

AMPAL-AMERICAN ISRAEL CORP

Form 10-Q

November 05, 2008

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UNITED STATES  
**SECURITIES AND EXCHANGE COMMISSION**  
WASHINGTON D.C. 20549

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**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 September 30, 2008

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

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**AMPAL-AMERICAN ISRAEL CORPORATION**

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(Exact Name of Registrant as Specified in Its Charter)

New York

13-0435685

(State or Other Jurisdiction of  
Incorporation of Organization)

(I.R.S. Employer)  
Identification Number

10 Abba Even Street, Ackerstein Tower C, 9<sup>th</sup> Floor,  
P.O Box 12215, Herzliya, Israel

46733

(Address of Principal Executive Offices)

(Zip code)

Registrant's Telephone Number, Including Area Code (866) 447-8636

Former Name, Former Address and Former Fiscal Year, If Changed Since Last Report.

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes ☒ No ☐

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

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Large accelerated filer ☐ Accelerated filer ☒ Non-accelerated filer ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ☐ No ☒

The number of shares outstanding of the issuer's Class A Stock, its only authorized common stock, is 58,086,165 (as of October 27, 2008).

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## AMPAL-AMERICAN ISRAEL CORPORATION AND SUBSIDIARIES

### Index to Form 10-Q

|                                                                                                      | <u>Page</u> |
|------------------------------------------------------------------------------------------------------|-------------|
| <u>Part I</u>                                                                                        |             |
| <u>Financial Information</u>                                                                         |             |
| <u>Item 1. Financial Statements (unaudited)</u>                                                      |             |
| <u>Consolidated Balance Sheets</u>                                                                   | 1-2         |
| <u>Consolidated Statements of Operations for the Nine Months Ended September 30, 2008 and 2007</u>   | 3           |
| <u>Consolidated Statements of Operations for the Three Months Ended September 30, 2008 and 2007</u>  | 4           |
| <u>Consolidated Statements of Cash Flows</u>                                                         | 5-6         |
| <u>Consolidated Statements of Changes in Shareholders' Equity</u>                                    | 7-8         |
| <u>Notes to the Consolidated Financial Statements</u>                                                | 9-15        |
| <u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u> | 15-24       |
| <u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>                            | 24          |
| <u>Item 4. Controls and Procedures</u>                                                               | 25          |
| <u>Part II.</u>                                                                                      |             |
| <u>Other Information</u>                                                                             | 26          |
| <u>Item 1. Legal Proceedings</u>                                                                     | 26          |
| <u>Item 1A. Risk Factors</u>                                                                         | 26          |
| <u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>                           | 26          |
| <u>Item 3. Defaults upon Senior Securities</u>                                                       | 26          |
| <u>Item 4. Submission of Matters to a Vote of Security Holders</u>                                   | 26          |
| <u>Item 5. Other Information</u>                                                                     | 26          |
| <u>Item 6. Exhibits</u>                                                                              | 26          |

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ITEM 1. FINANCIAL STATEMENTS  
AMPAL-AMERICAN ISRAEL CORPORATION AND SUBSIDIARIES  
CONDENSED CONSOLIDATED BALANCE SHEETS

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| ASSETS AS OF                                                             | September 30,<br>2008 | December 31,<br>2007 |
|--------------------------------------------------------------------------|-----------------------|----------------------|
| (U.S. Dollars in thousands)                                              | (Unaudited)           | (Audited)            |
| <b>Current assets:</b>                                                   |                       |                      |
| Cash and cash equivalents                                                | \$ 96,154             | \$ 44,267            |
| Marketable securities                                                    | 62,599                | 22,459               |
| Accounts receivable (Net of allowance for doubtful amount \$0.5 and \$0) | 135,096               | 106,665              |
| Deposits                                                                 | 35,336                | 13,737               |
| Inventories                                                              | 40,079                | 28,928               |
| Other assets                                                             | 25,000                | 23,164               |
| Total current assets                                                     | 394,264               | 239,220              |
| <b>Non-current assets:</b>                                               |                       |                      |
| Investments                                                              | 377,961               | 371,791              |
| Fixed assets, less accumulated depreciation of \$9,950 and \$3,697       | 108,161               | 73,007               |
| Deposits                                                                 | 29,884                | 3,738                |
| Deferred income taxes                                                    | 15,388                | 11,637               |
| Other assets                                                             | 16,578                | 15,557               |
| Goodwill                                                                 | 55,825                | 50,406               |
| Intangible assets                                                        | 15,791                | 9,433                |
| Minority interest, net                                                   | 9,976                 | -                    |
| Total Non-current assets                                                 | 629,564               | 535,569              |
|                                                                          | \$ 1,023,828          | \$ 774,789           |

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

**AMPAL-AMERICAN ISRAEL CORPORATION AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**

| LIABILITIES AND SHAREHOLDERS EQUITY AS OF         | September 30,<br>2008 | December 31,<br>2007 |
|---------------------------------------------------|-----------------------|----------------------|
| (U.S. Dollars in thousands, except share amounts) | (Unaudited)           | (Audited)            |
| <b>LIABILITIES</b>                                |                       |                      |
| <b>Current liabilities:</b>                       |                       |                      |
| Notes and loans payable and current maturities    | \$ 175,960            | \$ 136,612           |
| Accounts payable, accrued expenses and others     | 99,964                | 73,769               |
| Total current liabilities                         | 275,924               | 210,381              |
| <b>Long term liabilities:</b>                     |                       |                      |
| Notes and loans payable                           | 237,046               | 187,405              |
| Debentures                                        | 264,947               | 79,350               |
| Deferred income taxes                             | 2,538                 | 3,275                |
| Other long term liabilities                       | 12,961                | 12,760               |
| Total long term liabilities                       | 517,492               | 282,790              |

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|                                                                                                                                                                   |              |            |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------|------------|
| Commitments and contingencies                                                                                                                                     |              |            |
| Total liabilities                                                                                                                                                 | 793,416      | 493,171    |
| Minority interests, net                                                                                                                                           | -            | 23,206     |
| <b>SHAREHOLDERS' EQUITY</b>                                                                                                                                       |              |            |
| Class A Stock \$1 par value; authorized 100,000,000 and 100,000,000 shares; issued 63,277,321 and 63,277,321 shares; outstanding 57,792,282 and 57,702,532 shares | 63,277       | 63,277     |
| Additional paid-in capital                                                                                                                                        | 190,525      | 189,899    |
| Retained earnings                                                                                                                                                 | 7,485        | 47,931     |
| Accumulated other comprehensive loss                                                                                                                              | (3,450)      | (14,821)   |
| Treasury stock, at cost                                                                                                                                           | (27,425)     | (27,874)   |
| Total shareholders' equity                                                                                                                                        | 230,412      | 258,412    |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY                                                                                                                        | \$ 1,023,828 | \$ 774,789 |

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

2

**AMPAL-AMERICAN ISRAEL CORPORATION AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

| NINE MONTHS ENDED SEPTEMBER 30,                        | 2008        | 2007        |
|--------------------------------------------------------|-------------|-------------|
| (U.S. Dollars in thousands, except per share amounts)  | (Unaudited) | (Unaudited) |
| <b>REVENUES:</b>                                       |             |             |
| Chemical income                                        | \$ 419,620  | \$ -        |
| Share in losses of affiliates                          | (1,209)     | (1,037)     |
| Realized gain on investments                           | 1,162       | 227         |
| Realized and unrealized loss on marketable securities  | (90)        | (195)       |
| Interest income                                        | 3,625       | 1,694       |
| Leisure-time income                                    | 2,309       | 1,816       |
| Gain from change in ownership interest of a subsidiary | 490         | -           |
| Other income                                           | 663         | 140         |
| Total revenues                                         | 426,570     | 2,645       |
| <b>EXPENSES:</b>                                       |             |             |
| Chemical expense - cost of goods sold                  | 388,395     | -           |
| Real estate expenses                                   | 611         | -           |
| Loss from impairment of investments & real estate      | -           | 484         |
| Interest expense                                       | 33,264      | 7,756       |
| Translation loss                                       | 19,466      | 992         |
| Marketing expense                                      | 8,171       | -           |
| General, administrative and other                      | 27,278      | 8,054       |

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|                                                             |           |          |
|-------------------------------------------------------------|-----------|----------|
| Total expenses                                              | 477,185   | 17,286   |
| Loss before income taxes                                    | (50,615)  | (14,641) |
| Provision for income taxes (tax benefits)                   | (710)     | 2,964    |
| Loss after income taxes                                     | (49,905)  | (17,605) |
| Minority interests in (losses) profits of subsidiaries, net | (9,618)   | 40       |
| Loss from continuing operations                             | (40,287)  | (17,645) |
| Discontinued operation:                                     |           |          |
| Gain on sale of discontinued operations, net of tax         | -         | 21,737   |
| Loss from operation of discontinued, net of tax             | -         | (417)    |
| Net income from discontinued operations                     | -         | 21,320   |
| Net income (loss) for the period                            | (40,287)  | 3,675    |
| Basic and diluted EPS:                                      |           |          |
| Loss from continuing operations                             | (0.70)    | (0.36)   |
| Discontinued operations                                     | -         | 0.43     |
| Earnings (loss) per share                                   | \$ (0.70) | \$ 0.07  |
| Shares used in EPS calculation (in thousands)               | 57,722    | 49,259   |

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

**AMPAL-AMERICAN ISRAEL CORPORATION AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

| THREE MONTHS ENDED SEPTEMBER 30,                                | 2008        | 2007        |
|-----------------------------------------------------------------|-------------|-------------|
| (U.S. Dollars in thousands, except per share amounts)           | (Unaudited) | (Unaudited) |
| <b>REVENUES:</b>                                                |             |             |
| Chemical income                                                 | \$ 142,449  | \$ -        |
| Share in earnings (losses) of affiliates                        | (1,787)     | (695)       |
| Realized gain on investments                                    | 783         | -           |
| Realized and unrealized gains (losses) on marketable securities | (229)       | 50          |
| Interest income                                                 | 1,469       | 709         |
| Leisure-time income                                             | 817         | 670         |
| Other income                                                    | 435         | 140         |
| Total revenues                                                  | 143,937     | 872         |
| <b>EXPENSES:</b>                                                |             |             |
| Chemical expense - cost of goods sold                           | 129,253     | -           |
| Real estate expenses                                            | 224         | -           |
| Interest expense                                                | 18,333      | 3,635       |
| Translation loss (gain)                                         | (5,915)     | 1,452       |

