidated financial statements in Part I, Item 1, "Financial Statements" of this Amendment, on May 16, 2018, we concluded that we would restate our previously issued consolidated financial statements as of and for the year ended December 31, 2017 to correct for (i) errors in our income tax provision, primarily related to the Company's ability to utilize Federal tax credits in the United States ("U.S.") prior to their expiration starting in 2027, and the resulting impact on the Company's deferred tax asset valuation allowance, and (ii) the inappropriate netting of certain deferred income tax assets and deferred income tax liabilities across different tax jurisdictions that was not permissible under U.S. generally accepted accounting principles ("GAAP"). In addition, there were other immaterial prior period errors, including an out-of-period adjustment that had been previously recorded for the correction of an understated liability for unrecognized tax benefits related to intercompany interest. We also concluded that we would revise our previously issued consolidated financial statements as of and for the year ended December 31, 2016 and for the year ended December 31, 2015 to correct for errors in our income tax provision, primarily related to the translation of deferred tax liabilities in a foreign subsidiary. The restatement, for 2017, and revision, for 2016 and 2015, is being effected through the Company's filing of an amendment on Form 10-K/A for the year ended December 31, 2017. In connection with these restatements and revisions, the Company also recorded adjustments to correct other immaterial tax errors. This decision to restate and revise our previously issued financial statements was approved by, and with the continuing oversight of, the Company's Board of Directors upon the recommendation of its Audit Committee.

These error corrections also resulted in the restatement, for 2017, and revision, for 2016, of the Company's previously issued unaudited condensed consolidated financial statements for the three and six months ended June 30, 2017 and 2016, respectively, which is being effected through the Company's filing of this Amendment, and the three and nine months ended September 30, 2017 and 2016, respectively, which restatement and revision has been effected through the Company’s filing of an amendment on Form 10-Q/A for the quarter ended September 30, 2017. The revision of the Company’s previously issued unaudited condensed consolidated financial statements for the quarter ended March 31, 2017 will be effected in connection with the Company’s filing of its Form 10-Q for the quarter ended March 31, 2018. The impact of the revision for the quarters ended March 31, 2017 and 2016 is also discussed in Note 1 to our unaudited condensed consolidated financial statements in Part I, Item 1, "Financial Statements" of this Amendment.

Internal Control Over Financial Reporting

Management has reassessed its evaluation of the effectiveness of the design and operation of its disclosure controls and procedures as of June 30, 2017. As a result of that reassessment, management has concluded that the Company did not maintain effective disclosure controls and procedures due to the material weakness in internal control over financial reporting which existed at that date. For a description of the material weakness in internal control over financial reporting and actions taken, and to be taken, to address the evaluation of the material weakness, see Part 1, Item 4. "Controls and Procedures" of this Amendment.

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Amendment

The purpose of this Amendment is to (i) restate the Company's previously issued unaudited condensed consolidated financial statements and related disclosures as of and for the three and six months ended June 30, 2017; (ii) revise the Company's unaudited condensed consolidated financial statements for the three and six months ended June 30, 2016 and (iii) revise the Company's condensed consolidated balance sheet as of December 31, 2016, which was derived from the audited consolidated financial statements, which have been revised as described above, but does not include all disclosures required by GAAP, all contained in Part I, Item 1. "Financial Statements" of this Amendment. This Amendment also includes (a) an amended Part I, Item 2. "Management's Discussion and Analysis of Financial Condition and Results of Operations" to reflect the correction of the errors described above, and (b) an amended Part I, Item 4. "Controls and Procedures" to restate the conclusion on the effectiveness of disclosure controls and procedures. Disclosure controls and procedures were deemed effective in the Original Filing on August 8, 2017 and are deemed ineffective as a result of the material weakness described in Part I, Item 4. "Controls and Procedures" of this Amendment. In addition, the Company has updated Note 12 to the condensed consolidated financial statements contained in Part I, Item 1. "Financial Statements" to include disclosure of subsequent events occurring through the date of the filing of this Amendment.

Except as expressly set forth herein, this Amendment does not reflect events occurring after the date of the Original Filing or modify or update any of the other disclosures contained therein in any way other than as required to reflect the amendment discussed above. Accordingly, this Amendment should be read in conjunction with the Original Filing and our other filings with the SEC.

Items Amended in this Filing

For reasons discussed above, we are filing this Amendment in order to amend the following items in our Original Report to the extent necessary to reflect the adjustments discussed above and make corresponding revisions to our financial data cited elsewhere in this Amendment:

Part I, Item 1. Financial Statements
Part I, Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations
Part I, Item 4. Controls and Procedures

In accordance with applicable SEC rules, this Amendment includes new certifications required by Rule 13a-14 under the Securities Exchange Act of 1934 from our Chief Executive Officer and Chief Financial Officer dated as of the date of filing of this Amendment.

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ORMAT TECHNOLOGIES, INC.

