

AMPAL-AMERICAN ISRAEL CORP
Form 10-Q
November 09, 2009

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2009

OR

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

For the transition period from _____ to _____

Commission file number 0-538

AMPAL-AMERICAN ISRAEL CORPORATION

(Exact Name of Registrant as Specified in Its Charter)

New York

13-0435685

(State or Other Jurisdiction of
Incorporation of Organization)

(I.R.S. Employer)
Identification Number

**555 Madison Avenue
New York, NY, USA**

10022

(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

Edgar Filing: AMPAL-AMERICAN ISRAEL CORP - Form 10-Q

subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

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

Large accelerated filer

Accelerated filer

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

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

Yes No

The number of shares outstanding of the issuer's Class A Stock, par value \$1.00 per share, its only authorized common stock, is 56,133,764 (as of October 27, 2009).

AMPAL-AMERICAN ISRAEL CORPORATION AND SUBSIDIARIES

Index to Form 10-Q

	<u>Page</u>
Part I	Financial Information
<u>Item 1.</u>	<u>Financial Statements (unaudited)</u>
	<u>Consolidated Balance Sheet</u> 1-2
	<u>Consolidated Statement of Operations</u> 3-4
	<u>Consolidated Statement 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> 9-16
<u>Item 2.</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u> 17-25
<u>Item 3.</u>	<u>Quantitative and Qualitative Disclosures About Market Risk</u> 26-27
<u>Item 4.</u>	<u>Controls and Procedures</u> 27
Part II.	<u>Other Information</u>
	<u>Item 1. Legal Proceedings</u> 28
	<u>Item 1A. Risk Factors</u> 28
	<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u> 28
	<u>Item 3. Defaults upon Senior Securities</u> 28
	<u>Item 4. Submission of Matters to a Vote of Security Holders</u> 28
	<u>Item 5. Other Information</u> 28
	<u>Item 6. Exhibits</u> 28

ITEM 1. FINANCIAL STATEMENTSAMPAL-AMERICAN ISRAEL CORPORATION AND SUBSIDIARIESCONDENSED CONSOLIDATED BALANCE SHEET

<u>ASSETS AS OF</u>	<u>September 30,</u> <u>2009</u>	<u>December 31,</u> <u>2008</u>
<u>(U.S. Dollars in thousands)</u>	<u>(Unaudited)</u>	<u>(Audited)</u>
<u>Current assets:</u>		
Cash and cash equivalents	\$ 80,105	\$ 68,682
Marketable securities	29,963	52,859

Edgar Filing: AMPAL-AMERICAN ISRAEL CORP - Form 10-Q

ASSETS AS OF	September 30, 2009	December 31, 2008
Accounts receivable (Net of allowance for doubtful amounts of \$1.7 and \$0.3)	98,066	111,231
Deposits	11,960	13,834
Inventories	25,415	33,744
Other assets	20,776	19,510
Total current assets	266,285	299,860
Non-current assets:		
Investments	372,022	375,612
Fixed assets, less accumulated depreciation of \$18,745 and \$13,175	145,003	112,195
Deposits	35,203	45,134
Deferred income taxes	24,662	22,819
Other assets	13,720	13,958
Goodwill	52,273	51,556
Intangible assets	11,119	14,783
Total Non-current assets	654,002	636,057
TOTAL ASSETS	\$ 920,287	\$ 935,917

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

1

AMPAL-AMERICAN ISRAEL CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEET

LIABILITIES AND EQUITY AS OF	September 30, 2009	December 31, 2008
(U.S. Dollars in thousands, except share amounts)	(Unaudited)	(Audited)
LIABILITIES		
<u>Current liabilities:</u>		
Notes and loans payable and current maturities	\$ 151,970	\$ 157,233
Accounts payable, accrued expenses and others	80,795	83,925
Total current liabilities	232,765	241,158
<u>Long term liabilities:</u>		
Notes and loans payable	235,146	222,499
Debentures	215,715	216,724
Deferred income taxes	3,931	5,965
Other long term liabilities	9,537	9,476
Total long term liabilities	464,329	454,664
Total liabilities	697,094	695,822

Edgar Filing: AMPAL-AMERICAN ISRAEL CORP - Form 10-Q

LIABILITIES AND EQUITY AS OF	September 30, 2009	December 31, 2008
EQUITY		
<u>Ampal's shareholders' equity:</u>		
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 56,133,764 and 56,425,867 shares	63,277	63,277
Additional paid-in capital	191,823	191,263
Retained earnings	12,021	31,062
Accumulated other comprehensive loss	(14,882)	(17,876)
Treasury stock, at cost	(28,763)	(28,500)
Total Ampal shareholders' equity	223,476	239,226
Noncontrolling interest	(283)	869
Total equity	223,193	240,095
TOTAL LIABILITIES AND EQUITY	\$ 920,287	\$ 935,917

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

2

AMPAL-AMERICAN ISRAEL CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS

NINE MONTHS ENDED SEPTEMBER 30,	2009	2008
(U.S. Dollars in thousands, except per share amounts)	(Unaudited)	(Unaudited)
REVENUES:		
Chemical income	\$ 287,434	\$ 419,620
Real estate income	177	-
Realized gains on investments	554	1,162
Realized and unrealized losses on marketable securities	(38)	(90)
Interest income	2,138	3,625
Leisure-time income	2,086	2,309
Gain from redemption of debt, gain from change in ownership interest in a subsidiary and other income	3,731	1,153
Total revenues	296,082	427,779
EXPENSES:		
Chemical expense - cost of goods sold	265,657	388,395

Edgar Filing: AMPAL-AMERICAN ISRAEL CORP - Form 10-Q

NINE MONTHS ENDED SEPTEMBER 30,	2009	2008
Equity in losses of affiliates	1,203	1,209
Real estate expenses	547	611
Interest expense	25,737	33,264
Translation loss	(3,731)	19,466
Loss from sale of fixed assets	102	-
Marketing expense	4,833	8,171
General, administrative and other	24,581	27,278
Total expenses	318,929	478,394
Loss before income taxes	(22,847)	(50,615)
Provision for income tax benefits	(2,990)	(710)
Net loss	(19,857)	(49,905)
Less: Net loss attributable to noncontrolling interests	(816)	(9,618)
Net loss from continuing operations	(19,041)	(40,287)
Basic and diluted EPS:		
Loss per share	\$ (0.34)	\$ (0.70)
Shares used in EPS calculation (in thousands)	56,157	57,722

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

AMPAL-AMERICAN ISRAEL CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS

THREE MONTHS ENDED SEPTEMBER 30,	2009	2008
(U.S. Dollars in thousands, except per share amounts)	(Unaudited)	(Unaudited)
REVENUES:		
Chemical income	\$ 101,141	\$ 142,449
Real estate income	83	-
Realized gain (loss) on investments	32	783
Realized and unrealized gains (losses) on marketable securities	117	(229)
Interest income	439	1,469
Leisure-time income	778	817
Gain from redemption of debt, gain from change in ownership interest in a subsidiary and other income	355	435
Total revenues	102,945	145,724
EXPENSES:		
Chemical expense - cost of goods sold	93,853	129,253
Equity in losses of affiliates	928	1,787

Edgar Filing: AMPAL-AMERICAN ISRAEL CORP - Form 10-Q

THREE MONTHS ENDED SEPTEMBER 30,	2009	2008
Real estate expenses	253	224
Interest expense	13,233	18,333
Translation loss (gain)	8,228	(5,915)
Marketing expense	1,475	2,066
Loss from sale of fixed assets	73	-
General, administrative and other	8,486	8,971
Total expenses	126,529	154,719
Loss before income taxes	(23,584)	(8,995)
Provision for income taxes (tax benefits)	(1,427)	371
Net loss	(22,157)	(9,366)
Less: Net income (loss) attributable to noncontrolling interests	(4,026)	3,276
Net loss from continuing operations	(18,131)	(12,642)
Basic and diluted EPS:		
Loss per share	\$ (0.32)	\$ (0.22)
Shares used in EPS calculation (in thousands)	56,134	57,742