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|                                                     |                   |                   |
|-----------------------------------------------------|-------------------|-------------------|
| Marketing expense                                   | 2,066             | -                 |
| General, administrative and other                   | 8,971             | 3,568             |
|                                                     | <u>          </u> | <u>          </u> |
| Total expenses                                      | 152,932           | 8,655             |
|                                                     | <u>          </u> | <u>          </u> |
| Loss before income taxes                            | (8,995)           | (7,783)           |
| Provision for income taxes                          | 371               | 2,068             |
|                                                     | <u>          </u> | <u>          </u> |
| Loss after income taxes (tax benefits)              | (9,366)           | (9,851)           |
| Minority interests in profits of subsidiaries, net  | 3,276             | 1                 |
|                                                     | <u>          </u> | <u>          </u> |
| Loss from continuing operations                     | (12,642)          | (9,850)           |
| Discontinued operation:                             |                   |                   |
| Gain on sale of discontinued operations, net of tax | -                 | 21,737            |
|                                                     | <u>          </u> | <u>          </u> |
| Net income from discontinued operations             | -                 | 21,737            |
|                                                     | <u>          </u> | <u>          </u> |
| Net gain (loss) for the period                      | (12,642)          | 11,887            |
|                                                     | <u>          </u> | <u>          </u> |
| Basic and diluted EPS:                              |                   |                   |
| Loss from continuing operations                     | (0.22)            | (0.19)            |
| Discontinued operations                             | -                 | 0.41              |
|                                                     | <u>          </u> | <u>          </u> |
| Earnings (loss) per share                           | \$ (0.22)         | \$ 0.22           |
|                                                     | <u>          </u> | <u>          </u> |
| Shares used in calculation (in thousands)           | 57,742            | 52,649            |
|                                                     | <u>          </u> | <u>          </u> |

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

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

| NINE MONTHS ENDED SEPTEMBER 30,                                                                  | 2008        | 2007        |
|--------------------------------------------------------------------------------------------------|-------------|-------------|
| (U.S. Dollars in thousands)                                                                      | (Unaudited) | (Unaudited) |
| Cash flows from operating activities:                                                            |             |             |
| Net income (loss) for the period                                                                 | \$ (40,287) | \$ 3,675    |
| Adjustments to reconcile net (income) loss for the period to net cash from operating activities: |             |             |
| Share in losses of affiliates                                                                    | 1,209       | 1,037       |
| Realized and unrealized loss (gain) on investments, net                                          | (1,072)     | (32)        |
| Gain on sale of discontinued operations, net of tax                                              | -           | (21,737)    |
| Depreciation and amortization expense                                                            | 9,263       | 955         |
| Income from tenants deposits                                                                     | -           | (759)       |
| Non cash stock based compensation                                                                | 627         | 562         |
| Interest from promissory note                                                                    | -           | 815         |
| Gain from change in ownership of subsidiary                                                      | (490)       | -           |
| Loss from impairment of investment                                                               | -           | 484         |
| Translation loss                                                                                 | 19,466      | 873         |
| Minority interests in profits of subsidiaries, net                                               | (9,619)     | (109)       |
| Decrease (increase) in other assets                                                              | 2,550       | (3,472)     |

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|                                                           |                   |                   |
|-----------------------------------------------------------|-------------------|-------------------|
| Increase in accounts payable, accrued expenses and others | 1,065             | 5,963             |
| Investments made in trading securities                    | (79)              | (17,148)          |
| Proceeds from sale of trading securities                  | 5,793             | 2,323             |
| Dividends received from affiliates                        | 3,427             | 120               |
|                                                           | <u>          </u> | <u>          </u> |
| Net cash used in operating activities                     | (8,147)           | (26,450)          |
|                                                           | <u>          </u> | <u>          </u> |
| Cash flows from investing activities:                     |                   |                   |
| Deposits, notes and loans receivable collected            | 7,751             | 1,999             |
| Deposits, notes and loans receivable granted              | (54,552)          | -                 |
| Investments made in affiliates                            | (11,596)          | (8,225)           |
| Investments made in Gadot                                 | (41,351)          | -                 |
| Investments made in available for sale shares             | (45,526)          | -                 |
| Proceeds from sale of investments                         | 1,986             | 5,035             |
| Proceeds from sale of Am-Hal (1), net                     | -                 | 26,393            |
| Proceeds from sale of fixed assets                        | 3,769             | -                 |
| Capital improvements                                      | (29,494)          | (1,123)           |
|                                                           | <u>          </u> | <u>          </u> |
| Net cash used in investing activities                     | (169,013)         | 24,079            |
|                                                           | <u>          </u> | <u>          </u> |

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

5

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

| NINE MONTHS ENDED SEPTEMBER 30,                              | 2008              | 2007              |
|--------------------------------------------------------------|-------------------|-------------------|
| (U.S. Dollars in thousands)                                  | (Unaudited)       | (Unaudited)       |
| Cash flows from financing activities:                        |                   |                   |
| Notes and loans payable received                             | \$ 70,401         | \$ 37,231         |
| Notes and loans payable repaid                               | (2,981)           | (26,698)          |
| Contribution to partnership by minority                      | -                 | 74                |
| Proceeds from issuance of debentures                         | 166,856           | -                 |
| Debentures repaid                                            | (3,227)           | -                 |
| Distribution to minority                                     | (407)             | -                 |
| Deferred expense relating to issuance of debentures          | (2,575)           | -                 |
| Proceeds from exercise of stock option and warrants          | 290               | 17,997            |
|                                                              | <u>          </u> | <u>          </u> |
| Net cash provided by financing activities                    | 228,357           | 28,604            |
|                                                              | <u>          </u> | <u>          </u> |
| Effect of exchange rate changes on cash and cash equivalents | 690               | 481               |
|                                                              | <u>          </u> | <u>          </u> |
| Net increase in cash and cash equivalents                    | 51,887            | 26,714            |
| Cash and cash equivalents at beginning of period             | 44,267            | 36,733            |
|                                                              | <u>          </u> | <u>          </u> |
| Cash and cash equivalents at end of period                   | \$ 96,154         | \$ 63,447         |
|                                                              | <u>          </u> | <u>          </u> |

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Supplement Disclosure of Non-cash Investing and Financing Activities:

|                                                     |       |        |
|-----------------------------------------------------|-------|--------|
| Conversion of a convertible debenture in subsidiary | 1,257 | -      |
| Shares issued for promissory note                   | -     | 20,000 |

(1) Assets and liabilities disposed of in the sale of Am-Hal:

|                              |          |
|------------------------------|----------|
| Current assets               | 2,976    |
| Fixed assets                 | 69,781   |
| Debt                         | (15,995) |
| Deposits from tenants        | (53,711) |
| Current liabilities          | (3,596)  |
| Minority interest            | (2,526)  |
| Difference from translation  | 52       |
| Gain on sale of Am-Hal       | 29,412   |
| Proceeds from sale of Am-Hal | 26,393   |

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

6

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

(U.S. Dollars in thousands)

Unaudited

|                                                                   | Class A stock           |        | Additional<br>paid in<br>capital | Retained<br>earnings | Accumulated<br>other<br>comprehensive<br>income (loss) | Treasury<br>stock | Total<br>shareholders<br>equity |
|-------------------------------------------------------------------|-------------------------|--------|----------------------------------|----------------------|--------------------------------------------------------|-------------------|---------------------------------|
|                                                                   | Number<br>of<br>shares* | Amount |                                  |                      |                                                        |                   |                                 |
| BALANCE AT JANUARY 1, 2008                                        | 63,277                  | 63,277 | 189,899                          | 47,931               | (14,821)                                               | (27,874)          | 258,412                         |
| CHANGES DURING THE NINE MONTHS ENDED SEPTEMBER 30, 2008:          |                         |        |                                  |                      |                                                        |                   |                                 |
| Net Loss for the period                                           |                         |        |                                  | (40,287)             |                                                        |                   | (40,287)                        |
| Unrealized gain from marketable securities                        |                         |        |                                  |                      | (593)                                                  |                   | (593)                           |
| Foreign currency translation adjustments                          |                         |        |                                  |                      | 11,964                                                 |                   | 11,964                          |
| Total comprehensive loss                                          |                         |        |                                  |                      |                                                        |                   | (26,795)                        |
| Reissuance of 89,750 treasury shares for exercise of stock option |                         |        |                                  | (159)                |                                                        | 449               | 290                             |
| Compensation expense recognized under SFAS 123R                   |                         |        | 626                              |                      |                                                        |                   | 626                             |
| BALANCE AT SEPTEMBER 30, 2008                                     | 63,277                  | 63,277 | 190,525                          | 7,485                | (3,450)                                                | (27,425)          | 230,412                         |

\* In thousands

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

7



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

(U.S. Dollars in thousands)

Unaudited

|                                                                         | Class A stock           |        | Receipt on<br>account of<br>unallocated<br>shares | Additional<br>paid in<br>capital | Warrants | Retained<br>earnings | Accumulated<br>other<br>comprehensive<br>income (loss) | Treasury<br>stock | Total<br>shareholders<br>equity |
|-------------------------------------------------------------------------|-------------------------|--------|---------------------------------------------------|----------------------------------|----------|----------------------|--------------------------------------------------------|-------------------|---------------------------------|
|                                                                         | Number<br>of<br>shares* | Amount |                                                   |                                  |          |                      |                                                        |                   |                                 |
| BALANCE AT<br>JANUARY 1, 2007                                           | 46,328                  | 46,328 | 40,000                                            | 126,945                          | 308      | 40,165               | (17,059)                                               | (27,874)          | 208,813                         |
| CHANGES<br>DURING THE<br>NINE MONTHS<br>ENDED<br>SEPTEMBER 30,<br>2007: |                         |        |                                                   |                                  |          |                      |                                                        |                   |                                 |
| Net income for the<br>period                                            |                         |        |                                                   |                                  |          | 3,675                |                                                        |                   | 3,675                           |
| Foreign currency<br>translation<br>adjustments                          |                         |        |                                                   |                                  |          |                      | 1,661                                                  |                   | 1,661                           |
| Sale of foreign<br>currency translation<br>adjustment                   |                         |        |                                                   |                                  |          |                      | 52                                                     |                   | 52                              |
| Total comprehensive<br>gain                                             |                         |        |                                                   |                                  |          |                      |                                                        |                   | 5,341                           |
| Adjustment upon<br>adoption of FIN 48                                   |                         |        |                                                   |                                  |          | (2,000)              |                                                        |                   | (2,000)                         |
| Change in deferred<br>tax asset relating to<br>adoption of FIN 48       |                         |        |                                                   |                                  |          | 2,000                |                                                        |                   | 2,000                           |
| Shares issued for<br>investment made                                    | 8,603                   | 8,603  | (40,000)                                          | 31,397                           |          |                      |                                                        |                   | -                               |
| Shares issued upon<br>conversion of<br>convertible note                 | 4,476                   | 4,476  |                                                   | 16,339                           |          |                      |                                                        |                   | 20,815                          |
| Compensation<br>expense recognized<br>under SFAS 123R                   |                         |        |                                                   | 562                              |          |                      |                                                        |                   | 562                             |
| Issuance of shares<br>for exercise of<br>Warrants                       | 3,579                   | 3,579  | 1,353                                             | 13,373                           | (308)    |                      |                                                        |                   | 17,997                          |
| BALANCE AT<br>SEPTEMBER 30,<br>2007                                     | 62,986                  | 62,986 | 1,353                                             | 188,616                          | -        | 43,840               | (15,346)                                               | (27,874)          | 253,575                         |

\* In thousands

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

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

(Unaudited)

1. As used in these financial statements, the term the Company refers to Ampal-American Israel Corporation ( Ampal ) and its consolidated subsidiaries.
2. The accompanying unaudited condensed consolidated financial statements of the Company have been prepared in accordance with generally accepted accounting principles ( GAAP ), in the United States of America, for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and notes required by GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the interim period are not necessarily indicative of the results that may be expected for the full year. You should read these interim condensed consolidated financial statements in conjunction with the audited consolidated financial statements in the Annual Report on Form 10-K for the year ended December 31, 2007, filed with the Securities and Exchange Commission.