FORM 10-Q/A

FOR THE QUARTER ENDED JUNE 30, 2017

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PART I - FINANCIAL INFORMATION

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

	June 30, 2017 (As restated)	December 31, 2016
	(Dollars in thousands)	
ASSETS		
Current assets:		
Cash and cash equivalents	$118,390	$230,214
Restricted cash and cash equivalents (primarily related to VIEs)	49,510	34,262
Receivables:		
Trade	79,587	80,807
Other	20,128	17,482
Inventories	18,569	12,000
Costs and estimated earnings in excess of billings on uncompleted contracts	59,901	52,198
Prepaid expenses and other	41,151	45,867
Total current assets	387,236	472,830
Investment in an unconsolidated company	13,957	—
Deposits and other	18,125	18,553
Deferred charges	43,598	43,773
Property, plant and equipment, net ($1,449,920 and $1,483,224 related to VIEs, respectively)	1,526,485	1,556,378
Construction-in-process ($159,612 and $120,853 related to VIEs, respectively)	408,939	306,709
Deferred financing and lease costs, net	5,186	3,923
Intangible assets, net	86,986	52,753
Goodwill	20,121	6,650
Total assets	$2,510,633	$2,461,569
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	$101,827	$91,650
Short term revolving credit lines with banks (full recourse)	30,000	—
Billings in excess of costs and estimated earnings on uncompleted contracts	17,574	31,630
Current portion of long-term debt:		
Limited and non-recourse (primarily related to VIEs):		
Senior secured notes	32,608	32,234
Other loans	21,495	21,495
Full recourse	10,673	12,242
Total current liabilities	214,177	189,251

Long-term debt, net of current portion:		
Limited and non-recourse (primarily related to VIEs):		
Senior secured notes (less deferred financing costs of $8,528 and $9,177, respectively)	334,365	350,388
Other loans (less deferred financing costs of $5,957 and $6,409, respectively)	252,085	261,845
Full recourse:		
Senior unsecured bonds (less deferred financing costs of $654 and $755, respectively)	203,678	203,577
Other loans (less deferred financing costs of $1,206 and $1,346, respectively)	52,742	57,063
Investment in an unconsolidated company in excess of accumulated losses	—	11,081
Liability associated with sale of tax benefits	48,810	54,662
Deferred lease income	53,036	54,561
Deferred income tax liabilities	72,311	36,411
Liability for unrecognized tax benefits	6,015	6,444
Liabilities for severance pay	21,025	18,600
Asset retirement obligation	24,267	23,348
Other long-term liabilities	22,823	21,294
Total liabilities	1,305,334	1,288,525
Commitments and contingencies (Note 10)		
Redeemable noncontrolling interest	5,898	4,772
Equity:		
The Company's stockholders' equity:		
Common stock, par value $0.001 per share; 200,000,000 shares authorized; 49,910,280 and 49,667,340 shares issued and outstanding as of June 30, 2017 and December 31, 2016, respectively	50	50
Additional paid-in capital	875,591	869,463
Retained earnings	246,760	215,352
Accumulated other comprehensive loss	(7,325)	(8,175)
Total stockholders' equity attributable to the Company's stockholders	1,115,076	1,076,690
Noncontrolling interest	84,325	91,582
Total equity	1,199,401	1,168,272
Total liabilities, redeemable noncontrolling interest and equity	$2,510,633	$2,461,569

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017 (As restated)	2016	2017 (As restated)	2016
	(Dollars in thousands, except per share data)		(Dollars in thousands, except per share data)	
Revenues:				
Electricity	$111,777	$104,001	$227,553	$211,869
Product	67,587	55,860	141,709	99,586
Total revenues	179,364	159,861	369,262	311,455
Cost of revenues:				
Electricity	65,439	62,243	131,475	125,929
Product	43,432	31,822	92,884	55,857
Total cost of revenues	108,871	94,065	224,359	181,786
Gross profit	70,493	65,796	144,903	129,669
Operating expenses:				
Research and development expenses	1,050	595	1,652	944
Selling and marketing expenses	4,090	3,668	8,453	7,343
General and administrative expenses	12,201	8,783	22,150	17,532
Write-off of unsuccessful exploration activities	—	863	—	1,420
Operating income	53,152	51,887	112,648	102,430
Other income (expense):				
Interest income	362	245	606	565
Interest expense, net	(14,540)	(18,401)	(29,463)	(34,424)
Derivatives and foreign currency transaction gains (losses)	1,703	(4,332)	3,041	(2,370)
Income attributable to sale of tax benefits	4,356	4,519	10,513	8,917
Other non-operating income (expense), net	6	49	(86)	240
Income from continuing operations before income taxes and equity in losses of investees	45,039	33,967	97,259	75,358
Income tax (provision) benefit	(32,765)	(8,515)	(43,769)	(17,594)
Equity in losses of investees, net	(428)	(1,144)	(2,027)	(2,081)
Income from continuing operations	11,846	24,308	51,463	55,683
Net income attributable to noncontrolling interest	(3,206)	(584)	(7,629)	(2,258)
Net income attributable to the Company's stockholders	$8,640	$23,724	$43,834	$53,425
Comprehensive income:				
Net income	11,846	24,308	51,463	55,683

Other comprehensive income (loss), net of related taxes:				
Change in foreign currency translation adjustments	1,461	—	1,539	—
Change in unrealized gains or losses in respect of the Company's share in derivatives instruments of unconsolidated investment	(916)	(1,987)	(347)	(5,166)
Loss in respect of derivative instruments designated for cash flow hedge	45	35	93	70
Amortization of unrealized gains in respect of derivative instruments designated for cash flow hedge	(15)	(24)	(39)	(48)
Comprehensive income	12,421	22,332	52,709	50,539
Comprehensive income attributable to noncontrolling interest	(3,613)	(584)	(8,025)	(2,258)
Comprehensive income attributable to the Company's stockholders	$8,808	$21,748	$44,684	$48,281
Earnings per share attributable to the Company's stockholders:				
Basic:				
Net income	$0.17	$0.48	$0.88	$1.08
Diluted:				
Net income	$0.17	$0.47	$0.87	$1.07
Weighted average number of shares used in computation of earnings per share attributable to the Company's stockholders:				
Basic	49,771	49,456	49,726	49,314
Diluted	50,624	50,137	50,559	49,977
Dividend per share declared	$0.08	$0.07	$0.25	$0.38