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,	2009	2008
(U.S. Dollars in thousands)	(Unaudited)	(Unaudited)
Cash flows from operating activities:		
Net loss for the period	\$ (19,857)	\$ (49,905)
Adjustments to reconcile net loss for the period to net cash provided by (used in) operating activities:		
Equity in losses of affiliates	1,203	1,209
Realized and unrealized gain on investments, net	(516)	(1,072)
Depreciation and amortization expense	11,102	9,263
Loss from sale of fixed assets	102	-
Non cash stock based compensation	707	627
Translation (gain) loss	(3,731)	19,466
Decrease (increase) in other assets	(742)	2,550
Decrease (increase) in inventories	8,687	(9,162)
Decrease (increase) in accounts receivable	12,727	(21,583)
Increase in accounts payable, accrued expenses and other	6,404	31,809
Investments made in trading securities	-	(79)

Edgar Filing: AMPAL-AMERICAN ISRAEL CORP - Form 10-Q

NINE MONTHS ENDED SEPTEMBER 30,	2009	2008
Proceeds from sale of trading securities	2,417	5,793
Gain from change in ownership interest in a subsidiary	-	(490)
Dividends received from affiliates	584	3,427
Net cash provided (used in) by operating activities	19,087	(8,147)
Cash flows from investing activities:		
Deposits, notes and loans receivable collected	7,252	7,751
Deposits, notes and loans receivable granted	-	(54,552)
Capital improvements	(36,892)	(29,494)
Investments made in affiliates and others	(1,906)	(52,947)
Investments made in available for sale shares	(8,961)	(45,526)
Proceeds from sale of available for sale shares	31,460	-
Proceeds from sale of investments	546	1,986
Proceeds from sale of fixed assets	630	3,769
Net cash used in investing activities	(7,871)	(169,013)

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,	2009	2008
(U.S. Dollars in thousands)	(Unaudited)	(Unaudited)
Cash flows from financing activities:		
Notes and loans payable received	\$ 29,230	\$ 70,401
Notes and loans payable repaid	(24,878)	(2,981)
Proceeds from issuance of debentures		166,856
Distribution to minority	(419)	(407)
Deferred expense relating to issuance of debentures		(2,575)
Proceeds from exercise of stock option and warrants		290
Debentures repaid and shares repurchased	(11,489)	(3,227)
Net cash (used in) provided by financing activities	(7,556)	228,357
Effect of exchange rate changes on cash and cash equivalents	7,763	690
Net increase in cash and cash equivalents	11,423	51,887
Cash and cash equivalents at beginning of period	68,682	44,267
Cash and cash equivalents at end of period	\$ 80,105	\$ 96,154

Edgar Filing: AMPAL-AMERICAN ISRAEL CORP - Form 10-Q

NINE MONTHS ENDED SEPTEMBER 30,

2009

2008

Supplemental disclosure of non-cash investing and financing activities-
conversion of a convertible debenture in subsidiary

- 1,257

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 EQUITY

(U.S. Dollars in thousands)

Unaudited

Ampal American Israel Corporation

	Class A stock		Additional paid in capital	Retained earnings	Accumulated other comprehensive income (loss)	Treasury stock	Non-controlling interests	Total equity
	Number of shares*	Amount						
BALANCE AT JANUARY 1, 2009	63,277	63,277	191,263	31,062	(17,876)	(28,500)	869	240,095
CHANGES DURING 2009:								
Net loss for the period				(19,041)			(816)	(19,857)
Unrealized loss from marketable securities					(580)			(580)
Foreign currency translation adjustments					3,574		(336)	3,238
Total comprehensive loss								(17,199)
Purchase of 292,103 shares						(263)		(263)
Share based compensation expense			560					560
BALANCE AT SEPTEMBER 30, 2009	63,277	63,277	191,823	12,021	(14,882)	(28,763)	(283)	223,193

*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 EQUITY

(U.S. Dollars in thousands)

Unaudited

Ampal American Israel Corporation

Class A stock									
Number of shares*	Amount	Additional paid in capital	Retained earnings	Accumulated other comprehensive income (loss)	Treasury stock	Non-controlling interests	Total equity		
BALANCE AT JANUARY 1, 2008		63,277	63,277	189,899	47,931	(14,821)	(27,874)	23,206	281,618
CHANGES DURING 2008:									
Net Loss for the period				(40,287)				(9,619)	(49,906)
Unrealized gain from marketable securities					(593)				(593)
Foreign currency translation adjustments					11,964			(23,563)	(11,599)
Total comprehensive loss									(62,098)
Reissuance of 89,750 treasury stock for exercise of stock option				(159)		449			290
Share based compensation expense				626					626
BALANCE AT SEPTEMBER 30, 2008		63,277	63,277	190,525	7,485	(3,450)	(27,425)	(9,976)	220,436

*In thousands

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

8

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

(Unaudited)

- As used in these financial statements, the term the Company refers to Ampal-American Israel Corporation (Ampal) and its consolidated subsidiaries.
- The 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

Edgar Filing: AMPAL-AMERICAN ISRAEL CORP - Form 10-Q

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, 2008, filed with the Securities and Exchange Commission.

Reference should be made to the Company's consolidated financial statements for the year ended December 31, 2008 for a description of the critical accounting policies. Also, reference should be made to the notes to the Company's December 31, 2008 consolidated financial statements for additional information regarding the Company's consolidated financial condition, results of operations and cash flows.

3. Recently Adopted and Recently Issued Accounting Pronouncements

ASC 105 (formerly SFAS No. 168)

In June 2009, the Financial Accounting Standards Board (FASB) issued Accounting Standards Codification (ASC) 105, Generally Accepted Accounting Principles (formerly Statement of Financial Accounting Standards (SFAS) No. 168, The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles a replacement of FASB Statement No. 168 (SFAS 168). The statement confirmed that the FASB Accounting Standards Codification (the Codification) will become the single official source of authoritative U.S. GAAP (other than guidance issued by the SEC), superseding existing FASB, American Institute of Certified Public Accountants, Emerging Issues Task Force (EITF), and related literature. Upon the effectiveness of the codification, only one level of authoritative U.S. GAAP will exist. All other literature will be considered non-authoritative. The Codification does not change U.S. GAAP; instead, it introduces a new structure that is organized in an easily accessible, user-friendly online research system. The Codification, which changes the referencing of financial standards, became effective for interim and annual periods ending on or after September 15, 2009, and the adoption did not have impact on our financial statements.

ASC 810 (formerly SFAS No. 167)

In June 2009, the FASB issued accounting guidance contained within ASC 810, Consolidation , regarding the consolidation of variable interest entities (formerly SFAS No. 167, Amendments to FASB Interpretation No. 46(R)). Amendments to FASB Interpretation No. 46(R), ASC 810 is intended to improve financial reporting by providing additional guidance to companies involved with variable interest entities and by requiring additional disclosures about a company's involvement in variable interest entities. This standard is effective for interim and annual periods ending after November 15, 2009. We are currently assessing the potential impacts, if any, on our consolidated financial statements.

ASC 820 (formerly FSP No. 157-4)

In April 2009, the FASB issued ASC 820 (formerly FSP No. 157-4, Determining Fair Value When the Volume and Level of Activity for the Asset and Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly), which provides additional guidance in accordance with ASC 820, Fair Value Measurements, when the volume and level of activity for the asset or liability has significantly decreased. ASC 820 is effective for interim and annual reporting periods ending after June 15, 2009, and the adoption did not have a material impact on our financial statements.

ASC 825 (formerly FSP No. 107-1)

In April 2009, the FASB issued ASC 825, Financial Instruments (formerly FASB Staff Position 107-1, Interim Disclosures about Fair Value of Financial Instruments). ASC 825 requires disclosures about fair value of financial instruments for interim reporting periods of publicly traded companies as well as in annual financial statements. This standard also requires those disclosures in summarized financial information at interim reporting periods ending after June 15, 2009, and the adoption did not have a material impact on our financial statements.