Reference should be made to the Company's consolidated financial statements for the year ended December 31, 2007 for a description of the critical accounting policies. Also, reference should be made to the notes to the Company's December 31, 2007 consolidated financial statements for additional information regarding the Company's consolidated financial condition, results of operations and cash flows.

3. Recently Issued Accounting Pronouncements

*SFAS No. 141R Business Combinations*

In December 2007, the FASB issued SFAS No. 141 (revised 2007), Business Combinations ( SFAS 141R ) which replaces SFAS No. 141, Business Combination . SFAS 141R establishes the principles and requirements for how an acquirer: (1) recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree; (2) recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase; and (3) discloses the business combination. This statement applies to all transactions in which an entity obtains control of one or more businesses, including transactions that occur without the transfer of any type of consideration. SFAS 141R will be effective on a prospective basis for all business combinations on or after January 1, 2009, with the exception of the accounting for valuation allowances on deferred taxes and acquired tax contingencies. Early adoption is not allowed. The Company is in the process of evaluating the impact, if any, the adoption of SFAS 141R will have on the Company's consolidated results of operations or financial position.

*SFAS No. 160 Noncontrolling Interests in Consolidated Financial Statements*

In December 2007, the FASB issued SFAS No. 160 Noncontrolling Interests in Consolidated Financial Statements an amendment of ARB No. 51 ( SFAS 160 ). SFAS 160 amends ARB No. 51 and establishes accounting and reporting standards that require noncontrolling interests (previously referred to as minority interest) to be reported as a component of equity, changes in a parent's ownership interest while the parent retains its controlling interest be accounted for as equity transactions, and upon a loss of control, retained ownership interest will be remeasured at fair value, with any gain or loss recognized in earnings. SFAS 160 will be effective for the Company commencing January 1, 2009, except for the presentation and disclosure requirements, which will be applied retrospectively. Early adoption is not allowed. The Company is in the process of evaluating the impact, if any, that the adoption of SFAS 160 will have on the Company's consolidated results of operations or financial position.

*SFAS No. 161 Disclosures about derivative instruments and hedging activities*

In March 2008, the FASB issued Statement of Financial Accounting Standards No. 161, Disclosures about Derivative Instruments and Hedging Activities an amendment of FASB Statement No. 133 ( SFAS 161 ). SFAS 161 requires enhanced disclosures regarding derivatives and hedging activities, including: (a) the manner in which an entity uses derivative instruments; (b) the manner in which derivative instruments and related hedged items are accounted for under Statement of Financial Accounting Standards No. 133, Accounting for Derivative Instruments and Hedging Activities ; and (c) the effect of derivative instruments and related hedged items on an entity's financial position, financial performance, and cash flows. SFAS 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. The Company is in process of evaluating the impact, if any, that the adoption of SFAS 161 will have on its financial statements.

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### *SFAS No. 162 The hierarchy of generally accepted accounting principles*

In May 2008, the FASB issued Financial Accounting Standard (FAS) No. 162, The Hierarchy of Generally Accepted Accounting Principles. The statement is intended to improve financial reporting by identifying a consistent hierarchy for selecting accounting principles to be used in preparing financial statements that are prepared in conformance with generally accepted accounting principles. Unlike Statement on Auditing Standards SAS No. 69, The Meaning of Present in Conformity With GAAP, FAS No. 162 is directed to the entity rather than the auditor. The statement is effective 60 days following the SEC's approval of the Public Company Accounting Oversight Board (PCAOB) amendments to AU Section 411, The Meaning of Present Fairly in Conformity with GAAP, and is not expected to have any impact on the Company's results of operations, financial condition or liquidity.

### *SFAS No. 142-3*

In April 2008, the FASB issued FASB Staff Position (the FSP) FAS No. 142-3, which amends the factors that must be considered in developing renewal or extension assumptions used to determine the useful life over which to amortize the cost of a recognized intangible asset under FAS No. 142, Goodwill and Other Intangible Assets. The FSP requires an entity to consider its own assumptions about renewal or extension of the term of the arrangement, consistent with its expected use of the asset, and is an attempt to improve consistency between the useful life of a recognized intangible asset under FAS No. 142 and the period of expected cash flows used to measure the fair value of the asset under FAS No. 141, Business Combinations. The FSP is effective for fiscal years beginning after December 15, 2008, and the guidance for determining the useful life of a recognized intangible asset must be applied prospectively to intangible assets acquired after the effective date. The FSP is not expected to have a significant impact on the Company's results of operations, financial condition or liquidity.

### *SFAS No. 157-3*

In October 2008, the FASB issued FASB Staff Position SFAS No. 157-3, Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active, (SFAS No. 157-3). This position clarifies the application of FASB No. 157 in a market that is not active and provides an example to illustrate key considerations in determining the fair value of a financial asset when the market for that financial asset is not active. This position was effective for us on September 30, 2008. The adoption of this position did not have an effect on our financial statements.

#### 4. Cash and cash equivalents

Cash equivalents are short-term, highly liquid investments (bank accounts and bank deposits) that have original maturity dates of three months or less and are readily convertible into cash.

Cash equal to \$2.7 million has been placed as a compensating balance for various loans provided to the Company and would therefore be unavailable if the Company wished to pledge them in order to provide an additional source of cash.

#### 5. Inventories mainly chemicals and other materials intended for sale, are valued at the lower of cost or market. Cost is determined based on the moving average basis.

#### 6. East Mediterranean Gas Company

On December 1, 2005, the Company, through Merhav Ampal Energy, Ltd. (MAE), a wholly-owned subsidiary of the Company, acquired a 2% interest in East Mediterranean Gas Co. S.A.E., an Egyptian joint stock company (EMG), from Merhav M.N.F. Ltd. (Merhav). The Company paid \$30.0 million in cash, representing the fair value of the interest purchased at the time this transaction closed. The Company's investment in EMG is the primary cost method investment included in non-current investments.

On August 1, 2006, the Company acquired the beneficial ownership of 4.6% of the outstanding shares of EMG's capital stock from Merhav. The transaction was accounted for as a transfer of assets between entities under common control, which resulted in Merhav transferring the investment in EMG to Ampal at carrying value. Due to the nature of Merhav's operations, this entity would be treated as an investment company under GAAP, and as such, the carrying value of the investment in EMG would equal fair value. On this basis, the 4.6% investment in EMG was transferred to Ampal at carrying value, which also equals fair value. The cost of the investment was \$100.0 million, of which, \$50.0 million was paid in cash and the balance was paid in 10,248,002 shares of the Company Class A Stock (based on the Company's share price of \$4.88 per share) that was accounted for at a fair value of \$50.0 million. The issuance of the shares of Class A Stock received the approval of the shareholders of the Company as required by the marketplace rules of the NASDAQ Global Market. As a result of this transaction, the Company beneficially owned 6.6% of the total outstanding shares of EMG. Through August 2008, the cost of the investment could have been adjusted downward had Merhav sold any of its remaining shares of EMG to a third-party purchaser at a price per share lower than the price per share paid by the Company pursuant to the agreement. Additionally, pursuant to the agreement, the Company was granted an option for a period of up to two years to have the right to acquire up to an additional 5.9% of the total outstanding shares of EMG stock.

Yosef A. Maiman, the Chairman, President and CEO of the Company and a member of the controlling shareholder group of the Company, is the sole owner of Merhav. Because of the foregoing relationships, a special committee of the Board of Directors composed of the Company's independent directors, who also constitute all of the members of the Company's Audit Committee, negotiated and approved the transaction. Houlihan Lokey Howard & Zukin Financial Advisors, Inc., which was retained as financial advisor to the special committee, delivered a fairness opinion to the special committee regarding the transaction.

On August 22, 2006, EMG called for additional capital from all of its shareholders. As a result, the Company paid an additional \$2.7 million in order to maintain its pro rata beneficial interest in EMG.

On December 21, 2006, the Company acquired the beneficial ownership of an additional 5.9% of the outstanding shares of EMG's capital stock pursuant to an option granted by Merhav in August 2006. The transaction was accounted for as a transfer of assets between entities under common control, which resulted in Merhav transferring the investment in EMG to Ampal at carrying value. Due to the nature of Merhav's operations, this entity would be treated as an investment company under GAAP, and as such, the carrying value of the investment in EMG would equal fair value. On this basis, the 5.9% investment in EMG was transferred to Ampal at carrying value, which also equals fair value.

The cost of the additional investment was approximately \$128.3 million, of which approximately \$68.3 million was paid in cash, approximately \$40 million was paid in 8,602,151 shares of the Company's Class A Stock and the balance was satisfied by the issuance of a promissory note in the principal amount of \$20 million (the Convertible Promissory Note), which, at the option of Merhav, was payable in cash, additional shares of the Company Class A Stock (based on a price per share of \$4.65), or a combination thereof. As permitted under the stock purchase agreement, Merhav assigned its right to the 8,602,151 Shares to De Majorca Holdings Limited as part of Merhav's restructuring process. The Convertible Promissory Note bore interest at 6 months LIBOR (5.375%) and matured on September 20, 2007. Ampal could have pre-paid the Convertible Promissory Note at any time in whole or in part. The maximum number of shares that could have been issued in this transaction (including accrued interest payable through the maturity date on the Convertible Promissory Note) is 13,078,540 shares of Class A Stock. As a result of this transaction, Ampal beneficially owns 12.5% of the total outstanding shares of EMG. The issuance of the 8,602,151 shares and the shares underlying the Convertible Promissory Note received the approval of the shareholders of the Company on February 7, 2007, as required by the marketplace rules of the NASDAQ Global Market. Due to the agreement of the controlling shareholder group to vote in favor of the issuance of these shares to Merhav as of the closing date of the EMG transaction (which ensured that the proposal would be adopted by the requisite shareholders vote on February 7, 2007), the Company, as of December 31, 2006, classified for accounting purposes the sale of these shares as part of the exchange with Merhav on December 21, 2006 and recognized the approximately \$40 million with shareholders' equity as Receipt on account of unallocated shares.

Yosef A. Maiman, the Chairman, President and CEO of the Company and a member of the controlling shareholder group of the Company, is the sole owner of Merhav. Because of the foregoing relationships, a special committee of the Board of Directors composed of the Company's independent directors, who also constitute all of the members of the Company's Audit Committee, negotiated and approved the transaction. Houlihan Lokey Howard & Zukin Financial Advisors, Inc., which was retained as financial advisor to the special committee, advised the special committee on these transactions.

On June 4, 2007, EMG called for additional capital from all of its shareholders. As a result, the Company paid an additional \$5.8 million in order to maintain its pro rata beneficial interest in EMG.