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							
				Retained	Accumulated			
			Additional	Earnings	Other			
	Common Stock		Paid-in	(Accumulated	Income		Noncontrolling	Total
	Shares	Amount	Capital	Deficit)	(Loss)	Total	Interest	Equity
	(Dollars in thousands, except per share data)							
Balances at December 31, 2015	49,107	$ 49	$ 849,223	$ 152,326	$ (8,164)	$ 993,434	$ 93,873	$ 1,087,307
Stock-based compensation	—	—	1,659	—	—	1,659	—	1,659
Exercise of options by employees and directors	460	—	5,945	—	—	5,945	—	5,945
Cash paid to non controlling interest	—	—	—	—	—	—	(5,752)	(5,752)
Cash dividend declared, $0.38 per share	—	—	—	(18,998)	—	(18,998)	—	(18,998)
Net income	—	—	—	53,425	—	53,425	2,258	55,683
Other comprehensive income (loss), net of related taxes:								
Loss in respect of derivative instruments designated for cash flow hedge	—	—	—	—	70	70	—	70
Change in unrealized gains or losses in respect of the Company's share in derivative instruments of unconsolidated investment	—	—	—	—	(5,166)	(5,166)	—	(5,166)
Amortization of unrealized gains in	—	—	—	—	(48)	(48)	—	(48)

respect of derivative instruments designated for cash flow hedge (net of related tax of $30)								
Balances at June 30, 2016	49,567	$ 49	$ 856,827	$ 186,753	$ (13,308)	$ 1,030,321	$ 90,379	$ 1,120,700
Balances at December 31, 2016	49,667	$ 50	$ 869,463	$ 215,352	$ (8,175)	$ 1,076,690	$ 91,582	$ 1,168,272
Stock-based compensation	—	—	5,343	—	—	5,343	—	5,343
Exercise of options by employees and directors	243	—	785	—	—	785	—	785
Cash paid to noncontrolling interest	—	—	—	—	—	—	(14,594)	(14,594)
Cash dividend declared, $0.25 per share	—	—	—	(12,426)	—	(12,426)	—	(12,426)
Net income (As restated)	—	—	—	43,834	—	43,834	6,941	50,775
Other comprehensive income (loss), net of related taxes:								
Currency translation adjustment	—	—	—	—	1,143	1,143	396	1,539
Loss in respect of derivative instruments designated for cash flow hedge (As restated)	—	—	—	—	93	93	—	93
Change in unrealized gains or losses in respect of the Company's share in derivative instruments of unconsolidated investment	—	—	—	—	(347)	(347)	—	(347)
Amortization of unrealized gains in respect of derivative instruments designated for cash flow hedge (net of	—	—	—	—	(39)	(39)	—	(39)

related tax of $24)

Balances at June 30, 2017 (As restated)	49,910	$ 50	$ 875,591	$ 246,760	$ (7,325)	$ 1,115,076	$ 84,325	$ 1,199,401

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

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

	Six Months Ended June 30, 2017 (As restated)	2016
	(Dollars in thousands)	
Cash flows from operating activities:		
Net income	$51,463	$55,683
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	54,082	51,258
Amortization of premium from senior unsecured bonds	—	(154)
Accretion of asset retirement obligation	919	821
Stock-based compensation	5,343	1,659
Amortization of deferred lease income	(1,343)	(1,343)
Income attributable to sale of tax benefits, net of interest expense	(6,844)	(5,076)
Equity in losses of investees	2,027	2,081
Mark-to-market of derivative instruments	(2,462)	(162)
Write-off of unsuccessful exploration activities	—	1,420
Gain on severance pay fund asset	(1,537)	(253)
Deferred income tax provision and deferred charges	34,771	13,254
Liability for unrecognized tax benefits	395	(216)
Deferred lease revenues	(182)	169
Changes in operating assets and liabilities, net of amounts acquired:		
Receivables	(625)	(10,206)
Costs and estimated earnings in excess of billings on uncompleted contracts	(7,703)	9,861
Inventories	(103)	1,384
Prepaid expenses and other	1,820	(11,007)
Deposits and other	652	(153)
Accounts payable and accrued expenses	(4,636)	1,808
Billings in excess of costs and estimated earnings on uncompleted contracts	(14,056)	9,020
Liabilities for severance pay	2,425	(297)
Other long-term liabilities	(248)	22
Net cash provided by operating activities	114,158	119,573
Cash flows from investing activities:		
Net change in restricted cash, cash equivalents and marketable securities	(15,248)	11,498
Capital expenditures	(116,015)	(67,779)
Investment in unconsolidated companies	(27,412)	—
Cash paid for acquisition of controlling interest in a subsidiary, net of cash acquired	(35,300)	—
Decrease (increase) in severance pay fund asset, net of payments made to retired employees	(130)	992
Net cash used in investing activities	(194,105)	(55,289)

Cash flows from financing activities:		
Proceeds from exercise of options by employees	785	5,945
Proceeds from revolving credit lines with banks	437,500	134,500
Repayment of revolving credit lines with banks	(407,500)	(134,500)
Cash received from noncontrolling interest	2,017	1,972
Repayments of long-term debt	(33,177)	(31,386)
Cash paid to noncontrolling interest	(14,594)	(12,249)
Payments of capital leases	(751)	—
Deferred debt issuance costs	(3,731)	(2,931)
Cash dividends paid	(12,426)	(18,998)
Net cash used in financing activities	(31,877)	(57,647)
Net change in cash and cash equivalents	(111,824)	6,637
Cash and cash equivalents at beginning of period	230,214	185,919
Cash and cash equivalents at end of period	$118,390	$192,556
Supplemental non-cash investing and financing activities:		
Increase (decrease) in accounts payable related to purchases of property, plant and equipment	$2,338	$(6,956)
Accrued liabilities related to financing activities	$—	$6,128

