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AMPAL AMERICAN ISRAEL CORP /NY/

Form 10-Q

August 14, 2001

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SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

-----  
FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2001  
-----

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 0-538

AMPAL-AMERICAN ISRAEL CORPORATION

-----  
(Exact Name of Registrant as Specified in Its Charter)

New York

13-0435685

-----  
(State or Other Jurisdiction of  
Incorporation or Organization)

(I.R.S. Employer  
Identification No.)

1177 Avenue of the Americas, New York, New York

10036

-----  
(Address of Principal Executive Offices)

(Zip Code)

Registrant's Telephone Number, Including Area Code

(212) 782-2100  
-----

-----  
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   
-----

The number of shares outstanding of the issuer's Class A Stock, its  
only authorized common stock, is 19,191,025 as of July 31, 2001.

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AMPAL-AMERICAN ISRAEL CORPORATION AND SUBSIDIARIES

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ITEM 1. FINANCIAL STATEMENTS

AMPAL-AMERICAN ISRAEL CORPORATION AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF INCOME

SIX MONTHS ENDED JUNE 30, -----	2001 ----	2000 ----
(Dollars in thousands, except per share amounts)	(Unaudited)	(Unaudited)
REVENUES		
Equity in earnings of affiliates .....	\$ 2,298	\$ 16,056
Interest .....	578	728
Real estate income .....	4,954	4,421
Realized and unrealized (losses) gains on investments .....	(2,051)	6,609
Gain on sale of real estate rental property	10,091	--

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Other .....	2,216	3,506
	-----	-----
Total revenues .....	18,086	31,320
	-----	-----
EXPENSES		
Interest .....	7,324	6,025
Real estate expenses .....	5,035	3,768
Loss from impairment of investments .....	3,153	3,500
Minority interests .....	(1,233)	(518)
Translation (gain) loss .....	(553)	737
Other .....	4,227	3,950
	-----	-----
Total expenses .....	17,953	17,462
	-----	-----
Income before income taxes .....	133	13,858
Provision for income taxes .....	3,584	5,461
	-----	-----
NET (LOSS) INCOME .....	\$ (3,451)	\$ 8,397
	=====	=====
Basic EPS		
(Loss) earnings per Class A share .....	\$ (.19)	\$ .44
Shares used in calculation (in thousands)	19,157	18,747
Diluted EPS		
(Loss) earnings per Class A share .....	\$ (.19)	\$ .38
Shares used in calculation (in thousands)	19,157	21,785

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

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AMPAL-AMERICAN ISRAEL CORPORATION AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF INCOME

THREE MONTHS ENDED JUNE 30, -----	2001 ----	2000 ----
(Dollars in thousands, except per share amounts)	(Unaudited)	(Unaudited)
REVENUES		
Equity in earnings of affiliates .....	\$ 1,455	\$ 13,190
Interest .....	363	354
Real estate income .....	1,831	2,248
Realized and unrealized (losses) gains on investments .....	(1,185)	3,366
Gain on sale of real estate rental property	2,120	--
Other .....	1,657	1,407
	-----	-----
Total revenues .....	6,241	20,565
	-----	-----
EXPENSES		
Interest .....	3,126	3,488

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Real estate expenses .....	2,026	2,038
Loss from impairment of investments .....	1,903	2,000
Minority interests .....	(498)	(590)
Translation loss (gain) .....	289	(316)
Other .....	2,076	1,928
	-----	-----
Total expenses .....	8,922	8,548
	-----	-----
(Loss) income before income taxes .....	(2,681)	12,017
Provision for income taxes .....	1,130	4,782
	-----	-----
NET (LOSS) INCOME .....	\$ (3,811)	\$ 7,235
	=====	=====
Basic EPS		
(Loss) earnings per Class A share .....	\$ (.20)	\$ .38
Shares used in calculation (in thousands)	19,170	18,981
Diluted EPS		
(Loss) earnings per Class A share .....	\$ (.20)	\$ .33
Shares used in calculation (in thousands)	19,170	21,916

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

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AMPAL-AMERICAN ISRAEL CORPORATION AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS

ASSETS AS AT	June 30, 2001	December 31, 2000
-----	----	----
(Dollars in thousands)	(Unaudited)	
Cash and cash equivalents .....	\$ 2,899	\$ 5,842
Deposits, notes and loans receivable .	18,669	14,804
Investments .....	295,387	307,600
Real estate property, less accumulated depreciation of \$6,655 and \$9,310 .	67,340	87,480
Other assets .....	21,540	30,902
	-----	-----
TOTAL ASSETS .....	\$405,835	\$446,628
	=====	=====