Edgar Filing: AMPAL-AMERICAN ISRAEL CORP - Form 10-Q

In September 2006, the FASB issued ASC 820 (formerly SFAS No. 157, Fair Value Measurements), as it applies to non-financial assets and liabilities that are not required to be measured at fair value on a recurring (at least annual) basis, which provides guidance on how to measure assets and liabilities that use fair value. ASC 820 will apply whenever another US GAAP standard requires (or permits) assets or liabilities to be measured at fair value but does not expand the use of fair value to any new circumstances. This standard also will require additional disclosures in both annual and quarterly reports. ASC 820 is for fiscal years beginning after November 15, 2007 (January 1, 2008 for the Company). In February 2008, the FASB deferred for one additional year the effective date of ASC 820 for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). The adoption of the parts of ASC 820 that became effective in 2008 did not have a material impact on the Company's financial statements. The adoption of the remaining parts of ASC 820 did not have a material impact on our financial statements.

ASC 805 (formerly SFAS No. 141R)

In December 2007, the FASB issued ASC 805-10-65-1 (formerly SFAS No. 141 (revised 2007), Business Combinations (SFAS 141R)) which replaces SFAS No. 141, Business Combination. ASC 805-10-65-1 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. ASC 805-10-65-1 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 adoption of ASC 805-10-65-1 did not have a material impact on our financial statements.

ASC 810 (formerly SFAS No. 160)

In December 2007, the FASB issued accounting guidance contained within ASC 810, Consolidation, regarding noncontrolling interests (formerly SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements) (ASC 810). ASC 810-10-65 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. The presentation and disclosure requirements of ASC 810-10-65 were applied retrospectively. Other than the change in presentation of noncontrolling interests, the adoption of ASC 810-10-65 did not have a material impact on our financial statements.

ASC 815 (formerly SFAS No. 161)

In March 2008, FASB issued the disclosure requirements within ASC 815, Derivatives and Hedging (formerly SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities, an Amendment of FASB No. 133). ASC 815 is intended to improve transparency in financial reporting by requiring enhanced disclosures of an entity's derivative instruments and hedging activities and their effects on the entity's financial position, financial performance, and cash flows. The disclosure requirements apply to all derivative instruments within the scope of ASC 815. The standard also applies to non-derivative hedging instruments and all hedged items designated and qualifying under ASC 815. Other than the required disclosures (see note 10), the adoption of ASC 815 did not have a material impact on our financial statements.

ASC 350-30 (formerly SFAS No. 142-3)

In April 2008, the FASB issued ASC 350-30, Goodwill and Other Intangible Assets. (formerly FASB Staff Position (FSP) No. 142-3, Determination of the Useful Life of Intangible Assets), 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. ASC 350-30 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 ASC 350-30 and the period of expected cash flows used to measure the fair value of the asset under ASC 805-10-65-1, Business Combinations. The adoption of ASC 350-30 did not have a material impact on our financial statements.

Edgar Filing: AMPAL-AMERICAN ISRAEL CORP - Form 10-Q

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 equivalents equal to \$2.0 million have been allocated 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

East Mediterranean Gas Co. S.A.E, an Egyptian joint stock company (EMG), organized in 2000 in accordance with the Egyptian Special Free Zones system, has been granted the right to export natural gas from Egypt to Israel, other locations in the East Mediterranean basin and to other countries via pipelines or otherwise. EMG has linked the Israeli energy market with the Egyptian national gas grid via an East Mediterranean pipeline with the first gas delivery occurring in May 2008. EMG is the developer, owner and operator of the pipeline and its associated facilities on shore in both the point of departure at El Arish, Egypt and the point of entry in Ashkelon, Israel. In the Israeli market, EMG's first contract was signed in late 2005 with the Israel Electric Corporation (IEC) for a quantity of 2.1 BCM annually over 15-20 years. A second contract with Dorad Energy, Ltd. (Dorad) (an independent power producer) currently provides for for a quantity of 0.735 BCM annually over 17-22 years. On October 19, 2009, EMG entered into three contracts with respect to three combined cycle cogeneration plants: Ashdod Energy Ltd.; Ramat Negev Energy Ltd.; and Solad Energy Ltd., with a total production capacity of 270 Megawatts. The contracts provide for gas deliveries over an 18 year contract period. EMG is in the process of negotiating several additional agreements covering much of the anticipated 7.0 BCM annually earmarked for the Israeli market. This project is governed by an agreement signed between the governments of Israel and Egypt which designates EMG as the authorized exporter of Egyptian gas, secures EMG's tax exemption in Israel and provides for the Egyptian government's guarantee for the delivery of the gas to the Israeli market.

On November 29, 2007, Ampal and the Israel Infrastructure Fund (IIF), leading a group of institutional investors, purchased a 4.3% interest in EMG, through Merhav Ampal Energy Holdings, LP, an Israeli limited partnership (the Joint Venture), from Merhav M.N.F Ltd. (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.

In May 2008, the Government of Egypt adopted legislation that purports to revoke the tax free status of existing free zone companies operating in the iron, cement, steel, petroleum, liquification and transport of natural gas industries. The legislation, by its terms, would apply to EMG. Ampal understands that the impact of this recent change in law would be to impose a 20% tax on EMG's net future income. It is not clear to what extent the legislation will be enforced or whether it is valid under the Egyptian constitution. The legislation is, to Ampal's understanding, unusual, and it is not clear whether EMG will be successful in its negotiations with the Egyptian authorities or whether EMG shall choose to challenge this legislation in court, and therefore what if any impact the legislation will ultimately have on EMG.

As of September 30, 2009, 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%). In June 2009, EMG and its upstream supplier in Egypt entered into an amendment (Amendment) to the Gas Sales & Purchase Agreement (GSPA) with regard to repricing gas sold to EMG. The Amendment to the GSPA includes price increases, periodic price adjustments, and new gas delivery targets. Subsequently, EMG entered into negotiations with both of its contracted clients, IEC and Dorad, in order to amend their contracts to reflect the provisions contained in the Amendment. The Dorad amendment was signed in July 2009 and the IEC amendment was signed and approved by IEC's board of directors, and is subject inter alia for the approval of IEC's shareholders meeting.

To the best of Ampal's knowledge, EMG is currently supplying the full contracted quantities of the gas.

Edgar Filing: AMPAL-AMERICAN ISRAEL CORP - Form 10-Q

7. Acquisition of Gadot

On December 3, 2007, Ampal completed the purchase of a 65.5% controlling interest (63.66% on a fully diluted basis) in Gadot Chemical Tankers and Terminals Ltd. (Gadot) through its wholly owned subsidiary, Merhav Ampal Energy Ltd.. On June 3, 2008, Ampal purchased an additional 14.98% bringing its controlling interest to 79.3% (78.88% on a fully diluted basis) and on August 12, 2008, Ampal purchased an additional 20.6% bringing its controlling interest to 100% (99.99% on a fully diluted basis). Total consideration including direct transaction expenses was \$132.3 million. The cash consideration was financed with Ampal's own resources and with borrowings in the amount of \$87.5 million.

Gadot was founded in 1958 as a privately held Israeli company, with operations in distribution and marketing of liquid chemicals for raw materials used in industry. Since then, Gadot has expanded into a group of companies, which currently forms Israel's leading chemical distribution organization. Through its subsidiaries, Gadot ships, stores, and distributes liquid chemicals, oils, and a large variety of materials to countries across the globe, with an emphasis on Israel and Western Europe. In our description of Gadot's business operations, the term Gadot refers to Gadot and its consolidated subsidiaries.

Under the purchase method of accounting, the total consideration of \$132.3 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 transactions.

The overall identified tangible and intangible assets acquired amounted to approximately \$34.3 million and \$27.8 million, respectively. The main assets included are ships and tankers and an option to purchase and lease ships, for approximately \$28.7 million and \$7.6 million, respectively, to be amortized over an estimated useful life of 12 and 4 years, respectively.