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

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ORMAT TECHNOLOGIES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 1 — GENERAL AND BASIS OF PRESENTATION

These unaudited condensed consolidated interim financial statements of Ormat Technologies, Inc. and its subsidiaries (collectively, the "Company") have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") and pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC") for interim financial statements. Accordingly, they do not contain all information and notes required by U.S. GAAP for annual financial statements. In the opinion of management, these unaudited condensed consolidated interim financial statements reflect all adjustments, which include normal recurring adjustments, necessary for a fair statement of the Company's consolidated financial position as of June 30, 2017, the consolidated results of operations and comprehensive income (loss) for the three and six months ended June 30, 2017 and 2016 and the consolidated cash flows for the six months ended June 30, 2017 and 2016.

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 six months ended June 30, 2017 are not necessarily indicative of the results to be expected for the year ending December 31, 2017.

These unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2016. The condensed consolidated balance sheet data as of December 31, 2016 was derived from the Company's audited consolidated financial statements for the year ended December 31, 2016, but does not include all disclosures required by U.S. GAAP. As discussed in the Explanatory Note to this amended Form 10-Q, the 2016 financial statements will be revised, which revision is being effected through the Company's filing of an amendment on Form 10-K/A for the year ended December 31, 2017.

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

Restatement of previously issued condensed consolidated financial statements

As described further in Note 11, in the second quarter of 2017, the Company partially released its valuation allowance against the U.S. deferred tax assets. During the first quarter of 2018, the Company concluded that there were material tax provision and related balance sheet errors in its previously issued financial statements as of and for the three and six months ended June 30, 2017, primarily relating to the Company's ability to utilize Federal tax credits in the U.S. prior to their expiration starting in 2027, and the resulting impact on the Company's deferred tax asset valuation allowance. Specifically, the error in the deferred tax asset valuation allowance resulted in an understatement of the income tax provision and an overstatement of net income of $26.4 million and $26.5 million for the three and six months ended June 30, 2017, respectively. As a result of such errors, the Company concluded that the previously issued unaudited condensed consolidated financial statements as of and for the three and six months ended June 30, 2017 were materially misstated, and, accordingly, has restated these financial statements. Included in such restatement is also the correction of other immaterial tax errors, including an out-of-period adjustment that had been previously recorded for the correction of an understated liability for unrecognized tax benefits related to intercompany interest.

Revision of previously issued condensed consolidated financial statements

The Company had previously identified certain other tax errors, including a prior period error related to the translation of deferred tax liabilities in the Company's Kenyan subsidiary and an error in the effective tax rate calculation in the first quarter of 2016, which were previously determined to be immaterial and were previously corrected for as out-of-period adjustments in the period of identification.

The Company assessed the materiality of these errors in accordance with the SEC's Staff Accounting Bulletin ("SAB") Topic 1.M, Materiality, codified in ASC Topic 250, Presentation of Financial Statements ("ASC 250"), and concluded that the previously issued unaudited condensed consolidated interim financial statements for the three months ended March 31, 2017 and 2016 and the three and six months ended June 30, 2016 were not materially misstated; however, in order to correctly reflect the immaterial adjustments as described above in the appropriate period, management has elected to revise the affected previously issued financial statements in this Form 10-Q/A filing. As a result, the revised condensed consolidated financial statements for the three and six months ended June 30, 2016 reflect a $0.6 million and $0.2 million increase, respectively, in the tax provision, with a corresponding decrease in net income and comprehensive income. In addition, the revised condensed consolidated financial statements for the three months ended March 31, 2017 and 2016 reflect a $0.1 million increase and a $0.4 million decrease, respectively, in the tax provision, with a corresponding impact to net income and comprehensive income. The impact of the revision as of January 1 and December 31, 2016 was an increase of $3.9 million and decrease of $1.3 million, respectively, to retained earnings, as a result of certain tax errors originating in periods prior to 2016, primarily related to the error in the determination of the exchange rate used in the translation of deferred tax liabilities in the Company's Kenyan subsidiary.

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ORMAT TECHNOLOGIES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

(Unaudited)

The effects of the 2017 restatement and the 2016 revision on the line items within the Company's condensed consolidated balance sheets as of June 30, 2017 and December 31, 2016 are as follows (in thousands):

	June 30, 2017			**December 31, 2016**		
	As originally reported	**Adjustments**	**As Restated**	**As originally reported**	**Adjustments**	**As Revised**
Deferred income tax liabilities	$44,113	$ 28,198	$72,311	$35,382	$ 1,029	$36,411
Liability for unrecognized tax benefits	6,015	-	6,015	5,738	706	6,444
Total liabilities	1,277,136	28,198	1,305,334	1,286,790	1,735	1,288,525
Retained earnings	274,566	(27,806)	246,760	216,644	(1,292)	215,352
Accumulated other comprehensive loss	(6,933)	(392)	(7,325)	(7,732)	(443)	(8,175)
Total stockholders' equity attributable to the Company's stockholders	1,143,274	(28,198)	1,115,076	1,078,425	(1,735)	1,076,690
Total equity	1,227,599	(28,198)	1,199,401	1,170,007	(1,735)	1,168,272

The effects of the 2017 restatement and 2016 revision on the line items within the Company's condensed consolidated statements of operations and comprehensive income for the three and six months ended June 30, 2017 and 2016 are as follows (in thousands):