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

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AMPAL-AMERICAN ISRAEL CORPORATION AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS

LIABILITIES AND SHAREHOLDERS' EQUITY AS AT ----- (Dollars in thousands)	June 30, 2001 ---- (Unaudited)	December 31, 2000 ----
LIABILITIES		
Notes and loans payable:		
Related parties .....	\$ 7,114	\$ 11,605
Others .....	141,563	165,938
Debentures .....	22,676	24,033
Accounts and income taxes payable, accrued expenses and minority interests .....	80,126	80,650
	-----	-----
Total liabilities .....	251,479	282,226
	-----	-----
SHAREHOLDERS' EQUITY		
4% Cumulative Convertible Preferred Stock, \$5 par value; authorized 189,287 shares; issued 152,127 and 156,401 shares; outstanding 148,777 and 153,051 shares .....	761	782
6-1/2% Cumulative Convertible Preferred Stock, \$5 par value; authorized 988,055 shares; issued 738,410 and 745,814 shares; outstanding 615,874 and 623,278 shares .....	3,692	3,729
Class A Stock, \$1 par value; authorized 60,000,000 shares; issued 25,346,584 and 25,303,002 shares; outstanding 19,185,920 and 19,134,838 shares .....	25,346	25,303
Additional paid-in capital .....	58,227	58,194
Retained earnings .....	115,490	118,941
Treasury stock, at cost .....	(33,238)	(33,275)
Accumulated other comprehensive loss .....	(15,922)	(9,272)
	-----	-----
Total shareholders' equity .....	154,356	164,402
	-----	-----
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY .....	\$ 405,835	\$ 446,628
	=====	=====

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

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AMPAL-AMERICAN ISRAEL CORPORATION AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS

SIX MONTHS ENDED JUNE 30, ----- (Dollars in thousands)	2001 ---- (Unaudited)	2000 ---- (Unaudited)
Cash flows from operating activities:		
Net (loss) income .....	\$ (3,451)	\$ 8,397
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Equity in earnings of affiliates .....	(2,298)	(16,056)
Realized and unrealized losses (gains) on investments .....	2,051	(6,609)
Gain on sale of real estate rental property .	(10,091)	--
Depreciation expense .....	1,151	859
Amortization expense .....	136	489
Loss from impairment of investments .....	3,153	3,500
Translation (gain) loss .....	(553)	737
Minority interests .....	(1,233)	(518)
Decrease in other assets .....	5,093	3,312
Increase in accounts and income taxes payable, accrued expenses and minority interests .....	3,995	6,973
Investments made in trading securities .....	--	(15,965)
Proceeds from sale of trading securities .....	4,486	14,763
Dividends received from affiliates .....	2,032	3,507
	-----	-----
Net cash provided by operating activities ...	4,471	3,389
	-----	-----
Cash flows from investing activities:		
Deposits, notes and loans receivable collected	3,083	7,810
Deposits, notes and loans receivable granted .	(7,277)	(1,212)
Investments made in:		
Available-for-sale securities .....	(1,256)	(2,127)
Others .....	(9,316)	(12,857)
Proceeds from sale of investments:		
Available-for-sale securities .....	2,800	--
Others .....	137	1,134
Proceeds from sale of real estate property, net of commissions and transfer taxes .....	34,848	--
Return of capital by partnership .....	120	722
Capital improvements .....	(1,872)	(10,497)
	-----	-----
Net cash provided by (used in) investing activities .....	21,267	(17,027)
	-----	-----

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

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AMPAL-AMERICAN ISRAEL CORPORATION AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS

SIX MONTHS ENDED JUNE 30, ----- (Dollars in thousands)	2001 ---- (Unaudited)	2000 ---- (Unaudited)
Cash flows from financing activities:		
Notes and loans payable received:		
Others .....	\$ 7,309	\$ 28,470
Notes and loans payable repaid:		
Related parties .....	(641)	--
Others .....	(33,932)	(10,363)
Proceeds from exercise of stock options .....	--	759
Contribution to partnership by minority interests .....	1,295	--
Debentures repaid .....	(1,894)	(6,402)
	-----	-----
Net cash (used in) provided by financing activities .....	(27,863)	12,464
	-----	-----
Effect of exchange rate changes on cash and cash equivalents .....	(818)	406
	-----	-----
Net decrease in cash and cash equivalents .....	(2,943)	(768)
Cash and cash equivalents at beginning of period .....	5,842	7,409
	-----	-----
Cash and cash equivalents at end of period .....	\$ 2,899	\$ 6,641
	=====	=====
Supplemental Disclosure of Cash Flow Information		
Cash paid during the period:		
Interest paid to others .....	\$ 9,130	\$ 2,202
	=====	=====
Income taxes paid .....	\$ 2,213	\$ 264
	=====	=====
Supplemental Disclosure of Noncash Investing and Financing Activities:		
Issuance of stock for charitable contribution and services .....	\$ 55	\$ --
	=====	=====

