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AMPAL AMERICAN ISRAEL CORP /NY/  
Form 10-Q  
November 14, 2001

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, 2001  
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OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_  
-----

Commission file number 0-538  
-----

AMPAL-AMERICAN ISRAEL CORPORATION

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

New York

13-0435685

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

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

1177 Avenue of the Americas, New York, New York

10036

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

(Zip Code)

Registrant's Telephone Number, Including Area Code (212) 782-2100  
-----

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

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

The number of shares outstanding of the issuer's Class A Stock, its

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only authorized common stock, is 19,220,907 as of October 31, 2001.

## AMPAL-AMERICAN ISRAEL CORPORATION AND SUBSIDIARIES

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#### ITEM 1. FINANCIAL STATEMENTS

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

NINE MONTHS ENDED SEPTEMBER 30,	2001	2000
(Dollars in thousands, except per share amounts)	(Unaudited)	(Unaudited)
REVENUES		
Equity in earnings of affiliates .....	\$ 2,969	\$ 18,595

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Interest .....	1,046	956
Real estate income .....	6,927	7,091
Realized and unrealized (losses) gains on investments .....	(3,083)	9,482
Gain on sale of real estate rental property ....	10,091	--
Other .....	2,864	4,503
	-----	-----
Total revenues .....	20,814	40,627
	-----	-----
EXPENSES		
Interest .....	9,722	10,347
Real estate expenses .....	7,226	6,239
Loss from impairment of investments .....	4,093	3,500
Minority interests .....	(1,628)	(1,334)
Translation (gain) loss .....	(1,799)	1,313
Other .....	6,033	5,604
	-----	-----
Total expenses .....	23,647	25,669
	-----	-----
(Loss) income before income taxes .....	(2,833)	14,958
Provision for income taxes .....	3,685	6,202
	-----	-----
NET (LOSS) INCOME .....	\$ (6,518)	\$ 8,756
	=====	=====
Basic EPS		
(Loss) earnings per Class A share .....	\$ (.35)	\$ .46
Shares used in calculation (in thousands) ...	19,168	18,853
Diluted EPS		
(Loss) earnings per Class A share .....	\$ (.35)	\$ .40
Shares used in calculation (in thousands) ...	19,168	21,813

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

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ITEM 1. FINANCIAL STATEMENTS

AMPAL-AMERICAN ISRAEL CORPORATION AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF INCOME

THREE MONTHS ENDED SEPTEMBER 30,	2001	2000
(Dollars in thousands, except per share amounts)	(Unaudited)	(Unaudited)
REVENUES		
Equity in earnings of affiliates .....	\$ 671	\$ 2,539
Interest .....	468	228

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Real estate income .....	1,973	2,670
Realized and unrealized (losses) gains on investments .....	(1,032)	2,873
Other .....	648	997
	-----	-----
Total revenues .....	2,728	9,307
	-----	-----
EXPENSES		
Interest .....	2,398	4,322
Real estate expenses .....	2,191	2,471
Loss from impairment of investments .....	940	--
Minority interests .....	(395)	(816)
Translation (gain) loss .....	(1,246)	576
Other .....	1,806	1,654
	-----	-----
Total expenses .....	5,694	8,207
	-----	-----
(Loss) income before income taxes .....	(2,966)	1,100
Provision for income taxes .....	101	741
	-----	-----
NET (LOSS) INCOME .....	\$ (3,067)	\$ 359
	=====	=====

Basic EPS		
(Loss) earnings per Class A share .....	\$ (.16)	\$ .02
Shares used in calculation (in thousands) ...	19,192	19,092
Diluted EPS		
(Loss) earnings per Class A share .....	\$ (.16)	\$ .02
Shares used in calculation (in thousands) ...	19,192	21,878

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

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AMPAL-AMERICAN ISRAEL CORPORATION AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS

ASSETS AS AT	September 30, 2001	December 31, 2000
	-----	
(Dollars in thousands)	(Unaudited)	
Cash and cash equivalents .....	\$ 830	\$ 5,842
Deposits, notes and loans receivable .....	18,301	14,804

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Investments .....	269,577	307,600
Real estate property, less accumulated depreciation of \$7,058 and \$9,310 .....	66,970	87,480
Other assets .....	21,941	30,902
	-----	-----
TOTAL ASSETS .....	\$377,619	\$446,628
	=====	=====

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

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AMPAL-AMERICAN ISRAEL CORPORATION AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS

LIABILITIES AND SHAREHOLDERS' EQUITY AS AT	September 30, 2001	December 31, 2000
-----	-----	-----
(Dollars in thousands)	(Unaudited)	
LIABILITIES		
Notes and loans payable:		
Related parties .....	\$ 5,163	\$ 11,605
Others .....	120,976	165,938
Debentures .....	22,817	24,033
Accounts and income taxes payable, accrued expenses and minority interests .....	83,518	80,650
	-----	-----
Total liabilities .....	232,474	282,226
	-----	-----
SHAREHOLDERS' EQUITY		
4% Cumulative Convertible Preferred Stock, \$5 par value; authorized 189,287 shares; issued 150,839 and 156,401 shares; outstanding 147,489 and 153,051 shares .....	754	782
6-1/2% Cumulative Convertible Preferred Stock, \$5 par value; authorized 988,055 shares; issued 734,866 and 745,814 shares; outstanding 612,330 and 623,278 shares .....	3,674	3,729
Class A Stock, \$1 par value; authorized		