	Three months ended June 30, 2017			**Six months ended June 30, 2017**		
	As originally reported	**Adjustments**	**As Restated**	**As originally reported**	**Adjustments**	**As Restated**
Income tax provision	$(6,369)	$ (26,396)	$(32,765)	$(17,255)	$ (26,514)	$(43,769)
Income from continuing operations	38,242	(26,396)	11,846	77,977	(26,514)	51,463
Net income attributable to the Company's stockholders	35,036	(26,396)	8,640	70,348	(26,514)	43,834
	20	25	45	42	51	93

Loss in respect of derivative instruments designated for cash flow hedge						
Comprehensive income	38,792	(26,371)	12,421	79,172	(26,463)	52,709
Comprehensive income attributable to the Company’s stockholders	35,179	(26,371)	8,808	71,147	(26,463)	44,684
Net income per share attributable to the Company’s stockholders						
Basic:	$0.70	$ (0.53)	$0.17	$1.41	$ (0.53)	$0.88
Diluted:	$0.69	$ (0.52)	$0.17	$1.39	$ (0.52)	$0.87

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ORMAT TECHNOLOGIES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

(Unaudited)

	Three months ended June 30, 2016			**Six months ended June 30, 2016**		
	As originally reported	**Adjustments**	**As Revised**	**As originally reported**	**Adjustments**	**As Revised**
Income tax provision	$(7,890)	$ (625)	$(8,515)	$(17,399)	$ (195)	$(17,594)
Income from continuing operations	24,933	(625)	24,308	55,878	(195)	55,683
Net income attributable to the Company's stockholders	24,349	(625)	23,724	53,620	(195)	53,425
Loss in respect of derivative instruments designated for cash flow hedge	22	13	35	43	27	70
Comprehensive income	22,944	(612)	22,332	50,707	(168)	50,539
Comprehensive income attributable to the Company's stockholders	22,360	(612)	21,748	48,449	(168)	48,281
Net income per share attributable to the Company's stockholders						
Basic:	$0.49	$ (0.01)	$0.48	$1.09	$ (0.01)	$1.08
Diluted:	$0.49	$ (0.02)	$0.47	$1.07	$ -	$1.07

The effects of the 2017 restatement and 2016 revision on the line items within the Company's condensed consolidated statements of equity for the six months ended June 30, 2017 and 2016 are as follows (in thousands):

	As originally reported	**Adjustments**	**As Revised**
Balances as of December 31, 2015:			
Retained earnings	$148,396	$ 3,930	$152,326
Accumulated other comprehensive loss	(7,667)	(497)	(8,164)
Total stockholders' equity attributable to the Company's stockholders	990,001	3,433	993,434
Total equity	1,083,874	3,433	1,087,307
Net income for the six months ended June 30, 2016	55,878	(195)	55,683
Net income attributable to the Company's stockholders for the six months ended June 30, 2016	53,620	(195)	53,425
	43	27	70

Loss in respect of derivative instruments designated for cash flow hedge for the six months ended June 30, 2016			
Balances as of June 30, 2016:			
Retained earnings	183,018	3,735	186,753
Accumulated other comprehensive loss	(12,838)	(470)	(13,308)
Total stockholders' equity attributable to the Company's stockholders	1,027,056	3,265	1,030,321
Total equity	1,117,435	3,265	1,120,700

	As originally reported	Adjustments	As Restated
Balances as of December 31, 2016:			
Retained earnings	$216,644	$ (1,292)	$215,352
Accumulated other comprehensive loss	(7,732)	(443)	(8,175)
Total stockholders' equity attributable to the Company stockholders	1,078,425	(1,735)	1,076,690
Total equity	1,170,007	(1,735)	1,168,272
Net income for the six months ended June 30, 2017	77,289	(26,514)	50,775
Net income attributable to the Company's stockholders for the six months ended June 30, 2017	70,348	(26,514)	43,834
Loss in respect of derivative instruments designated for cash flow hedge for the six months ended June 30, 2017	42	51	93
Balances as of June 30, 2017:			
Retained earnings	274,566	(27,806)	246,760
Accumulated other comprehensive loss	(6,933)	(392)	(7,325)
Total stockholders' equity attributable to the Company's stockholders	1,143,274	(28,198)	1,115,076
Total equity	1,227,599	(28,198)	1,199,401

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ORMAT TECHNOLOGIES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

(Unaudited)

Although there was no impact to net cash provided by operating activities, net cash used in investing activities or net cash used in financing activities, the effects of the 2017 restatement and the 2016 revision on the line items within the condensed consolidated statements of cash flows for the six months ended June 30, 2017 and 2016 are as follows (in thousands):

	Six months ended June 30, 2017			**Six months ended June 30, 2016**		
	As previously reported	**Adjustments**	**As Restated**	**As previously reported**	**Adjustments**	**As Revised**
Cash flows from operating activities:						
Net income	$77,977	$ (26,514)	$51,463	$55,878	$ (195)	$55,683
Deferred income tax provision	8,375	26,396	34,771	13,254	-	13,254
Liability for unrecognized tax benefits	277	118	395	(411)	195	(216)
Net cash provided by operating activities	114,158	-	114,158	119,573	-	119,573

The impacts of the restatement and revision have been reflected throughout the financial statements, including the applicable footnotes, as appropriate. This resulted in changes to the deferred tax balances, valuation allowance and effective tax rate, together with other disclosures in Note 11.