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

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AMPAL-AMERICAN ISRAEL CORPORATION AND SUBSIDIARIES

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### CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

SIX MONTHS ENDED JUNE 30, ----- (Dollars in thousands, except share amounts)	2001 ---- (Unaudited)	2000 ---- (Unaudited)
<b>4% PREFERRED STOCK</b>		
Balance, beginning of year .....	\$ 782	\$ 829
Conversion of 4,274 and 4,263 shares into Class A Stock .....	(21)	(21)
	-----	-----
Balance, end of period .....	\$ 761	\$ 808
	=====	=====
<b>6-1/2% PREFERRED STOCK</b>		
Balance, beginning of year .....	\$ 3,729	\$ 4,459
Conversion of 7,404 and 131,821 shares into Class A Stock .....	(37)	(659)
	-----	-----
Balance, end of period .....	\$ 3,692	\$ 3,800
	=====	=====
<b>CLASS A STOCK</b>		
Balance, beginning of year .....	\$ 25,303	\$ 24,817
Issuance of shares upon conversion of Preferred Stock .....	43	417
	-----	-----
Balance, end of period .....	\$ 25,346	\$ 25,234
	=====	=====
<b>ADDITIONAL PAID-IN CAPITAL</b>		
Balance, beginning of year .....	\$ 58,194	\$ 57,896
Conversion of Preferred Stock .....	15	263
Issuance of additional shares .....	18	--
Issuance of shares upon exercise of stock options .....	--	(1,518)
	-----	-----
Balance, end of period .....	\$ 58,227	\$ 56,641
	=====	=====
<b>RETAINED EARNINGS</b>		
Balance, beginning of year .....	\$ 118,941	\$ 118,362
Net (loss) income .....	(3,451)	8,397
	-----	-----
Balance, end of period .....	\$ 115,490	\$ 126,759
	=====	=====

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

### AMPAL-AMERICAN ISRAEL CORPORATION AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

SIX MONTHS ENDED JUNE 30, ----- (Dollars in thousands, except share amounts)	2001 ---- (Unaudited)	2000 ---- (Unaudited)
--	-----------------------------	-----------------------------



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TREASURY STOCK

4% PREFERRED STOCK		
Balance, end of period .....	\$ (84)	\$ (84)
-----		
6-1/2% PREFERRED STOCK		
Balance, end of period .....	(1,853)	(1,853)
-----		
CLASS A STOCK		
Balance, beginning of year - 6,168,164		
and 6,528,181 shares, at cost .....	(31,338)	(33,615)
Issuance of additional shares .....	37	--
Issuance of shares upon exercise of 360,017		
stock options .....	--	2,277
-----		
Balance, end of period - 6,160,664 and 6,168,164		
shares, at cost .....	(31,301)	(31,338)
-----		
Balance, end of period .....	\$ (33,238)	\$ (33,275)
-----		
ACCUMULATED OTHER COMPREHENSIVE LOSS		
Cumulative translation adjustments:		
Balance, beginning of year .....	\$ (17,217)	\$ (17,676)
Foreign currency translation adjustment .....	(1,112)	263
-----		
Balance, end of period .....	(18,329)	(17,413)
-----		
Unrealized gain on marketable securities:		
Balance, beginning of year .....	7,945	3,699
Unrealized (loss) gain, net .....	(4,053)	13,639
Sale of available-for-sale securities .....	(1,485)	--
-----		
Balance, end of period .....	2,407	17,338
-----		
Balance, end of period .....	\$ (15,922)	\$ (75)
=====		

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

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AMPAL-AMERICAN ISRAEL CORPORATION AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

SIX MONTHS ENDED JUNE 30,	2001	2000
-----	----	----
(Dollars in thousands)	(Unaudited)	(Unaudited)
Net (loss) income .....	\$ (3,451)	\$ 8,397
-----		
Other comprehensive (loss) income, net of tax:		
Foreign currency translation adjustments ..	(1,112)	263
Unrealized (loss) gain on securities .....	(4,053)	13,639
-----		
Other comprehensive (loss) income .....	(5,165)	13,902

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Comprehensive (loss) income .....	----- \$ (8,616) =====	----- \$ 22,299 =====
Related tax benefit (expense) of other comprehensive (loss) income:		
Foreign currency translation adjustments ..	\$ 452	\$ (4)
Unrealized (loss) gain on securities .....	\$ 3,093	\$ (7,670)

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

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AMPAL-AMERICAN ISRAEL CORPORATION AND SUBSIDIARIES  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

- As used in these financial statements, the term the "Company" refers to Ampal-American Israel Corporation ("Ampal") and its consolidated subsidiaries.
- The December 31, 2000 consolidated balance sheet presented herein was derived from the audited December 31, 2000 consolidated financial statements of the Company.