8. Sugarcane Ethanol Production Project

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 sugarcane ethanol production project (the Project) in Colombia being developed by Merhav. 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 Promissory Note was given in connection with an option agreement dated December 25, 2007 (the Original Option Agreement), with Merhav providing Ampal with the option (the Option) to acquire up to a 35% equity interest in the Project. The loan will be convertible into all or a portion of the equity interest purchased pursuant to the Original Option Agreement.

On December 25, 2008, Ampal entered into an amendment (the Option Amendment) to the Original Option Agreement. Under the Original Option Agreement, the Option expired on the earlier of December 25, 2008 or the date (the Financing Date) on which both (i) Merhav obtained third-party debt financing for the Project and (ii) an unaffiliated third party holds at least a 25% equity interest in the Project. The Option Amendment extends the expiration of the Option to the earlier of December 31, 2009 or the Financing Date.

The Option Amendment also provides that in determining the price to be paid by Ampal for shares pursuant to the option under the Valuation Model (as defined below), the parties have agreed to review the discount rate set forth in the Valuation Model to determine whether the discount rate should be increased, provided, however, that the purchase price shall not exceed the amount Ampal would have paid without giving effect to the Option Amendment. The maximum purchase price for any interest in the Project purchased by Ampal pursuant to the option would be (A) with respect to any portion of such interest being purchased by conversion of the outstanding balance of the Amended Promissory Note referred to below, the lesser of (i) a price based on a currently agreed valuation model as updated from time to time to reflect changes in project, financing and other similar costs (the Valuation Model) as such updates are reviewed by Houlihan Lokey Howard & Zukin at the time of the Option's exercise or (ii) the lowest price paid by any unaffiliated third party for an interest in the Project, or (B) with respect to any portion of such interest in the Project being purchased in excess of the balance of the Amended Promissory Note, the lowest price paid by an unaffiliated third party for its interest in the Project, unless no unaffiliated third party has purchased an interest in the Project, in which case the purchase price will be based on the Valuation Model.

In consideration for Merhav entering into the Option Amendment, Ampal agreed to certain amendments to the Promissory Note reflected in an Amended and Restated Promissory Note, dated December 25, 2008 (the Amended Promissory Note). The Amended Promissory Note provides for (i) an increase in the annual interest rate from LIBOR plus 2.25% to LIBOR plus 3.25% and (ii) an extension of the maturity date of the Promissory Note to December 31, 2009. As a condition to amending and restating the Promissory Note, Ampal received a personal guaranty dated as of December 25, 2008, from Yosef A. Maiman personally guaranteeing the obligations of Merhav under the Amended Promissory Note.

The loan continues to be secured by Merhav's pledge to Ampal, pursuant to a Pledge Agreement dated December 25, 2007, between Merhav and Ampal, of all of the shares of Ampal's Class A Common Stock, par value \$1.00 per share (Class A Stock), owned by Merhav.

Yosef A. Maiman, the Chairman, President and CEO of Ampal and a member of the controlling shareholders group of Ampal, is the sole owner of Merhav. Because of the foregoing relationship, a special committee of the Board of Directors composed of Ampal's independent directors negotiated and approved the transaction.

9. Services and Management Agreements related party transactions

Ampal and Gadot entered into a services agreement pursuant to which Gadot shall pay Ampal management fees, calculated as a percentage of Gadot's profits, in consideration for management services rendered by Ampal to Gadot.

Ampal and Merhav entered into an agreement pursuant to which Ampal shall pay Merhav annual management fees totaling in the aggregate NIS 10 million (\$2.7 million), in consideration for management, marketing, financial, development and other administrative services rendered by Merhav to Ampal.

As stipulated above, Yosef A. Maiman, the Chairman, President and CEO of Ampal and a member of the controlling shareholders group of Ampal, is the sole owner of Merhav. Because of the foregoing relationship, a special committee of the Board of Directors composed of Ampal's independent directors negotiated and approved the transaction between Ampal and Merhav.

10. Derivatives and Other Financial Instruments

As stated above, in March 2008, the FASB issued ASC 815 (formerly FAS 161), Disclosures about Derivative Instruments and Hedging Activities. ASC 815 is an amendment of ASC 815-15 (formerly SFAS 133, Accounting for Derivative Instruments and Hedging Activities). This statement requires enhanced disclosures about an entity's derivative and hedging activities and thereby improves the transparency of financial reporting. ASC 815 became effective for the Company on January 1, 2009 and we have incorporated the additional disclosure information for ASC 815 below.

The Company is exposed to certain risks relating to its ongoing business operations, including financial, market, political, and economic risks. The following discussion provides information regarding the Company's exposure to the risks of changing commodity prices, interest rates, and foreign currency exchange rates.

The Company's derivative activities are subject to management's discretion.

The interest rate and foreign exchange contracts are held for purposes other than trading. They are used primarily to mitigate uncertainty and volatility, and to in order to cover underlying exposures. A swap contract was entered into to convert some of the Company's New Israeli Shekel denominated debt in the amount of NIS 150 million (\$43.9 million) into U.S. Dollar denominated debt and to convert Israeli interest rates into LIBOR interest rates.

On April 1, 2009, the Company signed a interest rate swap contract in order to convert some of the company's LIBOR interest rate denominated debt in the amount of \$43.7 million into fixed interest rate debt.

We use foreign currency forward contracts to mitigate fluctuations in foreign currency exchange rates due to variations in payment or receipt of currencies other than the Company's functional currency. We use contracts to purchase U.S. Dollars and sell Euros, contracts to purchase Euros and sell U.S. Dollars and contracts to purchase U.S. Dollars and sell New Israeli Shekels.

We enter into derivative financial instruments, including swaps and forward agreements. We report the fair value of the derivatives on our balance sheet. The derivatives used are not designated as a hedging instrument under ASC 815. Changes in fair value are recognized in earnings in the period of change.

The following summarizes the gross fair market value of all derivative instruments and their location in our consolidated balance sheet, and indicates what instruments are in an asset or liability position.

Asset Derivatives

Edgar Filing: AMPAL-AMERICAN ISRAEL CORP - Form 10-Q

(U.S. Dollars in thousands)

Derivative Instrument	Location	(U.S. Dollars in thousands)		
		September 30, 2009	December 31, 2008	September 30, 2008
SWAP contracts	Other assets	2,094	-	-
Exchange rate contracts	Other assets	30	9,601	6

13

Liability Derivatives

(U.S. Dollars in thousands)

Derivative Instrument	Location	(U.S. Dollars in thousands)		
		September 30, 2009	December 31, 2008	September 30, 2008
SWAP contracts	Accounts payable, accrued expenses and others	-	4,218	3,022
Exchange rate contracts	Accounts payable, accrued expenses and others	301	10,105	190

Statement of Operation

(U.S. Dollars in thousands)

Derivative Instrument	Location	(U.S. Dollars in thousands)			
		Nine months ended September 30		Three months ended September 30	
		2009	2008	2009	2008
SWAP contract	Translation income (expense)	5,736	(998)	2,315	(3,722)
Interest rate SWAP contract	Interest expense	(276)	-	(1,787)	-
Exchange rate contracts Translation expense	Translation expense	970	802	2,546	1,413

11. Fair Value Measurements

In September 2006, the FASB issued ASC 820 (formerly SFAS No. 157, Fair Value Measurements), 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 ASC 820 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 ASC 820 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.

ASC 820 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 ASC 820 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

Edgar Filing: AMPAL-AMERICAN ISRAEL CORP - Form 10-Q

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 ASC 825 (formerly SFAS 159, "The Fair Value Option for Financial Assets and Financial Liabilities"). ASC 825 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. ASC 825 is effective for fiscal years after November 15, 2007. The Company did not elect to apply the fair value option available under ASC 825 for any of its eligible instruments.

The following section describes the valuation methodologies used by the Company to measure derivative contracts at fair value, including an indication of the level in the fair value hierarchy in which each instrument is generally classified. Where appropriate, the description includes details of the valuation models, the key inputs to those models, and any significant assumptions.