SCPPA power purchase agreement

During the second quarter of 2017, ONGP LLC (“ONGP”), one of the Company’s wholly-owned subsidiaries, entered into a Power Purchase Agreement (“PPA”) with Southern California Public Power Authority (“SCPPA”), pursuant to which ONGP will sell, and SCPPA will purchase, geothermal power generated by a portfolio of nine different geothermal power plants, owned by the Company and located in the US. The parties’ obligations under the PPA are based on a geothermal power generation capacity of 150 MW, and, pursuant to the PPA, ONGP is required to deliver a minimum of 135 MW and is entitled to deliver a maximum of 185 MW to SCPPA over the next five years. The portfolio PPA is for a term of approximately 26 years, expiring in December 31, 2043 and has a fixed price of $75.50 per MWh.

Assertion of permanent reinvestment of foreign unremitted earnings in a subsidiary

During the second quarter of 2017, in conjunction with the (i) final approval of the SCPPA PPA which will require the Company to make significant capital expenditures in the U.S., (ii) the fact that the Company is currently looking for acquisitions in the U.S., and (iii) the acquisition of Viridity for a price of $35.3 million with two additional earn-out payments expected to be made in 2018 and 2021, the Company has re-evaluated its position with respect to a portion of the unrepatriated earnings of Ormat Systems ("OSL"), its fully owned Subsidiary in Israel, and after consideration of the aforementioned change in facts, determined that it can no longer maintain the permanent reinvestment position with respect to a portion of OSL's unrepatriated earnings which will be repatriated to support the Company's capital expenditures in the U.S. Accordingly, and as further described in Note 11, the permanent reinvestment assertion of foreign unremitted earnings of OSL was reassessed and removed and the related deferred tax assets and liabilities as well as the estimated withholding taxes on expected remittance of OSL earnings to the U.S. were recorded by the Company in the second quarter of 2017 .

Viridity transaction

On March 15, 2017, the Company completed the acquisition of substantially all of the business and assets of Viridity Energy, Inc. ("VEI"), a privately held Philadelphia-based company engaged in the provision of demand response, energy management and energy storage services. At closing, Viridity Energy Solutions Inc. ("Viridity"), a wholly owned subsidiary of the Company, paid initial consideration of $35.3 million. Additional contingent consideration with an estimated fair value of $ 12.8 million will be payable in two installments upon the achievement of certain performance milestones measured at the end of fiscal years 2017 and 2020. The acquired business and assets are operated by Viridity.

Using proprietary software and solutions, Viridity serves primarily retail energy providers, utilities, and large commercial and industrial customers. Viridity's offerings enable its customers to optimize and monetize their energy management, demand response and storage facilities potential by interacting on their behalf with regional transmission organizations and independent system operators.

The Company accounted for the transaction in accordance with Accounting Standard Codification 805, Business Combinations, and consequently recorded intangible assets of $34.7 million primarily relating to Viridity's storage and non-storage activities with a weighted-average amortization period of 17 years, approximately $0.4 million of working capital and fixed assets, and $13.9 million of goodwill. Following the transaction, the Company consolidated Viridity, in accordance with Accounting Standard Codification 810, Consolidation. The acquisition will enable the Company to enter the growing energy storage and demand response markets and expand its market presence.

ORMAT TECHNOLOGIES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

(Unaudited)

The revenues of Viridity for the period from March 15, 2017 to June 30, 2017 were included in the Company's consolidated statements of operations and comprehensive income for the three and six months ended June 30, 2017.

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.

Other comprehensive income

For the six months ended June 30, 2017 and 2016, the Company classified $3,000 and $5,000, respectively, related to derivative instruments designated as cash flow hedges, from accumulated other comprehensive income, of which $5,000 and $10,000, respectively, were recorded to reduce interest expense and $2,000 and $5,000, respectively, were recorded against the income tax provision, in the condensed consolidated statements of operations and comprehensive income. For the three months ended June 30, 2017 and 2016, the Company classified $1,000 and $2,000, respectively, related to derivative instruments designated as cash flow hedges, from accumulated other comprehensive income, of which $3,000 and $6,000 respectively, was recorded to reduce interest expense and $1,000 and $4,000, 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 June 30, 2017, is $0.6 million

Write-offs of unsuccessful exploration activities

There were no write-offs of unsuccessful exploration activities for the three and six months ended June 30, 2017. Write-offs of unsuccessful exploration activities for the three and six months ended 2016 were $0.9 million and $1.4 million, respectively. The write-offs of exploration costs in 2016 were related to the Company's exploration activities in Nevada and Chile, which the Company determined would not support commercial operations.

Concentration of credit risk

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

The Company places its temporary cash investments with high credit quality financial institutions located in the United States ("U.S.") and in foreign countries. At June 30, 2017 and December 31, 2016, the Company had deposits totaling $31.3 million and $72.5 million, respectively, in seven U.S. financial institutions that were federally insured up to $250,000 per account. At June 30, 2017 and December 31, 2016, the Company's deposits in foreign countries amounted to approximately $99.9 million and $166.2 million, respectively.

At June 30, 2017 and December 31, 2016, accounts receivable related to operations in foreign countries amounted to approximately $53.5 million and $53.3 million, respectively. At June 30, 2017 and December 31, 2016, accounts receivable from the Company's primary customers amounted to approximately 55% and 60% of the Company's accounts receivable, respectively.

Sierra Pacific Power Company and Nevada Power Company (subsidiaries of NV Energy, Inc.) accounted for 16.7% and 19.1% of the Company's total revenues for the three months ended June 30, 2017 and 2016, respectively, and 17.8% and 21.1% for the six months ended June 30, 2017 and 2016, respectively.