Reference should be made to the Company's consolidated financial statements for the year ended December 31, 2000 for a description of the accounting policies, which have been continued without change. Also, reference should be made to the notes to the Company's December 31, 2000 consolidated financial statements for additional details of the Company's consolidated financial condition, results of operations and cash flows. The details in those notes have not changed except as a result of normal transactions in the interim. All adjustments (of a normal recurring nature) which are, in the opinion of management, necessary to a fair presentation of the results of the interim period have been included.

- Segment information presented below results primarily from operations in Israel.

SIX MONTHS ENDED JUNE 30, -----	2001 ----	2000 ----
(Dollars in thousands)		
Revenues:		
Finance .....	\$ 654	\$ 10,273
Real estate .....	15,045	4,421
Leisure-time .....	850	795
Intercompany adjustments .....	(761)	(225)
	-----	-----
Total .....	\$ 15,788	\$ 15,264
	=====	=====
Pretax Operating (Loss) Income:		
Finance .....	\$ (11,861)	\$ (2,620)
Real estate .....	8,410	(129)

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Leisure-time .....	53	33
	-----	-----
Total .....	\$ (3,398)	\$ (2,716)
	=====	=====
Total Assets:		
Finance .....	\$ 327,084*	\$ 361,145*
Real estate .....	70,529	88,933
Leisure-time .....	14,146	13,766
Intercompany adjustments .....	(5,924)	(10,775)
	-----	-----
Total .....	\$ 405,835	\$ 453,069
	=====	=====

Corporate office expense is principally applicable to the financing operation and has been charged to that segment above. Revenues exclude equity in earnings of affiliates and pretax operating income excludes equity in earnings of affiliates and minority interests.

The real estate segment consists of rental property owned in Israel and the United States (see Note 5) and the operations of Am-Hal Ltd., the Company's

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wholly-owned subsidiary which owns and operates a chain of senior citizens facilities located in Israel. The leisure-time segment consists primarily of Coral World International Limited (marine parks located around the world) and Country Club Kfar Saba (the company's 51%-owned subsidiary located in Israel).

\*Includes an investment in MIRS Communications Ltd. of \$111 million.

4. The following table summarizes securities that were outstanding during the six months ended June 30, 2001 and 2000, but not included in the calculations of diluted earnings per Class A share because such shares are antidilutive.

(Shares in thousands)	June 30,	
	2001	2000
	----	----
Options .....	3,106	2,375
4% Preferred Stock ...	151	--
6-1/2% Preferred Stock	620	--

5. On March 28, 2001, the Company concluded the sale of its interest in a building located at 800 Second Avenue in New York City for \$33 million and recorded a pre-tax gain of approximately \$8 million (\$4.3 million net of taxes). On May 2, 2001, the Company sold its real estate rental property located in Bnei Brak, Israel and recorded a pre-tax gain of approximately \$2.1 million (\$1.6 million net of taxes).
6. On July 27, 1998 a Tel Aviv District Court judge ruled in favor of Yakhin Hakal Ltd., the manager and co-owner of Ampal's 50%-owned affiliates, Etz Vanir Ltd. ("Etz Vanir") and Yakhin Mataim Ltd.

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("Yakhin Mataim"). The judge's decision allowed Etz Vanir and Yakhin Mataim to redeem debentures owned by Ampal for approximately \$.8 million and to require Ampal to surrender all of its shares of Etz Vanir and Yakhin Mataim for their par value, which is nominal. After the redemption and surrender, Ampal will no longer have any interest in Etz Vanir or Yakhin Mataim.

On October 15, 1998, Ampal filed an appeal with the High Court of Appeals in Jerusalem. At the request of Ampal's attorneys, the Tel Aviv District Court issued a stay of performance of the judgment until the High Court of Appeals issues a final judgment.