14

Derivative contracts are valued using quoted market prices and significant other observable and unobservable inputs. Such financial instruments consist of aluminum, energy, interest rate, and foreign exchange contracts. The fair values for the majority of these derivative contracts are based upon current quoted market prices. These financial instruments are typically exchange-traded and are generally classified within Level 1 or Level 2 of the fair value hierarchy depending on whether the exchange is deemed to be an active market or not.

Financial assets and liabilities measured at fair value on a recurring basis as at September 30, 2009 consisted of the following (in thousands):

Fair Value Measurements as Using at :

	September 30, 2009			December 31, 2008		
	Level 1	Level 2	Total	Level 1	Level 2	Total
Trading securities *	\$ 2,157	\$ -	\$ 2,157	\$ 4,396	\$ -	\$ 4,396
Available for sale securities *	27,805	-	27,805	48,463	-	48,463
Derivative assets **	-	2,124	2,124	-	9,601	9,601
Derivative liabilities **	-	(301)	(301)	-	(14,323)	(14,323)
Total	\$ 29,962	\$ 1,823	\$ 31,785	\$ 52,859	\$ (4,722)	\$ 48,137

Marketable securities that are classified in level 1 consist of available-for-sale and trading securities for which market prices are readily available, derivative assets that are classified in level 2 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

** See note 10

The carrying amount of the Company's traded debentures as of September 30, 2009 is \$212 million. The market value of such debentures, based on the closing price of those debentures on September 30, 2009 in the Tel Aviv Stock Exchange, was \$ 179 million. The total carrying value of long-term loans as of September 30, 2009 was \$235 million. The Company estimates that the fair value of the long-term loans approximates their carrying value, since substantially all of them bear non-fixed interest and there is no significant change in the credit risk of such loans.

Edgar Filing: AMPAL-AMERICAN ISRAEL CORP - Form 10-Q

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

ASC 280 (formerly 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 Gadot 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. This investment is accounted for under the cost method.

The leisure-time segment consists of an affiliate, Country Club Kfar Saba Ltd., the Company's 51%-owned subsidiary, located in Israel.

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

15

NINE MONTHS ENDED SEPTEMBER 30,	2009	2008
(Dollars in thousands)		
Revenues:		
Chemicals	\$ 287,434	\$ 419,620
Finance	6,562	5,850
Leisure-time	2,086	2,309
Total consolidated revenues	\$ 296,082	\$ 427,779
Pre-tax Operating Gain (loss):		
Chemicals	\$ (757)	\$ (259)
Finance	(21,076)	(49,088)
Leisure-time	189	(59)
Equity in losses of affiliates	(21,644)	(49,406)
Total consolidated pretax (loss)	\$ (22,847)	\$ (50,615)
Total Assets:		
Chemicals	\$ 382,636	\$ 421,328
Finance	510,146	598,441
Energy	361,323	361,323
Leisure-Time	3,456	3,265
Inter- segments adjustments	(337,274)	(370,505)
Total consolidated assets	\$ 920,287	\$ 1,013,852

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

13. The following table summarizes securities that were not included in the calculations of diluted earnings per share of Class A Stock for the periods ended September 30, 2009 and 2008 because such shares are anti-dilutive.

(Shares in thousands)	Nine Months Ended September 30,	
	2009	2008
Shares resulting from Options and Rights	2,921	2,341

14. LEGAL PROCEEDINGS:

None.

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

AMPAL-AMERICAN ISRAEL CORPORATION AND SUBSIDIARIES

CRITICAL ACCOUNTING POLICIES

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, 2008 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.

Revenue Recognition

The Company recognizes revenue in accordance with Staff Accounting Bulletin ASC 605 (formerly SAB No. 104 - Revenue Recognition). Revenue is recognized when (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.

Chemical income 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.

Revenue from services is recognized as follows:

Revenues arising from the provision of marine transport services proportionally over the period of the marine transport services. As to voyages uncompleted in which a loss is expected, a full provision is made in the amount of the expected loss.

Revenues from chemical brokerage commissions are recognized when the right to receive them is created.

Edgar Filing: AMPAL-AMERICAN ISRAEL CORP - Form 10-Q

Rental income is recorded over the rental period. Revenues from services provided to country-club subscribers are recognized ratably over the contractual period.

Income from other services is recognized over the period during which those services are performed.

Recently adopted and recently Issued Accounting Pronouncements

ASC 105 (formerly SFAS No. 168)

In June 2009, the Financial Accounting Standards Board (FASB) issued Accounting Standards Codification (ASC) 105, Generally Accepted Accounting Principles (formerly Statement of Financial Accounting Standards (SFAS) No. 168, The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles a replacement of FASB Statement No. 168 (SFAS 168)). The statement confirmed that the FASB Accounting Standards Codification (the Codification) will become the single official source of authoritative U.S. GAAP (other than guidance issued by the SEC), superseding existing FASB, American Institute of Certified Public Accountants, Emerging Issues Task Force (EITF), and related literature. Upon the effectiveness of the codification, only one level of authoritative U.S. GAAP will exist. All other literature will be considered non-authoritative. The Codification does not change U.S. GAAP; instead, it introduces a new structure that is organized in an easily accessible, user-friendly online research system. The Codification, which changes the referencing of financial standards, became effective for interim and annual periods ending on or after September 15, 2009, and the adoption did not have impact on our financial statements.

ASC 810 (formerly SFAS No. 167)

In June 2009, the FASB issued accounting guidance contained within ASC 810, Consolidation , regarding the consolidation of variable interest entities (formerly SFAS No. 167, Amendments to FASB Interpretation No. 46(R)). Amendments to FASB Interpretation No. 46(R), ASC 810 is intended to improve financial reporting by providing additional guidance to companies involved with variable interest entities and by requiring additional disclosures about a company s involvement in variable interest entities. This standard is effective for interim and annual periods ending after November 15, 2009. We are currently assessing the potential impacts, if any, on our consolidated financial statements.

Edgar Filing: AMPAL-AMERICAN ISRAEL CORP - Form 10-Q

ASC 820 (formerly FSP No. 157-4)

In April 2009, the FASB issued ASC 820 (formerly FSP No. 157-4, *Determining Fair Value When the Volume and Level of Activity for the Asset and Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly*), which provides additional guidance in accordance with ASC 820, *Fair Value Measurements*, when the volume and level of activity for the asset or liability has significantly decreased. ASC 820 is effective for interim and annual reporting periods ending after June 15, 2009, and the adoption did not have a material impact on our financial statements.

ASC 825 (formerly FSP No. 107-1)

In April 2009, the FASB issued ASC 825, *Financial Instruments* (formerly FASB Staff Position 107-1, *Interim Disclosures about Fair Value of Financial Instruments*). ASC 825 requires disclosures about fair value of financial instruments for interim reporting periods of publicly traded companies as well as in annual financial statements. This standard also requires those disclosures in summarized financial information at interim reporting periods ending after June 15, 2009, and the adoption did not have a material impact on our financial statements.

ASC 820 (formerly SFAS No. 157)

In September 2006, the FASB issued ASC 820 (formerly SFAS No. 157, *Fair Value Measurements*), as it applies to non-financial assets and liabilities that are not required to be measured at fair value on a recurring (at least annual) basis, which provides guidance on how to measure assets and liabilities that use fair value. ASC 820 will apply whenever another US GAAP standard requires (or permits) assets or liabilities to be measured at fair value but does not expand the use of fair value to any new circumstances. This standard also will require additional disclosures in both annual and quarterly reports. ASC 820 is for fiscal years beginning after November 15, 2007 (January 1, 2008 for the Company). In February 2008, the FASB deferred for one additional year the effective date of ASC 820 for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). The adoption of the parts of ASC 820 that became effective in 2008 did not have a material impact on the Company's financial statements. The adoption of the remaining parts of ASC 820 did not have a material impact on our financial statements.