Kenya Power and Lighting Co. Ltd. accounted for 15.4% and 17.1% of the Company's total revenues for the three months ended June 30, 2017 and 2016, respectively, and 14.8% and 17.2% of the Company's total revenues for the six months ended June 30, 2017 and 2016, respectively.

SCPPA accounted for 8.7% and 10.4% of the Company's total revenues for the three months ended June 30, 2017 and 2016, respectively, and 8.9% and 11.2% of the Company's total revenues for the six months ended June 30, 2017 and 2016, respectively.

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ORMAT TECHNOLOGIES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

(Unaudited)

Hyundai (Sarulla geothermal power project) accounted for 4.9% and 8.6% of the Company's total revenues for the three months ended June 30, 2017 and 2016, respectively, and 6.3% and 9.0% for the six months ended June 30, 2017 and 2016, respectively.

The Company has historically been able to collect on all of its receivable balances, and accordingly, no provision for doubtful accounts has been made.

NOTE 2 — NEW ACCOUNTING PRONOUNCEMENTS

New accounting pronouncements effective in the six months ended June 30, 2017

Improvement to Employee Share-Based Payment Accounting

In March 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standard Update ("ASU") 2016-09, Improvement to Employee Share-Based Payment Accounting, an update to the guidance on stock-based compensation. Under the new guidance, all excess tax benefits and tax deficiencies will be recognized in the income statement as they occur. This will replaced previous guidance, which required tax benefits that exceed compensation cost (windfalls) to be recognized in equity. It also eliminated the need to maintain a "windfall pool," and removed the requirement to delay recognizing a windfall until it reduces current taxes payable. The new guidance also changed the cash flow presentation of excess tax benefits, classifying them as operating inflows, consistent with other cash flows related to income taxes. Previously, windfalls were classified as financing activities. This guidance affects the dilutive effects in earnings per share, as there will no longer be excess tax benefits recognized in additional paid in capital. Previously those excess tax benefits were included in assumed proceeds from applying the treasury stock method when computing diluted EPS. Under the amended guidance, companies are able to make an accounting policy election to either (1) continue to estimate forfeitures or (2) account for forfeitures as they occur. This updated guidance is effective for annual and interim periods beginning after December 15, 2016. The adoption of this guidance did not have a material impact on the Company's consolidated financial statements.

Interests Held through Related Parties that are under Common Control

In October 2016, the FASB issued ASU 2016-17, Consolidation (Topic 810): Interests held through Related Parties that are under Common Control. The amendments in this update require that if a decision maker is required to evaluate whether it is the primary beneficiary of a VIE, it will need to consider only its proportionate indirect interest in the VIE held through a common control party. 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, 2016, and interim periods within those fiscal years. The adoption of this guidance did not have a material impact on the Company’s consolidated financial statements.

ORMAT TECHNOLOGIES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

(Unaudited)

Simplifying the Measurement of Inventory

In July 2015, the FASB issued ASU 2015-11, Simplifying the Measurement of Inventory, Topic 330. The update contains no amendments to disclosure requirements, but replaces the concept of ‘lower of cost or market’ with that of ‘lower of cost and net realizable value’. The amendments in this update are effective for annual reporting periods beginning after December 15, 2016, including interim periods within those reporting periods. The amendments should be applied prospectively with early adoption permitted. The adoption of this guidance did not have a material impact on the Company’s consolidated financial statements.

New accounting pronouncements effective in future periods

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 principal 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 of the adoption of these amendments on its consolidated financial statements.

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 in 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. Early adoption is permitted. The amendments in this Update should be applied prospectively to an award modified on or after the adoption date. The Company is currently evaluating the potential impact of the adoption of these amendments on its 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. Early adoption is permitted. The Company is currently evaluating the potential impact of the adoption of these amendments on its consolidated financial statements.

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(Unaudited)

Statement of Cash Flows

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. Early adoption is permitted. The Company is currently evaluating the potential impact of the adoption of these amendments on its consolidated financial statements.

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 will be required for transition to the new guidance, with cumulative-effect adjustment recorded in retained earnings as of the beginning of the period of adoption. Early adoption is permitted in the first quarter of 2017. The Company is currently evaluating the potential impact of the adoption of these amendments on its 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. The amendments in this update are effective for annual reporting periods beginning after December 15, 2017, including interim periods within those reporting periods. Early adoption is permitted no earlier than 2017 for calendar fiscal year entities. The Company expects the adoption of this standard to have an immaterial impact, if any, on its Electricity segment as it accounts for its PPA's under ASC 840, Leases. The Company is still evaluating the potential impact of the adoption of the standard on its Product segment, however, it believes that such impact, if any, will be immaterial.

In March 2016, the FASB issued ASU 2016-08, Principal versus Agent Considerations. This update does not change the core principles of the guidance and is 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 includes indicators to assist an entity in determining whether it acts as a principal or agent in a specified transaction. The amendments in this update are effective for annual reporting periods beginning after December 15, 2017, including interim periods within those reporting periods. Early adoption is permitted no earlier than 2017 for calendar fiscal year entities. The Company is currently evaluating the potential impact, if any, of the adoption of these amendments on its consolidated financial statements, however, it believes that any such impact, if any, will be immaterial.

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. 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 evaluating the potential impact, if any, of the adoption of these amendments on its consolidated financial statements.

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ORMAT TECHNOLOGIES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

(Unaudited)

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. Early adoption is permitted as of the beginning of the fiscal year of adoption. The Company is currently evaluating the potential impact, if any, of the adoption of this update on its consolidated financial statements.