On July 31, 2001, the registrar for the High Court of Appeals issued a decision dismissing on technical grounds, Ampal's appeal in its dispute with Yakhin Hakal. The registrar determined that Ampal had failed to produce a guarantee for Yakhin Hakal's expenses in the appeal within the required time. On August 7, 2001, Ampal appealed the dismissal. The High Court of Appeals stayed the proceedings pending a final decision in this new appeal and also decided to set a date for this appeal as soon as possible. Ampal has been advised by the Israeli counsel representing it in this case that Ampal has a very good chance of winning this new appeal and having its original appeal reinstated and decided on the merits.

7. In 2001, a claim was filed in the Jerusalem District Court against Sonol, a wholly-owned subsidiary of Granite Hacarmel Investments Ltd. ("Granite"), its subsidiary company, Sprint Motors Ltd., and four unrelated companies by customers who purchased fuel products in filling stations, contending that the defendants charged an illegal "service charge" over a period of many years. The plaintiffs have requested the court to recognize their claim as a class action. The amount of the claim is NIS. 5.30 and, should the court allow a class action, it will total approximately NIS. 372 million (approximately \$93 million). From the claim, it is not clear as to what is Sonol's and its subsidiary's share of this amount. The company's management denies the plaintiff's request and the claim which, in its opinion, have no real basis.

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In June 2001, a claim was filed by customers against Supergas (Granite's wholly-owned consolidated subsidiary), alleging that the defendant made illegal periodic charges to its customers. The plaintiff applied to the Tel Aviv District Court to have the claim recognized as a class action in a total amount of NIS. 125 million (approximately \$31 million). The company's management, based on legal advice, is of the opinion that the ultimate outcome of this case can not be evaluated at this stage.

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

AMPAL-AMERICAN ISRAEL CORPORATION AND SUBSIDIARIES

Results of Operations

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Six months ended June 30, 2001 compared to six months ended June 30, 2000:

Ampal-American Israel Corporation ("Ampal") and its subsidiaries (the "Company") recorded a consolidated net loss of \$3.5 million for the six months ended June 30, 2001, as compared to a net income of \$8.4 million for the same period in 2000. The decrease in income is primarily attributable to the decrease in equity in earnings of affiliates, unrealized losses on investments in 2001, as compared to unrealized gains in 2000, lower other income, higher interest expense and a higher effective income tax rate. These decreases in net income were partially offset by the gain on sale of real estate rental property in 2001 and a translation gain in 2001, as compared to a translation loss in 2000.

Equity in earnings of affiliates decreased to \$2.3 million for the six months ended June 30, 2001, from \$16.1 million for the same period in 2000. The decrease is primarily attributable to the decreased earnings of the Company's 50%-owned affiliate, Trinet Venture Capital Ltd. ("Trinet"), which recorded unrealized gains on its investments in Smart Link Ltd., Netformx Ltd. and Sim-Player.com Ltd. in 2000, and Ophir Holdings Ltd. ("Ophir Holdings"), the Company's 42.5%-owned affiliate, which recorded an unrealized gain on a trading security in 2000. There were no similar gains in 2001.

The Company recorded \$3.6 million of unrealized losses on investments which are classified as trading securities in the six-month period ended June 30, 2001, as compared to \$4.3 million of unrealized gains in the same period in 2000. The unrealized losses recorded in 2001 are primarily attributable to the Company's investment in shares of Zeevi Computers and Technology Ltd. ("Zeevi") and Bank Leumi Le'Israel B.M., while the unrealized gains in 2000 are primarily attributable to the Company's investment in shares of BreezeCOM Ltd. ("BreezeCOM"). At June 30, 2001 and December 31, 2000, the aggregate fair value of trading securities amounted to approximately \$15 million and \$23.8 million, respectively.

In the six months ended June 30, 2001, the Company recorded \$1.5 million of gains on the sale of investments, which were primarily attributable to its investment in Floware Wireless Systems Ltd. In the six months ended June 30, 2000, the Company recorded \$2.3 million of gains on the sale of various marketable securities.

On March 28, 2001, the Company concluded the sale of its interest in a building located at 800 Second Avenue ("800 Second Avenue") in New York City for \$33 million and recorded a pre-tax gain of approximately \$8 million (\$4.3 million net of taxes). On May 2, 2001, the Company sold its real estate rental property located in Bnei Brak, ("Bnei Brak") Israel and recorded a pre-tax gain of approximately \$2.1 million (\$1.6 million net of taxes).

The increase in real estate income and expenses in the first half of 2001 as compared to the same period in 2000 is attributable to the operations of Am-Hal Ltd. ("Am-Hal"), the Company's wholly-owned subsidiary, which owns and operates a chain of senior citizens facilities in Israel. In June 2000, Am-Hal opened its second senior citizen facility which is located in Hod Hasharon, Israel.