On November 29, 2007, Ampal and Israel Infrastructure Fund (IIF), leading a group of institutional investors (the Investors), purchased a 4.3% interest in EMG, through Merhav Ampal Energy Holdings, LP, an Israeli limited partnership (the Joint Venture), from Merhav for a purchase price of approximately \$95.4 million, using funds provided by the Investors. In addition to the Joint Venture's purchase from Merhav, Ampal contributed into the Joint Venture an additional 4.3% interest in EMG already held by Ampal. The Joint Venture now holds a total of 8.6% of the outstanding shares of EMG. Ampal's contribution was valued at the same price per EMG share as the Joint Venture's purchase. This amount is equivalent to the purchase price (on a per share basis) paid by Ampal for its December 2006 purchase of EMG shares from Merhav, which was accounted for as a transfer of assets between entities under common control, which resulted in Merhav transferring the investment in EMG to Ampal at carrying value. Due to the nature of Merhav's operations, Merhav would be treated as an investment company under GAAP, and as such, the carrying value of the investment in EMG would equal fair value. On this basis, the said investment in EMG was transferred to Ampal at carrying value, which also equals fair value. Based on the terms stipulated in the shareholders' agreement of the general partner of the Joint Venture, Ampal and Israel Infrastructure G.P. Ltd. have equal rights in governing the affairs of the Joint Venture. However, in certain events and under certain conditions, matters relating to decisions on how to vote the EMG shares held by the Joint Venture shall be decided by the directors of the general partner of the Joint Venture appointed by Ampal. As such, Ampal has consolidated the results of the Joint Venture in its financial statements.

The Company's Financial Statements reflect a 16.8% interest in shares of EMG, with 8.2% held directly and 8.6% held through the Joint Venture (of which Ampal owns 50%).

## 7. Acquisition of Gadot

The Company completed the three step acquisition of Gadot Chemical Tankers and Terminals Ltd. (Gadot) during the third quarter of 2008. The acquisition was the result of (1) a \$91.2 million acquisition of 65% in December 2007, (2) a \$17.7 million acquisition of 15% in June 2008 and (3) a \$23.3 million acquisition of the remaining 20% in August 2008. The Company's results of operations have consolidated Gadot since the December transaction and minority interests have been accounted for on their ownership basis since each respective acquisition date.

On December 3, 2007, Ampal completed its acquisition of 65.5% of the control and ownership (63.66% on a fully diluted basis) of Gadot. The total consideration including direct transaction expenses was \$91.2 million. The cash consideration was financed with Ampal's own resources and with borrowings in the amount of \$60.7 million.

Gadot and its group of companies are an Israeli chemical distribution organization. Gadot ships, stores, and distributes liquid chemicals, oils, and a large variety of materials to the local industry.

The acquisition was accounted for by the purchase method. The results of operations of Gadot were included in the consolidated financial statements of Ampal commencing November 30, 2007. The consideration for the acquisition was attributed to net assets on the basis of fair value of assets acquired and liabilities assumed, based on an appraisal performed by management, which included a number of factors, including the assistance of independent appraisers. The following table summarizes the final fair values of the assets acquired and liabilities assumed, with reference to Gadot balance sheet data as of November 30, 2007:

|                                                 | U.S. Dollars in<br>thousands |
|-------------------------------------------------|------------------------------|
| Current assets                                  | \$ 166,365                   |
| Investments and other non-current assets        | 31,145                       |
| Fixed assets                                    | 74,430                       |
| Identifiable intangible assets                  | 9,503                        |
| Goodwill                                        | 50,406                       |
| Total assets acquired                           | 331,849                      |
| Current liabilities                             | (94,703)                     |
| Long-term liabilities, including deferred taxes | (124,523)                    |
| Minority interest                               | (21,422)                     |
| Total liabilities assumed                       | (240,648)                    |
| Net assets acquired                             | \$ 91,201                    |

Under the purchase method of accounting, the total consideration of \$91.2 million allocated to Gadot's identifiable tangible and intangible assets and liabilities assumed based on their estimated fair values as of the date of the completion of the transaction.

On June 3, 2008, Ampal completed its acquisition of an additional 14.98% of the ownership (14.71% on a fully diluted basis) of Gadot. The total consideration, including direct transaction expenses, was \$17.7 million. The cash consideration was financed with Ampal's own resources and with borrowings in the amount of \$11.4 million.

The acquisition was accounted for by the purchase method. The consideration for the acquisition was attributed to net assets on the basis of fair value of assets acquired and liabilities assumed, based on an appraisal performed by management, which included a number of factors, including the assistance of independent appraisers.

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The identified tangible and intangible assets acquired amounted to approximately \$3.9 million and \$3.9 million, respectively. The main assets included are ships and tankers and option to purchase and lease ships, of approximately \$2.6 million and \$2.6 million, respectively, to be amortized over an estimated useful life of 12 and 5 years, respectively.

On August 12, 2008, Ampal completed its acquisition of an additional 20.6% of the ownership and 66.76% of the convertible debentures of Gadot and holds 100% of the ownership of Gadot (99.99% on a fully diluted basis). The total consideration, including direct transaction expenses, was \$23.3 million. The cash consideration was financed with Ampal's own resources and with borrowings in the amount of \$15.4 million.

12

The acquisition was accounted for by the purchase method. The consideration for the acquisition was attributed to net assets on the basis of fair value of assets acquired and liabilities assumed, based on an appraisal performed by management, which included a number of factors, including the assistance of independent appraisers.

The identified tangible and intangible assets acquired amounted to approximately \$6.1 million and \$3 million, respectively. The main assets included are ships and tankers and option to purchase and lease ships, of approximately \$4.4 million and \$2.7 million, respectively, to be amortized over an estimated useful life of 12 and 5 years, respectively.

### 8. Option Agreement for Sugarcane Ethanol Project in Colombia

On May 29, 2008, Ampal loaned Merhav \$10 million in addition to the currently outstanding \$10 million that were loaned on December 25, 2007, to fund the Colombia ethanol project required for growing sugarcane and the construction of an ethanol production facility. The additional loan was made pursuant to the existing promissory note, dated as of December 25, 2007, by Merhav in favor of Ampal (the Promissory Note). The loan bears interest at an annual rate equal to LIBOR plus 2.25%, and will be convertible into all or a portion of the equity interest purchased pursuant to an option granted by Merhav to Ampal.

### 9. Fair value measurement

On September 2006, the FASB issued SFAS No. 157, Fair Value Measurements (SFAS 157), which defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair-value measurements. The Company adopted SFAS 157 effective January 1, 2008 for all financial assets and liabilities and any other assets and liabilities that are recognized or disclosed at fair value on a recurring basis. Although the adoption of SFAS 157 did not materially impact the Company's financial condition, results of operations or cash flows, the Company is required to provide additional disclosures within its condensed consolidated financial statements.

SFAS 157 defines fair value as the price that would be received to sell an asset or paid to transfer the liability (an exit price) in an orderly transaction between market participants and also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The fair value hierarchy within SFAS 157 distinguishes between three levels of inputs that may be utilized when measuring fair value including level 1 inputs (using quoted prices in active markets for identical assets or liabilities), level 2 inputs (using inputs other than level 1 prices such as quoted prices for similar assets and liabilities in active markets or inputs that are observable for the asset or liability) and level 3 inputs (unobservable inputs supported by little or no market activity based on the company's own assumptions used to measure assets and liabilities). A financial asset's or liability's classification within the above hierarchy is determined based on the lowest level input that is significant to the fair value measurement.

The Company also adopted SFAS 159, The Fair Value Option for Financial Assets and Financial Liabilities (SFAS 159). SFAS 159 permits entities to choose to measure many financial assets and financial liabilities at fair value. Unrealized gains and losses on items for which the fair value option has been elected are reported in earnings. SFAS 159 is effective for fiscal years after November 15, 2007. The Company did not elect to apply the fair value option available under SFAS 159 for any of its eligible instruments.

Financial assets and liabilities measured at fair value on a recurring basis as at September 30, 2008 consisted of the following (in thousands):

#### Fair Value Measurements as at September 30, 2008 Using:

|                      | Level 1  | Level 2 | Total    |
|----------------------|----------|---------|----------|
| Trading securities * | \$ 6,374 | \$ -    | \$ 6,374 |

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|                                 |                   |                   |                   |
|---------------------------------|-------------------|-------------------|-------------------|
| Available for sale securities * | 56,226            | -                 | 56,226            |
| Derivative liability**          | -                 | (1.4)             | (1.4)             |
|                                 | <u>          </u> | <u>          </u> | <u>          </u> |
| Total                           | 62,600            | (1.4)             | 62,598.6          |
|                                 | <u>          </u> | <u>          </u> | <u>          </u> |

Marketable securities that are classified in level 1 consist of available-for-sale and trading securities for which market prices are readily available, marketable securities that are classified in level 2 consist of trading securities for which there are quoted prices in active broker's markets. The fair value of derivative assets are determined based on inputs that can be derived from information available in publicly quoted markets. Unrealized gains or losses from available-for-sale securities are recorded in accumulated other comprehensive (loss) income.

\* The trading securities and available for sale securities are mainly traded debentures

\*\* Out of which approximately \$0.9 million is attributable to the swap agreement.

13

10. Segment information presented below, results primarily from operations in Israel.

SFAS 131 Disclosure about Segments of an Enterprise and Related Information establishes annual and interim reporting standards for an enterprise's operating segments and related disclosures about its products, services, geographic areas and major customers. Segment information presented below results primarily from operations in Israel.

The chemical segment consists of the investment in Gadot, a wholly owned subsidiary of Ampal, which operates in the distribution and marketing of liquid chemicals for raw materials used in the chemical industry.

The energy segment consists of the investment in EMG, an Egyptian joint stock company, which holds the right to supply and supplies natural gas to Israel through an underwater pipeline from Egypt to Israel.

The leisure-time segment consists of an affiliate Country Club Hod Hasharon Sport Center and Kfar Saba, the Company's 51%-owned subsidiary, each located in Israel.

The finance segment consists of all other activities which are not part of the above segments.

| NINE MONTHS ENDED SEPTEMBER 30,       | 2008              | 2007              |
|---------------------------------------|-------------------|-------------------|
| <u>(Dollars in thousands)</u>         |                   |                   |
| <u>Revenues:</u>                      |                   |                   |
| Chemicals                             | \$ 420,110        | \$ -              |
| Finance                               | 5,360             | 1,905             |
| Leisure-time                          | 2,309             | 1,816             |
| Intercompany adjustments              | -                 | (39)              |
|                                       | <u>          </u> | <u>          </u> |
|                                       | 427,779           | 3,682             |
| Share in losses of affiliates         | (1,209)           | (1,037)           |
|                                       | <u>          </u> | <u>          </u> |
| Total consolidated revenues           | \$ 426,570        | \$ 2,645          |
|                                       | <u>          </u> | <u>          </u> |
| <u>Pre-tax Operating Gain (loss):</u> |                   |                   |
| Chemicals                             | \$ (259)          | \$ -              |
| Finance                               | (49,088)          | (13,707)          |
| Leisure-time                          | (59)              | 103               |
|                                       | <u>          </u> | <u>          </u> |

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|                                |             |             |
|--------------------------------|-------------|-------------|
|                                | (49,406)    | (13,604)    |
| Share in losses of affiliates  | (1,209)     | (1,037)     |
|                                |             |             |
| Total consolidated pretax loss | \$ (50,615) | \$ (14,641) |

## Total Assets:

|                           |              |            |
|---------------------------|--------------|------------|
| Chemicals                 | \$ 421,328   | \$ -       |
| Finance                   | 598,441      | 386,084    |
| Energy                    | 361,323      | 265,680    |
| Leisure-Time              | 3,265        | 3,395      |
| Minority interest, net    | 9,976        | -          |
| Intercompany adjustments  | (370,505)    | (286,787)  |
|                           |              |            |
| Total consolidated assets | \$ 1,023,828 | \$ 368,372 |

Corporate office expense is principally applicable to the financing operations and has been charged to that segment above. Revenues and pre-tax operating gain above exclude equity in earnings of affiliates.