NOTE 3 — INVENTORIES

Inventories consist of the following:

	June 30, 2017	**December 31, 2016**
	(Dollars in thousands)	
Raw materials and purchased parts for assembly	$11,486	$ 5,429
Self-manufactured assembly parts and finished products	7,083	6,571
Total	$18,569	$ 12,000

NOTE 4 — UNCONSOLIDATED INVESTMENTS

Unconsolidated investments consist of the following:

	June 30, 2017	December 31, 2016
	(Dollars in thousands)	
Sarulla	$13,957	$(11,081)

The Sarulla Project

The Company holds a 12.75% equity interest in a consortium which is in the process of developing the Sarulla geothermal power project in Indonesia with an expected generating capacity of approximately 330 MW. The Sarulla project is located in Tapanuli Utara, North Sumatra, Indonesia and is owned and operated by the consortium members under the framework of a Joint Operating Contract ("JOC") and Energy Sales Contract ("ESC") that were both signed on April 4, 2013. Under the JOC, PT Pertamina Geothermal Energy ("PGE"), the concession holder for the project, has provided the consortium with the right to use the geothermal field, and under the ESC, PT PLN, the state electric utility, is the off-taker at Sarulla for a period of 30 years. In addition to its equity interest in the consortium, the Company designed the Sarulla power plant and supplies its Ormat Energy Converters ("OECs") to the power plant pursuant to a supply agreement (the "Supply Agreement") that was signed in October 2013, as further described below.

The project is being constructed in three phases of approximately 110 MW each, utilizing both steam and brine extracted from the geothermal field to increase the power plant's efficiency. The first phase of the power plant commenced commercial operation on March 17, 2017 and is performing well, demonstrating its ability to produce geothermal power in excess of its design capacity. Construction of the second phase of the power plant is nearing completion and site pre-commissioning activities have commenced. The Company expects that the second phase of the power plant will commence geothermal power production within three months. Formal testing and commercial operation under the PPA is expected to occur in the fourth quarter of 2017. Engineering, procurement and construction work for the third phase of the power plant is in progress and most of the equipment manufactured by the Company for the third phase of the power plant has already been delivered. The Company has achieved all of its contractual milestones under the Supply Agreement. Drilling for the second and third phases of the power plant is ongoing and the project has achieved to date, based on preliminary estimates, 100% of the required injection capacity and approximately 90% of the required production capacity.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

(Unaudited)

On May 16, 2014, the consortium closed $1.17 billion in financing for the development of the Sarulla project with a consortium of lenders comprised of Japan Bank for International Cooperation (“JBIC”), the Asian Development Bank and six commercial banks and obtained construction and term loans on a limited recourse basis backed by a political risk guarantee from JBIC. Of the $1.17 billion, $0.1 billion (which was drawn down by the Sarulla project company on May 23, 2014) bears interest at a fixed rate and $1.07 billion bears interest at a rate linked to LIBOR. The project has missed several milestones under the financing documents, but, in each case, has either already received, or expects to receive in the near future, waivers from the lenders. The project experienced delays in field development and cost overruns resulting from delays and excess drilling costs. Due to the cost overruns in drilling, the lenders may request that the project sponsors contribute additional equity to the project.

The Sarulla consortium entered into interest rate swap agreements with various international banks, effective as of June 4, 2014, in order to fix the interest rate linked to LIBOR on up to $0.96 billion of the $1.07 billion portion of the financing arrangement subject to such interest rate at 3.4565%. The Sarulla project company accounted for the interest rate swap as a cash flow hedge upon which changes in the fair value of the hedging instrument, relative to the effective portion, are recorded in other comprehensive income. During the three and six months ended June 30, 2017, the Sarulla project company recorded losses of $7.2 million and $2.7 million, respectively, net of deferred tax, of which the Company’s share was $0.9 million and $0.3 million, respectively. The Company’s share of such losses were recorded in other comprehensive income. During the three and six months ended June 30, 2016, the Sarulla project company recorded losses of $15.6 million and $40.5 million, respectively, net of deferred tax, of which the Company’s share was $2.0 million and $5.2 million, respectively. The Company’s share of such losses were recorded in other comprehensive income. The related accumulated loss recorded by the Company in other comprehensive income (loss) as of June 30, 2017 is $6.3 million.

The Company had added the $255.6 million Supply Agreement to its Product segment backlog in 2014. The Company started to recognize revenue from the project during the third quarter of 2014 and will complete the recognition revenue over the course of the year. The Company has eliminated the related intercompany profit of $14.1 million against equity in loss of investees.

During the three and six months ended June 30, 2017, the Company made additional equity investments in the Sarulla project of approximately $12.5 million and $27.4 million, respectively, and $39.3 million since inception.

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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 June 30, 2017 and December 31, 2016 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.

	June 30, 2017 Fair Value

	Carrying Value at June 30, 2017	Total	Level 1	Level 2	Level 3
	(Dollars in thousands)				
Assets:					
Current assets:					
Cash equivalents (including restricted cash accounts)	$17,378	$17,378	$17,378	$—	$—
Derivatives:					
Put options on gas price [3]	251	251	—	251	—
Contingent receivable [1]	1,088	1,088	—	—	1,088
Currency forward contracts [2]	2,007	2,007	—	2,007	—
Liabilities:					
Current liabilities:					
Derivatives:					
Contingent payables [1]	(25,486)	(25,486)	—	—	(25,486)
Warrants [1]	(3,753)	(3,753)	—	—	(3,753)
Total, net	$(8,515)	$(8,515)	$17,378	$2,258	$(28,151)

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ORMAT TECHNOLOGIES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

(Unaudited)

	December 31, 2016			
	Fair Value			
Carrying Value at December 31, 2016	Total	Level 1	Level 2	Level 3
(Dollars in thousands)				