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The decrease in other income in the six months ended June 30, 2001, as compared to the same period in 2000, is attributable to a dividend received from MIRS Communications Ltd. ("Mirs") in 2000, which was not distributed by MIRS in 2001.

The Company recorded higher interest expense in the six months ended June 30, 2001, as compared to the same period in 2000, primarily as a result of interest expense attributable to Am-Hal's operations.

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In the six-month period ended June 30, 2001, the Company recorded a \$3.2 million loss from impairment of its investments in Realm Technologies Ltd. (\$1.25 million), Shiron Satellite Communications (1996) Ltd. ("Shiron") (\$.9 million), mPrest Technologies Ltd. ("mPrest") (\$.75 million) and Babylon Ltd. ("Babylon") (\$.25 million), while in the same period in 2000, the Company recorded a \$3.5 million loss from impairment of its investment in M.D.F. Industries Ltd.

The Company recorded a translation gain of \$.6 million in the six months ended June 30, 2001, as compared to a translation loss of \$.7 million in the same period in 2000. The translation gain in 2001 is attributable to the devaluation of the new Israeli shekel against the U.S. dollar in the six months ended June 30, 2001, while the translation loss in 2000 was primarily attributable to foreign exchange forward contracts executed by the Company, which were outstanding during the first half of 2000.

The increase in the effective income tax rate in 2001, as compared to 2000, is attributable to state and local income taxes with respect to the gain on sale of 800 Second Avenue, losses of certain Israeli subsidiaries for which no tax benefits are currently available and certain expenses which are not deductible for income tax purposes.

Three months ended June 30, 2001 compared to three months ended June 30, 2000:

The consolidated net loss was \$3.8 million for the three months ended June 30, 2001, as compared to net income of \$7.2 million for the same period in 2000. The decrease in income is primarily attributable to the decrease in equity in earnings of affiliates, unrealized losses on investments in the second quarter of 2001, as compared to unrealized gains on investments in 2000 and a higher effective income tax rate. These decreases in net income were partially offset by the gain on sale of real estate rental property in the second quarter of 2001.

Equity in earnings of affiliates decreased to \$1.5 million for the three months ended June 30, 2001, from \$13.2 million for the same period in 2000. The decrease is primarily attributable to the unrealized gains recorded by Trinet and Ophir Holdings in 2000, and there were no similar gains in 2001.

The Company recorded \$1.3 million of unrealized losses on investments which were classified as trading securities in the three-month period ended June 30, 2001, as compared to \$3.1 million of unrealized gains in the same period in 2000. The unrealized losses recorded in 2001 are primarily attributable to the Company's investment in shares of Zeevi, while the unrealized gains in 2000 were primarily attributable to the Company's investment in shares of BreezeCOM.

On May 2, 2001, the Company sold its real estate rental property located in Bnei Brak and recorded a pre-tax gain of approximately \$2.1 million (\$1.6 million net of taxes).

The decrease in real estate income in the second quarter of 2001, as compared to the same period in 2000, is attributable to the sale of 800 Second Avenue and Bnei Brak.

In the three-month period ended June 30, 2001, the Company recorded a \$1.9 million loss from impairment of its investments in Shiron (\$.9 million), mPrest (\$.75 million) and Babylon (\$.25 million), while in the same period in 2000, the Company recorded a \$2 million loss from impairment of its investment in M.D.F. Industries Ltd.

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The Company recorded a translation loss of \$.3 million in the quarter ended June 30, 2001, as compared to a translation gain of \$.3 million in the same period in 2000. The translation loss in 2001 is attributable to the revaluation of the new Israeli shekel against the U.S. dollar in the three months ended June 30, 2001, while the translation gain in the second quarter of 2000 was attributable to the shekel's devaluation against the dollar during that period.

The increase in the effective income tax rate in 2001 as compared to 2000 is attributable to losses of certain Israeli subsidiaries for which no tax benefits are currently available.

### Liquidity and Capital Resources

At June 30, 2001, cash and cash equivalents were \$2.9 million, as compared with \$5.8 million at December 31, 2000. The decrease in cash and cash equivalents is primarily attributable to the income tax payments in connection with the sale of 800 Second Avenue and to the repayment of short-term borrowings. The decrease in notes and loans payable and real estate property are primarily attributable to the sale of 800 Second Avenue. The increase in accumulated other comprehensive loss is primarily attributable to the unrealized losses on the available-for-sale securities.

On January 22, 2001, the Company made an additional investment of \$1.5 million in Enbaya Ltd., a developer of a 3D browser that enables fast viewing, compression and streaming of 3D models, and increased its equity interest in the company from 12.9% to 20.5%.