ASC 805 (formerly SFAS No. 141R)

In December 2007, the FASB issued ASC 805-10-65-1 (formerly SFAS No. 141 (revised 2007), *Business Combinations* (SFAS 141R)) which replaces SFAS No. 141, *Business Combination*. ASC 805-10-65-1 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. ASC 805-10-65-1 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 adoption of ASC 805-10-65-1 did not have a material impact on our financial statements.

ASC 810 (formerly SFAS No. 160)

In December 2007, the FASB issued accounting guidance contained within ASC 810, *Consolidation*, regarding noncontrolling interests (formerly SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements*) (ASC 810). ASC 810-10-65 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. The presentation and disclosure requirements of ASC 810-10-65 were applied retrospectively. Other than the change in presentation of noncontrolling interests, the adoption of ASC 810-10-65 did not have a material impact on our financial statements.

ASC 815 (formerly SFAS No. 161)

In March 2008, FASB issued the disclosure requirements within ASC 815, *Derivatives and Hedging* (formerly SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities, an Amendment of FASB No. 133*). ASC 815 is intended to improve transparency in financial reporting by requiring enhanced disclosures of an entity's derivative instruments and hedging activities and their effects on the entity's financial position, financial performance, and cash flows. The disclosure requirements apply to all derivative instruments within the scope of ASC 815. The standard also applies to non-derivative hedging instruments and all hedged items designated and qualifying under ASC 815. Other than the required disclosures (see note 10), the adoption of ASC 815 did not have a material impact on our financial statements.

Edgar Filing: AMPAL-AMERICAN ISRAEL CORP - Form 10-Q

ASC 350-30 (formerly SFAS No. 142-3)

In April 2008, the FASB issued ASC 350-30, *Goodwill and Other Intangible Assets*. (formerly FASB Staff Position (FSP) No. 142-3, *Determination of the Useful Life of Intangible Assets*), 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. ASC 350-30 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 ASC 350-30 and the period of expected cash flows used to measure the fair value of the asset under ASC 805-10-65-1, *Business Combinations*. The adoption of ASC 350-30 did not have a material impact 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 quarter, the price of crude oil slightly increased, which led to a moderate price increase in commodity chemicals. The demand for chemicals is also showing a moderate increase. The G-7's economic growth indicators reveal an ease in the recession. It is too early to state that it is the end of the slow down, as private consumption is still slow.

Nine months ended September 30, 2009 compared to nine months ended September 30, 2008

The Company recorded a consolidated net loss of \$19.0 million for the nine months ended September 30, 2009, compared to a net loss of \$40.3 million for the corresponding period in 2008. The loss in 2009 is primarily attributable to the interest expenses resulting from the issuance of debentures and loans for the financing of Gadot's purchase which was partially offset by translation gain, while the loss in 2008 was primarily attributable to interest expenses and translation loss.

In the nine months ended September 30, 2009 and 2008, the Company included the following certain data of Gadot (in millions of dollars):

	<u>September 30, 2009</u>	<u>September 30, 2008</u>
Chemical income	\$ 287.4	\$ 419.6
Chemical expense	\$ 265.7	\$ 383.3
Other expense (mainly general and administrative)	\$ 12.8	\$ 16.8
Interest expense	\$ 5.3	\$ 7.6

In the nine months ended September 30, 2009, the Company recorded \$4.8 million of marketing expense, as compared to a \$8.2 million marketing expense in the corresponding period in 2008. These expenses are attributable to Gadot and composed mainly of salary and commission expenses. The decrease is primarily the result of a restructuring plan that took place at Gadot.

In the nine months ended September 30, 2009, the Company recorded a \$24.6 million of general, administrative and other expense, as compared to \$27.3 million in the corresponding period in 2008. The decrease is primarily the result of a restructuring plan that took place at Gadot.

In the nine months ended September 30, 2009, the Company recorded a \$0.8 million of noncontrolling interests share in losses of subsidiaries, net, as compared to \$9.6 million share in losses in the corresponding period in 2008. These losses are mainly attributable to translation losses in the notes issued to the partners in Merhav Ampal Energy, LP, an Israeli limited partnership (the *Joint Venture*), resulting from the valuation of the New Israeli Shekel compared to the U.S. Dollar.

Edgar Filing: AMPAL-AMERICAN ISRAEL CORP - Form 10-Q

In the nine months ended September 30, 2009, the Company recorded a \$25.7 million interest expense, as compared to a \$33.3 million interest expense for the corresponding period in 2008. The interest expense relates to the notes payable which the Company received to finance the purchase of Gadot, issuance of the Company's debentures, the Company's notes payable and the interest expense of the SWAP agreements. The decrease is mainly attributable to the change in the LIBOR interest rate.

Edgar Filing: AMPAL-AMERICAN ISRAEL CORP - Form 10-Q

In the nine months ended September 30, 2009, the Company recorded a \$3.1 million translation gain, as compared to a \$19.5 million translation loss for the corresponding period in 2008. The increase in translation gain is related to a change in the valuation of the New Israeli Shekel as compared to the U.S. Dollar, decrease of 1.1% in the nine months ended September 30, 2009, as compared to a decrease of 11.1% for the corresponding period in 2008.

The Company recorded a net loss of \$1.2 million in Equity in losses of affiliates for the nine months ended September 30, 2009, compared to a net gain in Equity in earnings of affiliates of \$1.2 million for the corresponding period in 2008.

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

	2009	2008
	(U.S. Dollars in thousands)	
Revenues:		
Chemicals	\$ 287,434	\$ 419,620
Finance	6,562	5,850
Leisure-time	2,086	2,309
	\$ 296,082	\$ 427,779

The Chemicals income relates solely to Gadot and was derived 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, 2009, the Company recorded \$296.1 million in revenue which was comprised of \$287.4 million in the Chemicals segment, \$6.6 million in the Finance segment and \$2.1 million in the Leisure-time segment, as compared to \$427.8 million for the same period in 2008, which was comprised of \$419.6 million in the Chemicals segment, \$5.9 million in the Finance segment and \$2.3 million in the Leisure-time segment. The decrease in Chemicals revenues is primarily attributable to the slowdown in the markets, especially in Europe, which lead the decrease in sold quantities and product prices, and also due to the significant decrease in the demand for chemical carrier shipping. The recession and the resulting significant decrease in the demand for chemical carrier ships were felt during the nine months of 2009. The decrease in demand for chemical shipping lead to a steep decline in freight rates. In addition, the decline in shipped quantities generates an uneven shipment of chemicals, which in certain voyages, results in almost no cargo being shipped on the return leg of a voyage.

	2009	2008
	(U.S. Dollars in thousands)	
Expenses:		
Chemicals	\$ 283,321	\$ 420,369
Finance	32,406	54,448
Leisure-time	1,999	2,368
	317,726	477,185
Equity in losses of affiliates	1,203	1,209
	\$ 318,929	\$ 478,394

In the nine months ended September 30, 2009, the Company recorded \$318.9 million in expenses which was comprised of \$283.3 million of expenses in the Chemicals segment, \$32.4 million of expenses in the Finance segment, \$2.0 million of expenses in the Leisure-time segment and a \$1.2 million loss in Equity in earnings of affiliates, as compared to \$478.4 million in expenses for the same period in 2008 which was

Edgar Filing: AMPAL-AMERICAN ISRAEL CORP - Form 10-Q

comprised of \$420.4 million in the Chemicals segment, \$54.4 million in the Finance segment, \$2.4 million in the Leisure-time segment and a \$1.2 million loss in Equity in earnings of affiliates. The decrease in expenses in the Finance segment is primarily attributable to the \$3.7 million translation gain, which was recorded due to the devaluation of the Company's debt denominated in New Israeli Shekel as compared to the U.S Dollar, as compared to \$19.5 million translation loss in 2008, and was partially offset by the increase in interest expense related to the notes payable which the Company received to finance the purchase of Gadot and issuance of the Company's debentures. The chemical commodity pricing is a derivative of the crude oil pricing. During 2008 the price of crude oil increased significantly and caused an increase in the chemical commodity prices as well. Since September 2008, the crude oil's price decreased and led to a decrease in chemical commodity prices in 2009.