11. The following table summarizes securities that were not included in the calculations of diluted earnings per Class A share for the periods ended September 30, 2008 and 2007 because such shares are anti-dilutive.

| (Shares in thousands)                    | Nine Months Ended<br>September 30, |       |
|------------------------------------------|------------------------------------|-------|
|                                          | 2008                               | 2007  |
| Shares resulting from Options and Rights | 2,341                              | 2,435 |

14

## 12. LEGAL PROCEEDINGS:

On January 1, 2002, Galha (1960) Ltd. ( Galha ) filed a suit against the Company and other parties, including directors of Paradise Industries Ltd. ( Paradise ) appointed by the Company, in the Tel Aviv District Court, in the amount of NIS 11,560,000 (\$3 million). Galha claimed that the Company, which was a shareholder of Paradise, and another shareholder of Paradise, misused funds that were received by Paradise from an insurance company for the purpose of reconstructing an industrial building owned by Galha and used by Paradise which burnt down. Paradise is currently involved in liquidation proceedings. Ampal issued a guarantee in favor of Galha for a benefit of a defendant for the payment of an amount of up to approximately NIS 4,381,000 (\$1,281,000) if a final judgment against the Company will be given.

On May 26, 2003, the Company and the directors of Paradise appointed by the Company filed a third party claim against Arie Israel Insurance Company Ltd. ( Arie ) in the Tel Aviv District Court claiming that, to the extent the court decides that the directors of Paradise appointed by the Company will have to pay any amounts to Galha, Arie will pay such amounts on behalf of the directors in accordance with the Directors and Officers insurance policy that the Company had at that time with Arie. Arie filed a statement of defense and stated that the policy does not cover the claim. At this stage, the Company cannot estimate the impact this claim will have on it. In March 2008, the dispute was submitted to mediation by order of the court, with the consent of the parties.

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

### AMPAL-AMERICAN ISRAEL CORPORATION AND SUBSIDIARIES

### CRITICAL ACCOUNTING POLICIES



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The preparation of Ampal American Israel Corporation's (Ampal, and collectively with its subsidiaries, the Company) consolidated financial statements is in conformity with accounting principles generally accepted in the United States (GAAP) which requires management to make estimates and assumptions in certain circumstances that affect amounts reported in the accompanying consolidated financial statements and related footnotes. Actual results may differ from these estimates. To facilitate the understanding of Ampal's business activities, described below are certain Ampal accounting policies that are relatively more important to the portrayal of its financial condition and results of operations and that require management's subjective judgments. Ampal bases its judgments on its experience and various other assumptions that it believes to be reasonable under the circumstances. Please refer to Note 1 to Ampal's consolidated financial statements included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2007 for a summary of all of Ampal's significant accounting policies.

No significant updates have occurred since our last annual report on form 10-K, except for a revenue recognition policy resulting from the recent acquisition of Gadot Chemical Tankers and Terminals Ltd. (Gadot).

### Revenue Recognition

Chemical income is measured at the fair value of the consideration received or the consideration that the Company is entitled to receive, taking into account trade discounts and/or bulk discounts granted by the Company.

Chemical income is recognized in accordance with SAB 104 provisions, namely when (a) persuasive evidence of an arrangement exists, (b) the sales price is fixed or determinable, (c) collectibility is probable, (d) no material obligations remain under the selling agreements, and (e) product delivery has occurred or the service has been rendered. Revenue for services is recognized over the period during which those services are preformed.

Revenue from sale of goods is recognized when all the following conditions have been satisfied: (a) the significant risks and rewards of ownership of the goods have been transferred to the buyer; (b) the Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold; (c) the amount of revenue can be measured reliably; (d) it is probable that the economic benefits associated with the transaction will flow to the Company; and (e) the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Revenue from the provision of services is recognized by reference to the stage of completion of the transaction at the balance sheet date, and only when the stage of completion of the transaction at the balance sheet date can be measured reliably.

15

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### Recently Issued Accounting Pronouncements

#### *SFAS No. 141R Business Combinations*

In December 2007, the FASB issued SFAS No. 141 (revised 2007), Business Combinations (SFAS 141R) which replaces SFAS No. 141, Business Combination. SFAS 141R establishes the principles and requirements for how an acquirer: (1) recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree; (2) recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase; and (3) discloses the business combination. This statement applies to all transactions in which an entity obtains control of one or more businesses, including transactions that occur without the transfer of any type of consideration. SFAS 141R will be effective on a prospective basis for all business combinations on or after January 1, 2009, with the exception of the accounting for valuation allowances on deferred taxes and acquired tax contingencies. Early adoption is not allowed. The Company is in the process of evaluating the impact, if any, the adoption of SFAS 141R will have on the Company's consolidated results of operations or financial position.

#### *SFAS No. 160 Noncontrolling Interests in Consolidated Financial Statements*

In December 2007, the FASB issued SFAS No. 160 Noncontrolling Interests in Consolidated Financial Statements an amendment of ARB No. 51 (SFAS 160). SFAS 160 amends ARB No. 51 and establishes accounting and reporting standards that require noncontrolling interests (previously referred to as minority interest) to be reported as a component of equity, changes in a parent's ownership interest while the parent retains its controlling interest be accounted for as equity transactions, and upon a loss of control, retained ownership interest will be remeasured at fair value, with any gain or loss recognized in earnings. SFAS 160 will be effective for the Company commencing January 1, 2009, except for the presentation and disclosure requirements, which will be applied retrospectively. Early adoption is not allowed. The Company is in the process of evaluating the impact, if any, that the adoption of SFAS 160 will have on the Company's consolidated results of operations or financial position.

#### *SFAS No. 161 Disclosures about derivative instruments and hedging activities*

In March 2008, the FASB issued Statement of Financial Accounting Standards No. 161, Disclosures about Derivative Instruments and Hedging Activities – an amendment of FASB Statement No. 133 ( SFAS 161 ). SFAS 161 requires enhanced disclosures regarding derivatives and hedging activities, including: (a) the manner in which an entity uses derivative instruments; (b) the manner in which derivative instruments and related hedged items are accounted for under Statement of Financial Accounting Standards No. 133,

Accounting for Derivative Instruments and Hedging Activities ; and (c) the effect of derivative instruments and related hedged items on an entity's financial position, financial performance, and cash flows. SFAS 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. The Company is in process of evaluating the impact, if any, that the adoption of SFAS 161 will have on its financial statements.

*SFAS No. 162 - The hierarchy of generally accepted accounting principles*

In May 2008, the FASB issued Financial Accounting Standard (FAS) No. 162, The Hierarchy of Generally Accepted Accounting Principles. The statement is intended to improve financial reporting by identifying a consistent hierarchy for selecting accounting principles to be used in preparing financial statements that are prepared in conformance with generally accepted accounting principles. Unlike Statement on Auditing Standards (SAS No. 69, The Meaning of Present in Conformity With GAAP, FAS No. 162 is directed to the entity rather than the auditor. The statement is effective 60 days following the SEC's approval of the Public Company Accounting Oversight Board (PCAOB) amendments to AU Section 411, The Meaning of Present Fairly in Conformity with GAAP, and is not expected to have any impact on the Company's results of operations, financial condition or liquidity.

*SFAS No. 142-3*

In April 2008, the FASB issued FASB Staff Position (the FSP ) FAS No. 142-3, which amends the factors that must be considered in developing renewal or extension assumptions used to determine the useful life over which to amortize the cost of a recognized intangible asset under FAS No. 142, Goodwill and Other Intangible Assets. The FSP requires an entity to consider its own assumptions about renewal or extension of the term of the arrangement, consistent with its expected use of the asset, and is an attempt to improve consistency between the useful life of a recognized intangible asset under FAS No. 142 and the period of expected cash flows used to measure the fair value of the asset under FAS No. 141, Business Combinations. The FSP is effective for fiscal years beginning after December 15, 2008, and the guidance for determining the useful life of a recognized intangible asset must be applied prospectively to intangible assets acquired after the effective date. The FSP is not expected to have a significant impact on the Company's results of operations, financial condition or liquidity.

16

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*SFAS No. 157-3*

In October 2008, the FASB issued FASB Staff Position SFAS No. 157-3, Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active, ( SFAS No. 157-3 ). This position clarifies the application of FASB No. 157 in a market that is not active and provides an example to illustrate key considerations in determining the fair value of a financial asset when the market for that financial asset is not active. This position was effective for us on September 30, 2008. The adoption of this position did not have an effect on our financial statements.

Results of Operations

Changes in pricing and demand for chemicals

The overall demand for chemical products, especially commodity chemicals, is highly dependent on general economic conditions. In the past few months, both the prices and demand for chemicals have been volatile. The economic indicators from the United States and Europe have started to negatively influence demand. The economic slow down is already being felt in the construction sector, mainly in the United States, which had enjoyed significant growth in recent years. The construction sector is a large consumer of chemical products.

Chemical Carriers

In recent years, the increased demand for chemicals led to an increase in shipping demand in the chemical carrier sector. Fuel prices significantly impact the profitability of this segment in Gadot's activity. The rapid increase in oil prices during the first nine months of 2008 had a significant negative influence on the gross profit of Gadot. Any future reduction in oil prices may contribute positively to Gadot's gross profit.

On April 29, 2008, Gadot announced that an agreement had been signed for the winding-up of Chem-Tankers C.V., a limited partnership registered in the Netherlands, which was engaged in the maritime shipping of chemicals in bulk (hereafter the Partnership ). The

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Partnership was established pursuant to an agreement signed on October 1, 2005 between Gadot Yam Chemical Shipping Ltd., a wholly owned and controlled subsidiary of Gadot, and a foreign company registered in Cyprus (hereafter the Partners ). The agreement sets forth the manner in which the Partnership will wind down, including provisions relating to the settling of accounts between the Partners, the distribution of the operating routes, the ships, and the fixed assets of the Partnership and the payment of winding-up expenses. Following the winding-up of the Partnership, the Company shall continue to operate the operating routes that it operated prior to the establishment of the Partnership in 2005, viz., the North Europe-Mediterranean Sea route and the North America-Mediterranean Sea route.

### Nine months ended September 30, 2008 compared to nine months ended September 30, 2007

The Company recorded a consolidated net loss of \$40.3 million for the nine months ended September 30, 2008 compared to a net gain of \$3.7 million for the corresponding period in 2007. The increase in loss is primarily attributable to an increase in interest expense, translation loss and increase in the Israeli consumer price index that the Company's debentures are linked to for the nine months ended September 30, 2008 as compared to the corresponding period in 2007.