On February 23, 2001, the Company made an additional investment of \$5 million in XACCT, a leading provider of business infrastructure software for the next-generation public network. The Company holds an approximate 16% equity interest in XACCT.

On April 16, 2001, the Company made an additional investment of \$1.7 million (includes the conversion of a \$.5 million loan) in ShellCase Ltd. ("ShellCase"), a developer of chip-size packaging technology for semiconductors using a wafer-level process. The Company holds an approximate 13.3% equity interest in ShellCase.

### Recently Issued Accounting Pronouncements

In June 2001, the Financial Accounting Standards Board ("FASB") issued SFAS Nos. 141 and 142 titled "Business Combinations" and "Goodwill and Other Intangible Assets", respectively. SFAS No 141, among other things, eliminates the pooling of interests method of accounting for business acquisitions entered into after June 30, 2001. SFAS No. 142 requires companies to use a fair-value approach to determine whether there is an impairment of existing and future goodwill. These statements are effective beginning January 1, 2002. The Company is in the process of evaluating the SFAS Nos. 141 and 142 and the effect that they will have on the Company's financial position, results of operations and cash flows.

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

#### MARKET RISKS AND SENSITIVITY ANALYSIS

The Company is exposed to various market risks, including changes in interest rates, foreign currency rates and equity price changes. The following analysis presents the hypothetical loss in earnings, cash flows and fair values of the financial instruments which were held by the Company at June 30, 2001, and are

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sensitive to the above market risks.

### Interest Rate Risks

At June 30, 2001, the Company had financial assets totalling \$20.6 million and financial liabilities totalling \$171.4 million. For fixed rate financial instruments, interest rate changes affect the fair market value but do not impact earnings or cash flows. Conversely, for variable rate financial instruments, interest rate changes generally do not affect the fair market value but do impact future earnings and cash flows, assuming other factors held constant.

At June 30, 2001, the Company had fixed rate financial assets of \$13.8 million and variable rate financial assets of \$6.8 million. Holding other variables constant, a ten percent increase in interest rates would decrease the unrealized fair value of the fixed financial assets by approximately \$.1 million.

At June 30, 2001, the Company had fixed rate debt of \$48.9 million and variable rate debt of \$122.5 million. A ten percent decrease in interest rates would increase the unrealized fair value of the fixed rate debt by approximately \$.3 million.

The net decrease in earnings for the next year resulting from a ten percent interest rate increase would be approximately \$.7 million, holding other variables constant.

### Exchange Rate Sensitivity Analysis

The Company's exchange rate exposure on its financial instruments results from its investments and ongoing operations in Israel. To partially hedge this exposure, the Company sometimes enters into various foreign exchange forward purchase contracts. At June 30, 2001, the Company did not have any open foreign exchange forward purchase contracts. Holding other variables constant, if there were a ten percent devaluation of the foreign currency, the Company's cumulative translation loss (reflected in the Company's accumulated other comprehensive loss) would increase by \$1.9 million. Conversely, if there were a 10% revaluation of the foreign currency, the net decrease in earnings would be \$2.7 million.

### Equity Price Risk

The Company's investments at June 30, 2001 included marketable securities (trading and available-for-sale) which are recorded at fair value of \$42.5 million, including a net unrealized loss of \$13.6 million. Those securities have exposure to price risk. The estimated potential loss in fair value resulting from a hypothetical 10% decrease in prices quoted by stock exchanges is approximately \$4.3 million.

### PART II - OTHER INFORMATION

- Item 1. Legal Proceedings - On July 27, 1998 a Tel Aviv District Court judge ruled in favor of Yakhin Hakal Ltd., the manager and co-owner of Ampal's 50%-owned affiliates, Etz Vanir Ltd. ("Etz Vanir") and Yakhin Mataim Ltd. ("Yakhin Mataim"). The judge's decision allowed Etz Vanir and Yakhin Mataim to redeem debentures owned by Ampal for approximately \$.8 million and to require Ampal to surrender all of its shares of Etz



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Vanir and Yakhin Mataim for their par value, which is nominal. After the redemption and surrender, Ampal will no longer have any interest in Etz Vanir or Yakhin Mataim.

On October 15, 1998, Ampal filed an appeal with the High Court of Appeals in Jerusalem. At the request of Ampal's attorneys, the Tel Aviv District Court issued a stay of performance of the judgment until the High Court of Appeals issues a final judgment.