Edgar Filing: AMPAL-AMERICAN ISRAEL CORP - Form 10-Q

Three months ended September 30, 2009 compared to three months ended September 30, 2008

The Company recorded a consolidated net loss of \$18.1 million for the three months ended September 30, 2009 compared to a net loss of \$12.6 million for the corresponding period in 2008. The loss in 2009 and 2008 is primarily attributable to the translation loss and interest expenses resulting from the issuance of the debentures and loans for the financing of Gadot's purchase.

In the three months ended September 30, 2008 and 2009, the Company included the following certain data of Gadot (in millions of dollars):

	<u>September 30, 2009</u>	<u>September 30, 2008</u>
Chemical income	\$ 101.1	\$ 142.4
Chemical expense	\$ 93.9	\$ 126.9
Other expense (mainly general and administrative)	\$ 4.2	\$ 5.8
Interest expense	\$ 1.8	\$ 3.7

In the three months ended September 30, 2009, the Company recorded \$1.5 million of marketing expense, as compared to a \$2.1 million marketing expense in the corresponding period in 2008. These expenses are attributable to Gadot and composed mainly of salary and commission expenses. The decrease is primarily the result of a restructuring plan that took place in Gadot.

In the three months ended September 30, 2009, the Company recorded \$8.5 million of general, administrative and other expenses, as compared to \$9.0 million in the corresponding period in 2008.

In the three months ended September 30, 2009, the Company recorded \$4.0 million of noncontrolling interests share in loss of subsidiaries, net, as compared to \$3.3 million share in loss in the corresponding period in 2008. These losses are mainly attributable to translation gains in the notes issued to the partners in the Joint Venture, resulting from the valuation of the New Israeli Shekel compared to the U.S. Dollar.

In the three months ended September 30, 2009, the Company recorded a \$12.3 million interest expense, as compared to a \$18.3 million interest expense for the corresponding period in 2008. This decrease is a result of a lower increase in the Israeli Consumer Price Index (which the Company's debentures are linked to) in the three months and September 30, 2009 as compared to the increase in the Israeli Consumer Price Index in the three months ended September 30, 2008.

In the three months ended September 30, 2009, the Company recorded a \$8.2 million translation loss, as compared to a \$5.9 million translation gain for the corresponding period in 2008. The translation loss is related to a change in the valuation of the New Israeli Shekel as compared to the U.S. Dollar.

The Company recorded a \$0.9 million net loss in Equity in losses of affiliates for the three months ended September 30, 2009, compared to a net loss of \$1.8 million for the corresponding period in 2008.

Edgar Filing: AMPAL-AMERICAN ISRAEL CORP - Form 10-Q

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

	2009	2008
	(U.S. Dollars in thousands)	
Revenues:		
Chemicals	\$ 101,141	\$ 142,597
Finance	1,026	2,310
Leisure-time	778	817
	\$ 102,945	\$ 145,724
Total	\$ 102,945	\$ 145,724

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 three months ended September 30, 2009, the Company recorded \$102.9 million in revenue which was comprised of \$101.1 million revenue in the Chemicals segment, \$1.0 million gain in the Finance segment and \$0.8 million revenue in the Leisure-time segment, as compared to \$145.7 million for the same period in 2008, which was comprised of \$142.6 million in the Chemicals segment, \$2.3 million in the Finance segment and \$0.8 million in the Leisure-time segment. The decrease in Chemicals revenues is primarily attributable to the slowdown in the markets, especially in Europe, which lead the decrease in sold quantities and product prices and due to significant decrease in the demand for chemical carrier shipping. The third quarter revenues slightly increased comparing to the first two quarters of 2009 but the recession is still felt during the third quarter of 2009. The chemical shipping demand is still slow and generates an uneven shipment of chemicals, which in certain voyages, results in almost no cargo being shipped on the return leg of voyage.

The decrease in the Finance segment revenue is primarily related to the revenues from the SWAP agreements.

	2009	2008
	(U.S. Dollars in thousands)	
Expenses:		
Chemicals	\$ 97,524	\$ 140,519
Finance	27,118	11,550
Leisure-time	959	863
	125,601	152,932
Equity in losses of affiliates	928	1,787
	\$ 126,529	\$ 154,719
Total	\$ 126,529	\$ 154,719

In the three months ended September 30, 2009, the Company recorded \$126.5 million in expenses which was comprised of \$97.5 million of expenses in the Chemicals segment, \$27.1 million of expenses in the Finance segment, \$1.0 million of expenses in the Leisure-time segment and a net loss of \$0.9 million in Equity in losses of affiliates, as compared to \$154.7 million in expenses for the same period in 2008 which was comprised of \$140.5 million in the Chemicals segment, \$11.6 million in the Finance segment, \$0.9 million in the Leisure-time segment and a net loss of \$1.8 million in Equity in losses of affiliates. The chemical commodity pricing is a derivative of the crude oil pricing. During 2008 the price of crude oil increased significantly and caused an increase in the chemical commodity prices as well. Since September 2008, the crude oil price decreased and led to a decrease in chemical commodity prices in 2009.

Income taxes

Edgar Filing: AMPAL-AMERICAN ISRAEL CORP - Form 10-Q

In the nine month period ended September 30, 2009, the Company reported a tax benefit of \$3.0 million as compared to approximately \$0.7 million of tax benefit in the corresponding period in 2008. The tax benefit which was recorded pertains mainly to losses of the Company and affiliates for which we created a deferred tax asset.

Edgar Filing: AMPAL-AMERICAN ISRAEL CORP - Form 10-Q

Liquidity and Capital Resources

Cash Flows

On September 30, 2009, cash, cash equivalents and marketable securities were \$110.1 million, as compared with \$121.6 million at December 31, 2008. The decrease is mainly attributable to the repurchase of the Company's debentures.

As of September 30, 2009, the Company had \$30.0 million of marketable securities as compared to \$52.9 million as of December 31, 2008. The decrease is attributable to the sale of marketable securities.

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 equivalents equal to \$2.0 million has been allocated as a compensating balance for various loans provided to the Company.

Cash flows from operating activities

Net cash provided by operating activities totaled approximately \$19.1 million for the nine months ended September 30, 2009, compared to approximately \$8.1 million used in operating activities for the corresponding period in 2008. The increase in cash provided by operating activities is primarily attributable to the increase in accounts payable and decrease in accounts receivable and inventories as compared to the corresponding period in 2008.

Cash flows from investing activities

Net cash used in investing activities totaled approximately \$7.9 million for the nine months ended September 30, 2009, compared to approximately \$169.0 million used in investing activities for the corresponding period in 2008. The change in cash used in investing activities is primarily attributable to proceeds from the sale of available-for-sale securities in 2009 which were partially offset by increase in capital improvements in 2009, and deposits granted, investments made in affiliates and available-for-sale shares in 2008.

Cash flows from financing activities

Net cash used in financing activities was approximately \$7.6 million for the nine months ended September 30, 2009, compared to approximately \$228.4 million of net cash provided by financing activities for the corresponding period in 2008. The change in cash used in financing activities is primarily attributable to the repurchase of Company's debentures in 2009 and to the issuance of the Company's Series B debentures in the amount of \$166.9 million in 2008.

Investments

In the nine months ended September 30, 2009, the Company made additional investments in the amount of a \$1.2 million loan to Bay Heart Ltd. (Bay Heart).

Debt

Notes issued to institutional investors in Israel, the convertible note issued to Merhav M.N.F Ltd. (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 2009-2019.

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, 2009, the outstanding indebtedness under these bank loans totaled \$368.8 million, and the loans mature through 2009-2019.

On April 29, 2008, Ampal completed a public offering in Israel of NIS 577.8 million (approximately \$166.8 million) aggregate principal amount of its Series B debentures, due in 2016. The debentures are linked to the Israeli consumer price index and carry an annual interest rate of 6.6%.