In the nine months ended September 30, 2008, the Company included the results of operations of Gadot, which was purchased in three parts, on December 3, 2007, May 29, 2008 and August 6, 2008. Below is data from Gadot results of operations (in millions of dollar):

|                                                   |         |
|---------------------------------------------------|---------|
| Chemical income                                   | \$ 420  |
| Chemical expense                                  | \$ 388  |
| Marketing expense                                 | \$ 8.2  |
| Other expense (mainly general and administrative) | \$ 16.8 |
| Interest expense                                  | \$ 7.6  |
| Net loss                                          | \$ 3.6  |

In the nine months ended September 30, 2008, the Company recorded \$8.2 million of marketing expense, as compared to recording no marketing expense in the corresponding period in 2007. These expenses are attributable to Gadot, whose results of operation was consolidated for the first time in 2008. Marketing expense is composed mainly of salary and commission expenses.

17

In the nine months ended September 30, 2008, the Company recorded a \$27.3 million of general, administrative and other expense, as compared to \$8.1 million in the corresponding period in 2007. The increase is mainly due to consolidating Gadot for the first time in 2008.

In the nine months ended September 30, 2008, the Company recorded a \$9.6 million of Minority interests share in losses of subsidiaries, net, as compared to none in the corresponding period in 2007. These losses are mainly attributable to translation losses in the notes issued to the partners in the Joint Venture, resulting from valuate of the New Israeli Shekel compared to the U.S. Dollar.

In the nine months ended September 30, 2008, the Company recorded a \$33.3 million interest expense, as compared to a \$7.8 million interest expense for the corresponding period in 2007. The increase in interest expense relates to the increase in notes payable which the Company received to finance the purchase of Gadot, issuance of the Company's Series B debentures, increase in the Israeli consumer price index and the interest expense of Gadot which the Company included for the first time in 2008.

In the nine months ended September 30, 2008, the Company recorded a \$19.5 million translation loss, as compared to a \$1.0 million translation loss for the corresponding period in 2007. The increase in translation loss is related to a change in the valuation of the New Israeli Shekel as compared to the U.S. Dollar, an increase of 11% in the nine month ended September 30, 2008 as compared to a decrease of 0.5% for the corresponding period in 2007.

Share in losses of affiliates increased to a net loss of \$1.2 million for the nine months ended September 30, 2008, compared to a net loss of \$1.0 million for the corresponding period in 2007.

In the nine month period ended September 30, 2008, the Company recorded \$0.5 million gain from issuance of shares by Gadot in 2008.

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In the nine month period ended September 30, 2008, the Company recorded \$1.2 million of net realized gain on investments, compared to \$0.2 million of net realized gain in the same period in 2007. The net gain recorded in 2008 was primarily attributable to the sale of Hod Hasharon Limited Partnership (\$0.8 million gain), the sale of certain assets by PSINet Europe, one of the holdings of one of Ampal's investee companies, Telecom Partners (TP) (\$0.3 million gain) and the sale of certain assets by FIMI Opportunity Fund L.P (FIMI) (\$0.1 million gain).

On August 5, 2007, the Company completed the sale of Am-Hal Ltd (Am-Hal). Am-Hal was a wholly owned subsidiary which owned and operated a chain of senior citizens facilities located in Israel. Accordingly, Am-Hal has been reported as a discontinued operation for the nine months ended September 30, 2007.

Results of operations analyzed by segments for nine months ended September 30:

|                                | 2008                        | 2007            |
|--------------------------------|-----------------------------|-----------------|
|                                | (U.S. Dollars in thousands) |                 |
| <b>Revenues:</b>               |                             |                 |
| Chemicals                      | \$ 420,110                  | \$ -            |
| Finance                        | 5,360                       | 1,905           |
| Leisure-time                   | 2,309                       | 1,816           |
| Intercompany adjustments       | -                           | (39)            |
|                                | 427,779                     | 3,682           |
| Equity in losses of affiliates | (1,209)                     | (1,037)         |
|                                | 426,570                     | 2,645           |
| <b>Total</b>                   | <b>\$ 426,570</b>           | <b>\$ 2,645</b> |

The chemicals income relates solely to Gadot and derives from the following activities: sales of a wide range of liquid chemicals, providing maritime shipping services of chemicals by ships and providing other services which include logistics and storage services for chemicals.

In the nine months ended September 30, 2008, the Company recorded \$426.6 million in revenue which was comprised of \$420.1 million in the Chemicals segment, due to the acquisition of Gadot, \$5.4 million in the Finance segment, \$2.3 million in the Leisure-Time segment and a \$1.2 million loss in share in earnings of affiliates, as compared to \$2.6 million for the same period in 2007, which was comprised of \$1.9 million in the Finance segment, \$1.8 million in the Leisure-time segment and a \$1.0 million loss in share in earnings of affiliates. The increase in the Finance segment revenue is primarily related to the increase in realized and unrealized gains on marketable securities and interest income from deposits.

|                  | 2008                        | 2007   |
|------------------|-----------------------------|--------|
|                  | (U.S. Dollars in thousands) |        |
| <b>Expenses:</b> |                             |        |
| Chemicals        | \$ 420,369                  | \$ -   |
| Finance          | 54,448                      | 15,573 |
| Leisure-time     | 2,368                       | 1,713  |

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|       |    |         |    |        |
|-------|----|---------|----|--------|
| Total | \$ | 477,185 | \$ | 17,286 |
|-------|----|---------|----|--------|

In the nine months ended September 30, 2008, the Company recorded \$477.2 million in expenses which was comprised of \$420.4 million in the Chemicals segment, due to the acquisition of Gadot, \$54.4 million in the Finance segment and \$2.4 million in the Leisure-time segment, as compared to \$17.3 million expense for the same period in 2007 which was comprised of \$15.6 million in the Finance segment and \$1.7 million in the Leisure-Time segment. The increase in expenses in the Finance segment is primarily attributable to the \$19.5 million translation loss which was recorded due to the change in the value of the New Israeli Shekel as compared to the U.S. dollar, increase in the Israeli consumer price index, the interest expense of Gadot which the Company included for the first time in 2008 and to the increase in interest expense related to the notes payable which the Company received to finance the purchase of Gadot.

## Three months ended September 30, 2008 compared to three months ended September 30, 2007

The Company recorded a consolidated net loss of \$12.6 million for the three months ended September 30, 2008 compared to a net gain of \$11.9 million for the same period in 2007. The increase in loss is primarily attributable to an increase in interest expense, translation loss and an increase in Israeli consumer price index that the Company's debentures are linked to for the three months ended September 30, 2008 as compared to the same period in 2007.

In the three months ended September 30, 2008 the Company included the results of operations from Gadot, which was purchased in three parts, on December 3, 2007, June 3, 2008 and August 12, 2008. Below is data from Gadot results of operations (in millions of dollar):

|                                                   |    |     |
|---------------------------------------------------|----|-----|
| Chemical income                                   | \$ | 143 |
| Chemical expense                                  | \$ | 124 |
| Marketing expense                                 | \$ | 2.1 |
| Other expense (mainly general and administrative) | \$ | 6   |
| Interest expense                                  | \$ | 4   |
| Net income                                        | \$ | 2   |

In the three months ended September 30, 2008, the Company recorded a \$2.1 million of marketing expense, as compared to recording no marketing expense in the corresponding period in 2007. These expenses are attributable to Gadot, whose results of operation were consolidated for the first time in 2008. Marketing expense is composed mainly of salary and commission expenses.

In the three months ended September 30, 2008, the Company recorded a \$9.0 million of general, administrative and other expense, as compared to \$3.6 million in the corresponding period in 2007. The increase is mainly due to consolidating Gadot for the first time in 2008.

In the three months ended September 30, 2008, the Company recorded a \$3.3 million of Minority interests share in gain of subsidiaries, net, as compared to none in the corresponding period in 2007. These gains are mainly attributable to translation losses in the notes issued to the partners in the Joint Venture, resulting from value of the New Israeli Shekel compared to the U.S. Dollar.

In the three months ended September 30, 2008, the Company recorded a \$18.3 million interest expense, as compared to a \$3.6 million interest expense for the same period in 2007. The increase in interest expense relates to the increase in notes payable which the Company received to finance the purchase of Gadot, issuance of the Company's Series B debentures, increase in the Israeli consumer price index and the interest expense of Gadot, which the Company included for the first time in 2008.

In the three months ended September 30, 2008, the Company recorded a \$5.9 million translation gain, as compared to a \$1.5 million translation loss for the same period in 2007. The net gain is related to a change in the valuation of the New Israeli Shekel as compared to the U.S. Dollar which influences net gain the debentures Series B that were issued in 2008, an increase of 2% in the three months ended September 30, 2008 as compared to a decrease of 5.5% for the corresponding period in 2007.

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In the three months ended September 30, 2008, the Company recorded \$1.8 million loss of share in earnings of affiliates, compared to a net loss of \$0.7 million for the same period in 2007. The increase in loss is primarily attributable to the losses from Gadot's affiliates which were included for the first time in 2008.

In the three months ended September 30, 2008, the Company recorded \$0.8 million of realized gain on investments, compared to \$0.2 million of net realized gain in the same period in 2007.

On August 5, 2007, the Company completed the sale of Am-Hal. Am-Hal was a wholly owned subsidiary which owned and operated a chain of senior citizens facilities located in Israel. Accordingly, Am-Hal has been reported as a discontinued operation for the three months ended September 30, 2007.

Results of operations analyzed by segments for three months ended September 30:

|                               | 2008                        | 2007   |
|-------------------------------|-----------------------------|--------|
|                               | (U.S. Dollars in thousands) |        |
| Revenues:                     |                             |        |
| Chemicals                     | \$ 142,597                  | \$ -   |
| Finance                       | 2,310                       | 902    |
| Leisure-time                  | 817                         | 670    |
| Intercompany adjustments      | -                           | (5)    |
|                               | 145,724                     | 1,567  |
| Share in losses of affiliates | (1,787)                     | (695)  |
| Total                         | \$ 143,937                  | \$ 872 |

In the three months ended September 30, 2008, the Company recorded \$143.9 million in revenue which was comprised of \$142.6 million in the Chemicals segment, due to the acquisition of Gadot, \$2.3 million in the Finance segment, \$0.8 million in the Leisure-time segment and \$1.8 million loss in share in earnings of affiliates, as compared to \$0.9 million for the corresponding period in 2007, which was comprised of \$0.9 million in the Finance segment, \$0.7 million in the Leisure-time segment and \$0.7 million loss in share in earnings of affiliates. The increase in the Finance segment revenue is primarily related to the increase in interest on deposits.

|              | 2008                        | 2007     |
|--------------|-----------------------------|----------|
|              | (U.S. Dollars in thousands) |          |
| Expenses:    |                             |          |
| Chemicals    | \$ 140,519                  | \$ -     |
| Finance      | 11,550                      | 7,976    |
| Leisure-time | 863                         | 679      |
| Total        | \$ 152,932                  | \$ 8,655 |

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In the three months ended September 30, 2008, the Company recorded \$152.9 million in expenses which was comprised of \$140.5 million in the Chemicals segment, due to the acquisition of Gadot, \$11.5 million in the Finance segment and \$0.9 million in the Leisure-time segment, as compared to \$8.7 million expense for the same period in 2007 which was comprised of \$8.0 million in the Finance segment and \$0.7 million in the Leisure-Time segment. The increase in expenses in the Finance segment is primarily attributable to the increase in the Israeli consumer price index, the interest expense of Gadot, which the Company included for the first time in 2008, the increase in interest expense related to the notes payable which the Company received to finance the purchase of Gadot and to the interest on the debenture Series B.