On July 31, 2001, the registrar for the High Court of Appeals issued a decision dismissing on technical grounds, Ampal's appeal in its dispute with Yakhin Hakal. The registrar determined that Ampal had failed to produce a guarantee for Yakhin Hakal's expenses in the appeal within the required time. On August 7, 2001, Ampal appealed the dismissal. The High Court of Appeals stayed the proceedings pending a final decision in this new appeal and also decided to set a date for this appeal as soon as possible. Ampal has been advised by the Israeli counsel representing it in this case that Ampal has a very good chance of winning this new appeal and having its original appeal reinstated and decided on the merits.

In 2001, a claim was filed in the Jerusalem District Court against Sonol, a wholly-owned subsidiary of Granite Hacarmel Investments Ltd. ("Granite"), its subsidiary company, Sprint Motors Ltd., and four unrelated companies by customers who purchased fuel products in filling stations, contending that the defendants charged an illegal "service charge" over a period of many years. The plaintiffs have requested the court to recognize their claim as a class action. The amount of the claim is NIS. 5.30 and, should the court allow a class action, it will total approximately NIS. 372 million (approximately \$93 million). From the claim, it is not clear as to what is Sonol's and its subsidiary's share of this amount. The company's management denies the plaintiff's request and the claim which, in its opinion, have no real basis.

In June 2001, a claim was filed by customers against Supergas (Granite's wholly-owned consolidated subsidiary), alleging that the defendant made illegal periodic charges to its customers. The plaintiff applied to the Tel Aviv District Court to have the claim recognized as a class action in a total amount of NIS. 125 million (approximately \$31 million). The company's management, based on legal advice, is of the opinion that the ultimate outcome of this case can not be evaluated at this stage.

Item 2. Changes in Securities and Use of Proceeds -- On March 1, 2001 Ampal (Israel) Ltd., a wholly-owned subsidiary of Ampal in Israel, transferred 1,500 shares of Ampal's Class A Stock (which had a market value at that time of approximately \$9,000) to Coaching Ltd., an Israeli company, as partial consideration for strategic consulting services provided to Ampal (Israel) Ltd. in Israel. The issuance of such shares to Coaching Ltd. was exempt from registration under the Securities Act of 1933, as amended, pursuant to Section 4(2) of such Act and Regulation S promulgated pursuant to such Act.

Item 3. Defaults upon Senior Securities -- None.

Item 4. Submission of Matters to a Vote of Security Holders - On June 28, 2001, Ampal's shareholders held their annual meeting (the "Annual Meeting"). At such meeting, the shareholders elected the following

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individuals as directors by the following vote:

	FOR	AUTHORITY WITHHELD
Michael Arnon	18,164,619	20,596
Benzion Benbassat	18,165,225	19,990
Yaacov Elinav	18,165,197	20,018
Kenneth L. Henderson	18,164,397	20,818
Hillel Peled	18,166,297	18,918
Daniel Steinmetz	17,763,642	421,573
Raz Steinmetz	17,765,332	419,883
Avi A. Vigder	18,165,025	20,190
Eliyahu Wagner	18,166,297	18,918

Item 5. Other Information - After the conclusion of the Annual Meeting, Ampal's Board of Directors elected the following individuals to serve as officers for the upcoming year:

Chairman of the Board:	Daniel Steinmetz
President and Chief Executive Officer:	Raz Steinmetz
Vice President - Finance and Treasurer:	Shlomo Meichor
Vice President - Accounting and Controller:	Alla Kanter
Vice President - Legal and Secretary:	Niv Galanti
Assistant Controller:	Harold Aronowitz

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits:

Exhibit 11 -- Schedule Setting Forth Computation of Earnings per Share of Class A Stock.

(b) Reports on Form 8-K. None.

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AMPAL-AMERICAN ISRAEL CORPORATION AND SUBSIDIARIES

SIGNATURES

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

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AMPAL-AMERICAN ISRAEL CORPORATION

By:/s/ Raz Steinmetz

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Raz Steinmetz  
President and  
Chief Executive Officer  
(Principal Executive Officer)

By:/s/ Shlomo Meichor

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Shlomo Meichor  
Vice President - Finance  
and Treasurer  
(Principal Financial Officer)

By:/s/ Alla Kanter

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Alla Kanter  
Vice President - Accounting  
and Controller  
(Principal Accounting Officer)

Dated: August 14, 2001

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AMPAL-AMERICAN ISRAEL CORPORATION AND SUBSIDIARIES

Exhibit Index

Exhibit No.	Description	
11	Schedule Setting Forth Computation of Earnings Per Share of Class A Stock.....	Page *

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\* This exhibit was included in the copy of this report filed with the Securities and Exchange Commission and is available upon request from Ampal.

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