Edgar Filing: AMPAL-AMERICAN ISRAEL CORP - Form 10-Q

The debentures rank pari passu with Ampal's unsecured indebtedness. The debentures 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, 2009, the outstanding debt under the debentures amounts to \$143.5 million, due to the change in valuation of the New Israeli Shekel as compared to the U.S. dollar and to the repurchase plan. Ampal deposited an amount of \$44.6 million with Clal Finance Trusties 2007 Ltd. in accordance with a trust agreement dated April 6, 2008, to secure the first four years worth of payments of interest on the debentures. As of September 30, 2009, the outstanding amount of the deposit was \$25.5 million. The debt offering was made solely to certain non-U.S. institutional investors in accordance with Regulation S under the U.S. Securities Act of 1933, as amended. The notes have not been and will not be registered under the U.S. securities laws, or any state securities laws, and may not be offered or sold in the United States or to United States persons without registration unless an exemption from such registration is available.

Edgar Filing: AMPAL-AMERICAN ISRAEL CORP - Form 10-Q

Ampal funded the Gadot transaction with a combination of available cash and the proceeds of the credit facility, dated November 29, 2007 (the Credit Facility), between Merhav Ampal Energy Ltd. (MAE) and IDB, for approximately \$60.7 million, which amount was increased, on the same terms and conditions, on June 3, 2008 by approximately \$11.3 million in order to fund the second stage of the transaction and on September 23, 2008 by approximately \$15.4 million in order to fund the third stage of the transaction. 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 one and a half years, and shall thereafter be paid in equal installments over the remaining ten years of the term. Interest on both loans accrues at a floating rate equal to LIBOR plus 2% 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 for the Credit Facility. Yosef Maiman has agreed with IDB 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, 2009, the Company has a \$6.7 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 \$5.8 million bearing interest at rates between 4.6% and 4.8% to be repaid during 2009.

As of September 30, 2009, the Company has a \$18.0 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, 2009, the Company is in compliance with its debt covenants.

As of September 30, 2009, the Company has a \$97.5 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.

The Company has a short term loan from Bank Hapoalim in the aggregate amount of \$3.5 million bearing interest at an annual rate of LIBOR plus 2.6%, to be repaid by December 31, 2009 and a revolving short term loan in the amount of \$3.0 million bearing interest of 3.8%.

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, 2009, the outstanding debt under the notes amounts to \$67.9 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 \$10.2 million with Hermetic Trust (1975) Ltd. to secure the first three years worth of payments of interest on the debentures. As of September 30, 2009, the outstanding amount of the deposit was \$2.0 million.

Midroog Ltd. (an affiliate of Moody's Investors Service) currently rates Ampal's Series A and Series B Debentures as A3 on its Watchlist.

Other long term borrowings in the amount of \$0.1 million are linked to the Consumer Price Index in Israel, mature between 2009 and 2010 and bear annual interest of 5.7%.

As of September 30, 2009, Gadot had \$0.1 million outstanding under its convertible debentures. Gadot's debentures were listed on the TASE in December 2003, are linked to the Consumer Price Index in Israel, bear annual interest at the rate of 6.5%, and are repayable at December 5, 2009. The debentures are convertible into ordinary shares of Gadot, each incremental amount of NIS 3.53 of outstanding debentures (linked to the Consumer Price Index in Israel) convertible into one ordinary share of Gadot, par value NIS 0.1, subject to adjustments.

As of September 30, 2009, Gadot had \$4.4 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.

Edgar Filing: AMPAL-AMERICAN ISRAEL CORP - Form 10-Q

As of September 30, 2009, Gadot had short term loans payable in the amount of \$63 million and long term loans payable in the amount of \$78.2 million. The various short term loans payable are either unlinked or linked to the USD and bear interest at rates between 2.5% to 4.5%. The various long term loans payable are either unlinked or linked to the Consumer Price Index in Israel or linked to the USD and bear interest at rates between 2.0% to 9.0%.

The weighted average interest rates and the balances of these short-term borrowings at September 30, 2009 and December 31, 2008 were 2.9% on \$152.0 million and 5.1% on \$157.2 million, respectively.

As of September 30, 2009, the Company had issued guarantees on certain outstanding loans to its investees and subsidiaries in the aggregate principal amount of \$35.9 million. These include:

1. A \$8.6 million guarantee on indebtedness incurred by Bay Heart in connection with the development of property. Bay Heart recorded losses in 2009. 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 \$27.3 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, 2009, the Company had open foreign currency forward exchange contracts to purchase U.S. Dollars and sell Euros in the amount of \$4.9 million and contracts to purchase U.S. Dollars and sell New Israeli Shekels in the amount of \$8.0 million.

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, 2008, 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 were held by the Company at September 30, 2009, and are sensitive to the above market risks.

During the nine months ended September 30, 2009, 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, 2008.

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 \$134.3 million, due 2016. As a result of this agreement 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.

On April 1, 2009, the Company entered into a interest rate swap agreement with respect to its loan to finance the purchase of Gadot in the principal amount of \$43.7 million, due 2019. As a result of this agreement the Company is currently paying a fixed interest rate of 2.95% as compared to LIBOR in the original loan agreement.

As of September 30, 2009, the value of the currency swap s contracts resulted in a \$2.1 million in other assets and a \$5.5 million in interest and translation expenses.

As of September 30, 2009, the Company had financial assets totaling \$107.6 million and financial liabilities totaling \$603.0 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, 2009, the Company did not have fixed rate financial assets and had variable rate financial assets of \$107.6 million. A ten percent decrease in interest rates would not increase the unrealized fair value of the fixed rate assets.

As of September 30, 2009, the Company had fixed rate debt of \$328.5 million and variable rate debt of \$274.5 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 \$5.0 million.

The net decrease in earnings and cash flows for the next year resulting from a ten percent interest rate increase would be approximately \$0.9 million, holding other variables constant.

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, 2009, the Company had open foreign currency forward exchange contracts to purchase U.S. Dollars and sell Euros in the amount of \$4.9 million and contracts to purchase U.S. Dollars and sell New Israeli Shekel in the amount of \$8.0 million. Holding other variables constant, if there were a ten percent devaluation of each of the foreign currencies, the Company s cumulative translation loss reflected in the Company s accumulated other comprehensive loss would increase by \$3.3 million, and regarding the statements of operations, a ten percent increase in the U.S. Dollar exchange rate would result in a net increase in losses and cash flows of \$22.9 million, and a ten percent increase in the Euro exchange rate would result in a net increase in losses and cash flows of \$0.2 million.

On May 15, 2008, the Company entered into a swap agreement with respect to its Series B debentures, in the principal amount of \$134.3 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, 2009, the value of the currency swap resulted in a \$1.5 million in other assets and a \$4.9 million in translation expense.

On April 1, 2009, the Company entered into a interest rate swap agreement with respect to its loan to finance the purchase of Gadot in the principal amount of \$43.7 million, due 2019. As a result of this agreement the Company is currently paying a fixed interest rate of 2.95% as compared to a LIBOR in the original loan agreement. As of September 30, 2009, the value of the currency swap resulted in a \$0.6 million in other assets and a corresponding increase in interest expense.

Equity Price Risk

The Company's investments at September 30, 2009 included trading marketable securities which are recorded at a fair value of \$2.2 million, including a net unrealized loss of \$0.2 million, and \$27.8 million of trading securities that are classified as available for sale, including a net unrealized loss of \$0.9 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 \$3.0 million. There would 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

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.

Part II OTHER INFORMATION

Item 1. Legal Proceedings:

None.

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, 2008, 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:

- 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.

Edgar Filing: AMPAL-AMERICAN ISRAEL CORP - Form 10-Q

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

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

By: /s/ Irit Eluz

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

By: /s/ Zahi Ben-Atav

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

Date: November 9, 2009

AMPAL-AMERICAN ISRAEL CORPORATION AND SUBSIDIARIES

Exhibit Index

Exhibit No.	Description
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.