20

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### Income taxes

In the nine month and three month periods ended September 30, 2008 the Company reported a minor tax benefit from income taxes as compared to approximately \$3 million and \$2 million in the corresponding periods in 2007. The Company has recorded a valuation allowance with respect to deferred tax assets resulting from net operating losses in Israel and in the US and the income taxes resulting from the Gadot acquisition. The Company's other taxes result from earnings of other subsidiaries in Israel, the US and other foreign jurisdictions.

### Liquidity and Capital Resources

#### Cash Flows

On September 30, 2008, cash, cash equivalents and marketable securities were \$158.8 million, as compared with \$66.7 million at December 31, 2007. The increase is attributable to the issuance of the Company's Series B debentures and partly offset by purchasing an additional interest in Gadot.

As of September 30, 2008, the Company had \$62.6 million of marketable securities as compared to \$22.5 million as of December 31, 2007. The increase is attributable to the purchasing of marketable securities with part of the proceeds from the issuance of the Company's Series B debentures and due to consolidating Gadot for the first time in 2008.

The Company may also receive cash from operations and investing activities and amounts available under credit facilities, as described below. The Company believes that these sources are sufficient to fund the current requirements of operations, capital expenditures, investing activities and other financial commitments of the Company for the next 12 months. However, to the extent that contingencies and payment obligations described below and in other parts of this Report require the Company to make unanticipated payments, the Company would need to further utilize these sources of cash. The Company may need to draw upon its other sources of cash, which may include additional borrowing, refinancing of its existing indebtedness or liquidating other assets, the value of which may also decline.

In addition, Ampal's interest in Gadot has been pledged and cash equal to \$2.7 million has been placed as a compensating balance for various loans provided to the Company.

#### Cash flows from operating activities

Net cash used in operating activities totaled approximately \$8.1 million for the nine months ended September 30, 2008, compared to approximately \$26.5 million used in operating activities for the corresponding period in 2007. The decrease in cash used is primarily attributable to the dividend received from Gadot's affiliates in the nine months ended September 30, 2008, and the decrease in the investments made in trading securities.

#### Cash flows from investing activities

Net cash used in investing activities totaled approximately \$169.0 million for the nine months ended September 30, 2008, compared to approximately \$24.1 million provided by investing activities for the corresponding period in 2007. The increase in cash used in investing activities is primarily attributable to the payment for ships purchased by Gadot, to the additional investment in Gadot, Bay Heart and Global Wind Energy, investment in securities which were classified as available for sale, increase in deposits granted and decrease in the proceeds from the sale of investments.

#### Cash flows from financing activities

Net cash provided by financing activities was approximately \$228.4 million for the nine months ended September 30, 2008, compared to approximately \$28.6 million of net cash provided by financing activities for the corresponding period in 2007. The increase in cash provided is primarily attributable to the issuance of the Company's Series B debentures.

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In the nine months ended September 30, 2008, the Company received \$70.4 million notes payable and paid down its existing notes payable in the amount of \$3.0 million, as compared to receiving approximately \$37.2 million of net notes payable and paying down \$26.7 million notes payable for the corresponding period in 2007.

The Company received \$0.3 million from exercise of stock options for the nine months ended September 30, 2008, as compared to receiving \$18.0 million for the corresponding period in 2007.

### Investments

In the nine months ended September 30, 2008, the Company made additional investments in the form of a \$8.3 million loan to Bay Heart and \$2.4 million capital contribution to Global Wind Energy.

In the nine months ended September 30, 2008, the Company disposed of the following investments:

On March 2008, the Company received \$0.3 million from the sale of certain assets by PSINet Europe, one of the holdings of TP.

On February 29, 2008, the Company sold certain assets of FIMI for \$0.1 million.

On August 7, 2008, the Company signed an agreement for the sale of its 50% holdings of Country Club Hod Hasharon Sport Center for a consideration of \$2 million.

21

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### Debt

Notes issued to institutional investors in Israel, the convertible note issued to Merhav and other loans payable pursuant to bank borrowings are either in U.S. Dollars, linked to the Consumer Price Index in Israel or in unlinked New Israeli Shekels, with interest rates varying depending upon their linkage provision and mature between 2008-2019.

The Company finances its general operations and other financial commitments through bank loans from Bank Hapoalim, Union Bank of Israel Ltd. ( UBI ) and Israel Discount Bank Ltd ( IDB ). As of September 30, 2008, the outstanding indebtedness under these bank loans totaled \$144.3 million and the loans mature through 2008-2019.

On April 6, 2008, the Company entered into a trust agreement with Clal Finance Trustees 2007 Ltd. pursuant to which the Company issued notes (Series B) for trading on the Tel Aviv Stock Exchange (the TASE ) pursuant to a prospectus published with the Israel Securities Authority in the principal aggregate amount of NIS 577,823,000 (approximately \$165.7 million) with an interest rate of 6.6%, which is linked to the Israeli consumer price index. The notes shall rank pari passu with our unsecured indebtedness. The notes will be repaid in five equal annual installments commencing on January 31, 2012, and the interest will be paid semi-annually.

The following additional terms apply to the notes:

Ampal may issue additional notes without limitation.

Ampal has a four year grace period for making principal payments on the notes, which payments will not begin until 2012.

The notes are partially secured by a cash deposit in a bank account in the name of the trustee in an amount equal to four years of interest payments on the debentures, such deposit to be returned to the Company in eight installments beginning on the first interest payment date and continuing on each subsequent interest payment date thereafter.

Ampal funded the Gadot transaction with a combination of available cash and the proceeds of a new credit facility, dated November 29, 2007 between Merhav Ampal Energy, Ltd. ( MAE ) and IDB, for approximately \$60.7 million which amount was increased on June 3, 2008, on the same terms and conditions, by approximately \$11.3 million and also was increased on September 23, 2008, on the same terms and conditions, by approximately \$15.4 million (the Credit Facility ). The Credit Facility is divided into two equal loans of approximately \$43.7 million. The first loan is a revolving loan that has no principal payments and may be repaid in full or in part on December 31 of each year until 2019, when a single balloon payment will become due. The second loan also matures in 2019, has no principal payments for the first 1.5 years, and shall thereafter be paid in equal installments over the remaining 9.5 years of the term. Interest on both loans accrues at a floating rate equal to LIBOR plus a percentage spread and is payable on a current basis. Ampal has guaranteed all the obligations of MAE under the Credit Facility and Ampal's interest in Gadot has also been pledged to IDB as a security



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for the Credit Facility. Yosef Maiman has agreed to maintain ownership of a certain amount of the Company's Class A Common Stock. The Credit Facility contains customary affirmative and negative covenants for credit facilities of this type.

As of September 30, 2008, the Company has a \$8.3 million loan with UBI that bears interest at the rate of LIBOR plus 2% to be repaid in six annual installments commencing on April 2, 2008 and various other loans with UBI in the aggregate amount of \$8.5 million bearing interest at rates between 4.3% and 4.8% to be repaid until 2009.

As of September 30, 2008, the Company has a \$22.5 million loan with Bank Hapoalim as part of a \$27 million dollar loan facility. The funds borrowed under the loan facility are due in nine annual installments commencing on December 31, 2007 and bear interest at an annual rate of LIBOR plus 2%. The related loan agreement contains financial and other covenants including an acceleration of payment upon the occurrence of certain changes in the ownership of the Company's Class A Stock. As of September 30, 2008, the Company is in compliance with its debt covenants.

As of September 30, 2008, the Company has a \$107.1 million loan from institutional investors who own 50% of Merhav Ampal Energy Holdings, LP. The loan is not linked to the Consumer Price Index in Israel, bears no interest and is repayable upon agreement by both parties, but with a minimum term of one year.

A short term loan from Bank Hapoalim in the amount of \$3.5 million bears interest of 7.1% and is to be repaid by December 31, 2008.

On November 20, 2006, the Company entered into a trust agreement with Hermetic Trust (1975) Ltd. pursuant to which the Company issued Series A debentures to institutional investors in Israel in the principal aggregate amount of NIS 250 million (approximately \$58 million) with an interest rate of 5.75%, which is linked to the Israeli consumer price index. The notes shall rank pari passu with our unsecured indebtedness. The notes will be repaid in five equal annual installments commencing on November 20, 2011, and the interest will be paid semi-annually. As of September 30, 2008, the outstanding debt under the notes amounts to \$78.6 million, due to the change in valuation of the New Israeli Shekel as compared to the U.S. dollar. The Company deposited an amount of \$10,207,000 with Hermetic Trust (1975) Ltd. to secure the first three years worth of payments of interest on the debentures. As of September 30, 2008, the outstanding amount of the deposit was \$6.4 million.

22

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On April 29, 2008 the Company completed its Series B debenture offering in Israel. Ampal accepted subscriptions in the amount of NIS 577.8 million (approximately \$165.7 million) for its Series B debentures. The debentures are linked to the Israeli consumer price index and will carry an annual interest rate of 6.6%. The notes shall rank pari passu with our unsecured indebtedness. The notes will be repaid in five equal annual installments commencing on January 31, 2012, and the interest will be paid semi-annually. As of September 30, 2008, the outstanding debt under the notes amounts to \$176.1 million, due to the change in valuation of the New Israeli Shekel as compared to the U.S. dollar. The Company deposited an amount of \$44,551,773 with Clal Finance Trusts 2007 Ltd. in accordance with a trust agreement dated April 6, 2008 to secure the first three years worth of payments of interest on the debentures. As of September 30, 2008, the outstanding amount of the deposit was \$39 million.

Midroog Ltd., an affiliate of Moody's Investors Service, initially rated the Company's Series A debentures as A3. On March 27, 2008 Midroog raised the rating of the Series A debentures to A2 and rated the Series B debentures as A2. On September 15, 2008 Midroog reduced the rating to A3.

Other long term borrowings in the amount of \$0.2 million are linked to the Consumer Price Index in Israel, mature between 2008 and 2010 and bear annual interest of 5.7%.

As of September 30, 2008, Gadot had \$0.2 million outstanding under its convertible debentures. The debentures are linked to the Consumer Price Index in Israel, bear annual interest at the rate of 6.5%, and are repayable in two equal annual installments on December 5, 2008 and 2009. The debentures are convertible into ordinary shares of Gadot until December 5, 2009.

As of September 30, 2008, Gadot had \$13.3 million outstanding under its other debentures. These debentures are not convertible into shares and are repayable in five equal annual installments on September 15 of each of the years 2008 through 2012. The outstanding balance of the principal of the debentures bears annual interest at the rate of 5.3%. The principal and interest of the debentures are linked to the Consumer Price Index in Israel and the interest is payable in semi-annual installments on March 15 and September 15 of each of the years 2006 through 2012.

As of September 30, 2008, Gadot has short term loans payable in the amount of \$106.3 million and long term loans payable in the amount of \$55.3 million. The various short term loans payable are either unlinked or linked to the Euro and bear interest at rates between 5.73% to 6.09%. The various long term loans payable are either unlinked, linked to the Consumer Price Index in Israel or linked to the Euro and bear interest at rates between 4.82% to 6.9%.

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The weighted average interest rates and the balances of these short-term borrowings at September 30, 2008 and December 31, 2007 were 5.3% on \$154.2 million and 6.3% on \$136.6 million, respectively.

As of September 30, 2008, the Company had issued guarantees on certain outstanding loans to its investees and subsidiaries in the aggregate principal amount of \$44.3 million. These include:

1. A \$5.8 million guarantee on indebtedness incurred by Bay Heart in connection with the development of property. Bay Heart recorded losses in 2008 as a result of decreased rental revenues. There can be no guarantee that Bay Heart will become profitable or that it will generate sufficient cash to repay its outstanding indebtedness without relying on the Company's guarantee.
2. A \$1.3 million guarantee in connection with the law suit of Galha (1960) Ltd. ( Galha ) if a final judgment is entered against the Company in the Tel Aviv District Court.
3. A \$37.2 million guarantee of outstanding indebtedness of Gadot.

### *Off-Balance Sheet Arrangements*

Other than the foreign currency contracts specified below, the Company has no off-balance sheet arrangements.

### FOREIGN CURRENCY CONTRACTS

The Company's derivative financial instruments consist of foreign currency forward exchange contracts to purchase or sell U.S. dollars. These contracts are utilized by the Company, from time to time, to manage risk exposure to movements in foreign exchange rates. None of these contracts have been designated as hedging instruments. These contracts are recognized as assets or liabilities on the balance sheet at their fair value, which is the estimated amount at which they could be settled, based on market prices or dealer quotes, where available, or based on pricing models. Changes in fair value are recognized currently in earnings.

As of September 30, 2008, the Company had open foreign currency forward exchange contracts to purchase U.S. Dollars and sell Euros in the amount of \$2.6 million, contracts to purchase Euros and sell U.S. Dollars in the amount of \$4.3 million and contracts to sell New Israeli Shekel and buy U.S. Dollars in the amount of \$4 million.

23

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### FORWARD LOOKING STATEMENTS

This Quarterly Report (including but not limited to factors discussed above, in the Management's Discussion and Analysis of Financial Condition and Results of Operations, as well as those discussed elsewhere in this Quarterly Report on Form 10-Q) includes forward-looking statements (within the meaning of Section 27A of the Securities Act of 1993 and Section 21E of the Securities Exchange Act of 1934) and information relating to the Company that are based on the beliefs of management of the Company as well as assumptions made by and information currently available to the management of the Company. When used in this Quarterly Report, the words anticipate, believe, estimate, expect, intend, plan, and similar expressions, as they relate to the Company or the management of the Company, identify forward-looking statements. Such statements reflect the current views of the Company with respect to future events or future financial performance of the Company, the outcome of which is subject to certain risks and other factors which could cause actual results to differ materially from those anticipated by the forward-looking statements, including among others, the economic and political conditions in Israel and the Middle East and the global business and economic conditions in the different sectors and markets where the Company's portfolio companies operate.

Should any of those risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results or outcomes may vary from those described herein as anticipated, believed, estimated, expected, intended or planned. These risks and uncertainties may include, but are not limited to, those described in this report, in Part II, Item 1A. Risk Factors and elsewhere in our Annual Report on Form 10-K for the year ended December 31, 2007, and those described from time to time in our future reports filed with the Securities and Exchange Commission. The Company assumes no obligation to update or revise any forward-looking statements.

### 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 exchange rates, index rates and equity price changes. The following analysis presents the hypothetical loss in earnings, cash flows and fair values of the financial instruments which

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were held by the Company at September 30, 2008, and are sensitive to the above market risks.

During the nine months ended September 30, 2008, there have been no material changes in the market risk exposures facing the Company as compared to those the Company faced in the fiscal year ended December 31, 2007.

### Interest Rate Risks

On May 15, 2008, the Company entered into a swap agreement with respect to its Series B debentures, in the principal amount of \$165.7 million, due 2016. As a result of these agreements the Company is currently paying an effective interest rate of LIBOR plus 5.12% on \$43.9 million of these debentures, as compared to the original 6.6% fixed rate which is linked to the Israeli consumer price index.

As of September 30, 2008, the value of the currency swap resulted in a \$0.8 million decrease in other assets and a corresponding increase in interest expense.

As of September 30, 2008, the Company had financial assets totaling \$146.9 million and financial liabilities totaling \$678.0 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 are held constant.

As of September 30, 2008, the Company did not have fixed rate financial assets and had variable rate financial assets of \$146.9 million. A ten percent decrease in interest rates would not increase the unrealized fair value of the fixed rate assets.

As of September 30, 2008, the Company had fixed rate debt of \$372.5 million and variable rate debt of \$305.4 million. A ten percent decrease in interest rates would increase the unrealized fair value of the financial debts in the form of the fixed rate debt by approximately \$7.4 million.

The net decrease in earnings and cash flows for the next year resulting from a ten percent interest rate increase would be approximately \$1.5 million, holding other variables constant.

24

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### Foreign Currency Exchange Rate Sensitivity Analysis

The Company's exchange rate exposure on its financial instruments results from its investments and ongoing operations. As of September 30, 2008, the Company had open foreign exchange forward contracts to purchase U.S. Dollars and sell Euros in the amount of \$3.9 million, contracts to purchase Euros and sell Pounds in the amount of \$0.3 million and contracts to sell U.S. Dollars and buy Euros in the amount of \$1.3 million. Holding other variables constant, if there were a ten percent devaluation of each of the foreign currency, the Company's cumulative translation loss reflected in the Company's accumulated other comprehensive loss would increase by \$5.9 million, and regarding the statements of operations, a ten percent devaluation of the U.S. Dollar exchange rate would result in a net increase in earnings and cash flows of \$31.2 million, and a ten percent devaluation of the Euro exchange rate would result in a net increase in earnings and cash flows of \$3.0 million.

On May 15, 2008, the Company entered into a swap agreement with respect to its Series B debentures, in the principal amount of \$165.7 million, due 2016. As a result of these agreements the Company is currently paying an effective interest rate of LIBOR plus 5.12% on \$43.9 million of these notes, as compared to the original 6.6% fixed rate which is linked to the Israeli consumer price index. As of September 30, 2008, the value of the currency swap resulted in a \$0.8 million decrease in other assets and a corresponding increase in interest expense.

### Equity Price Risk

The Company's investments at September 30, 2008 included trading marketable securities which are recorded at a fair value of \$6.3 million, including a net unrealized gain of \$0.8 million, and \$56.4 million of trading securities that are classified as available for sale, including a net unrealized loss of \$0.8 million. Those securities have exposure to equity price risk. The estimated potential loss in fair value resulting from a hypothetical ten percent decrease in prices quoted on stock exchanges is approximately \$6.3 million. There will be no impact on cash flow resulting from a hypothetical ten percent decrease in prices quoted on stock exchanges.

## ITEM 4. CONTROLS AND PROCEDURES

### Disclosure Controls and Procedures

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The Company's management, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Company's disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) as of the end of the period covered by this report. Based on such evaluation, the Company's Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of such period, the Company's disclosure controls and procedures are effective. Notwithstanding the foregoing, a control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that it will detect or uncover failures within the Company to disclose material information otherwise required to be set forth in the Company's periodic reports.

### Internal Control Over Financial Reporting

There have not been any changes in the Company's internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the fiscal quarter to which this report relates that have materially affected, or are reasonably likely to materially affect the Company's internal control over financial reporting.

25

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## Part II OTHER INFORMATION

### Item 1. Legal Proceedings:

On January 1, 2002, Galha filed a suit against the Company and other parties, including directors of Paradise Industries Ltd. ("Paradise") appointed by the Company, in the Tel Aviv District Court, in the amount of NIS 11,560,000 (\$3 million). Galha claimed that the Company, which was a shareholder of Paradise, and another shareholder of Paradise, misused funds that were received by Paradise from an insurance company for the purpose of reconstructing an industrial building owned by Galha and used by Paradise which burnt down. Paradise is currently involved in liquidation proceedings. Ampal entered into a guarantee in favor of Galha for a benefit of a defendant for the payment of an amount of up to approximately NIS 4,381,000 (\$1,281,000) if there is final judgment against the Company.

On May 26, 2003, the Company and the directors of Paradise appointed by the Company filed a third party claim against Ariei Israeli Insurance Company Ltd. ("Ariei") in the Tel Aviv District Court claiming that, to the extent the court decides that the directors of Paradise appointed by the Company will have to pay any amounts to Galha, Ariei will pay such amounts on behalf of the directors in accordance with the Directors and Officers insurance policy that the Company had at that time with Ariei. Ariei filed a statement of defense and stated that the policy does not cover the claim. At this stage, the Company cannot estimate the impact this claim will have on it. In March 2008, the dispute was submitted to mediation by order of the court, with the consent of the parties. See also Part II Item 1, Legal Proceedings, of the Company's Quarterly Reports on Form 10-Q for the periods ended March 31 and June 30, 2008.

### Item 1A. RISK FACTORS

In addition to the other information set forth in this report, you should carefully consider the factors discussed in Part I, Item 1A. Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2007, which could materially affect our business, financial condition or future results. The risks described in our Annual Report on Form 10-K are not the only risks facing our Company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results.

### Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

None.

### Item 3. Defaults upon Senior Securities

None.

### Item 4. Submission of Matters to a Vote of Security Holders.

None.

### Item 5. Other Information.

None.

### Item 6. Exhibits.

(a) Exhibits:

- 4.a English Translation of the original Hebrew language Trust Deed dated, April 6, 2008, between Ampal American Israel Corporation and Clal Financial Trusts 2007 Ltd., and its amendments (Filed as exhibit 4.a to Form 10-Q, for the quarter ended March 31, 2008, and incorporated herein by reference).
- 11.1 Schedule Setting Forth Computation of Earnings Per Share of Class A Stock.
- 31.1 Certification of Yosef A. Maiman pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification of Irit Eluz pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1 Certification of Yosef A. Maiman and Irit Eluz pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

26

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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.

AMPAL-AMERICAN ISRAEL CORPORATION

By: /s/ Yosef A. Maiman

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Yosef A. Maiman  
Chairman of the Board  
President & Chief Executive Officer  
(Principal Executive Officer)

By: /s/ Irit Eluz

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Irit Eluz  
CFO and Senior Vice President,  
Finance and Treasurer  
(Principal Financial Officer)

By: /s/ Zahi Ben-Atav

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Zahi Ben-Atav  
VP Accounting and Controller  
(Principal Accounting Officer)

Date: November 5, 2008

27

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AMPAL-AMERICAN ISRAEL CORPORATION AND SUBSIDIARIES

Exhibit Index

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| Exhibit No. | Description                                                                                                                                                                                                                                                                                             |
|-------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 4.a         | English Translation of the original Hebrew language Trust Deed, dated April 6, 2008, between Ampal American Israel Corporation and Clal Financial Trusts 2007 Ltd., and its amendments (Filed as exhibit 4.a to Form 10-Q, for the quarter ended March 31, 2008, and incorporated herein by reference). |
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