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60,000,000 shares; issued 25,360,317 and 25,303,002 shares; outstanding 19,199,653 and 19,134,838 shares .....	25,360	25,303
Additional paid-in capital .....	58,237	58,194
Retained earnings .....	112,423	118,941
Treasury stock, at cost .....	(33,238)	(33,275)
Accumulated other comprehensive loss .....	(22,065)	(9,272)
	-----	-----
Total shareholders' equity .....	145,145	164,402
	-----	-----
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY .....	\$ 377,619	\$ 446,628
	=====	=====

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

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

NINE MONTHS ENDED SEPTEMBER 30,	2001	2000
(Dollars in thousands)	(Unaudited)	(Unaudited)
Cash flows from operating activities:		
Net (loss) income .....	\$ (6,518)	\$ 8,756
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Equity in earnings of affiliates .....	(2,969)	(18,595)
Realized and unrealized losses (gains) on investments .....	3,083	(9,482)
Gain on sale of real estate rental property ....	(10,091)	--
Depreciation expense .....	1,747	1,534
Amortization expense .....	233	677
Loss from impairment of investments .....	4,093	1,000
Translation (gain) loss .....	(1,799)	1,313
Minority interests .....	(1,628)	(1,334)
Decrease in other assets .....	6,880	3,056
Increase in accounts and income taxes payable, accrued expenses and minority interests .....	7,774	9,826
Investments made in trading securities .....	(7)	(21,946)
Proceeds from sale of trading securities .....	6,499	31,440
Dividends received from affiliates .....	15,655	3,629
	-----	-----

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Net cash provided by operating activities .....	22,952	9,874
	-----	-----
Cash flows from investing activities:		
Deposits, notes and loans receivable collected ..	3,149	8,893
Deposits, notes and loans receivable granted ....	(7,381)	(1,665)
Investments made in:		
Available-for-sale securities .....	(1,257)	(2,127)
Others .....	(9,316)	(20,723)
Proceeds from sale of investments:		
Available-for-sale securities .....	2,964	--
Others .....	137	2,149
Proceeds from sale of real estate property, net of commissions and transfer taxes .....	34,848	--
Return of capital by partnership .....	120	722
Capital improvements .....	(1,902)	(13,704)
	-----	-----
Net cash provided by (used in) investing activities .....	21,362	(26,455)
	-----	-----

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

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

NINE MONTHS ENDED SEPTEMBER 30,	2001	2000
(Dollars in thousands)	(Unaudited)	(Unaudited)
Cash flows from financing activities:		
Notes and loans payable received:		
Others .....	\$ 8,140	\$ 49,803
Notes and loans payable repaid:		
Related parties .....	(1,063)	(49)
Others .....	(53,902)	(21,066)
Proceeds from exercise of stock options .....	--	759
Contribution to partnership by minority interests .....	1,295	--
Issuance of shares .....	--	10
Debentures repaid .....	(1,894)	(6,402)
	-----	-----
Net cash (used in) provided by financing activities .....	(47,424)	23,055
	-----	-----
Effect of exchange rate changes on cash and cash equivalents .....	(1,902)	673
	-----	-----

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Net (decrease) increase in cash and cash equivalents .....	(5,012)	7,147
Cash and cash equivalents at beginning of period .....	5,842	7,409
	-----	-----
Cash and cash equivalents at end of period .....	\$ 830	\$ 14,556
	=====	=====
Supplemental Disclosure of Cash Flow Information		
Cash paid during the period		
Interest paid to others .....	\$ 9,997	\$ 4,685
	=====	=====
Income taxes paid .....	\$ 2,955	\$ 301
	=====	=====
Supplemental Disclosure of Noncash Investing and Financing Activities:		
Issuance of stock for charitable contribution and services .....	\$ 55	\$ --
	=====	=====

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

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

NINE MONTHS ENDED SEPTEMBER 30,	2001	2000
	-----	-----
(Dollars in thousands, except share amounts)	(Unaudited)	(Unaudited)
4% PREFERRED STOCK		
Balance, beginning of year .....	\$ 782	\$ 829
Conversion of 5,562 and 7,148 shares into Class A Stock .....	(28)	(36)
	-----	-----
Balance, end of period .....	\$ 754	\$ 793
	=====	=====
6-1/2% PREFERRED STOCK		
Balance, beginning of year .....	\$ 3,729	\$ 4,459
Conversion of 10,948 and 142,135 shares into Class A Stock .....	(55)	(711)
	-----	-----
Balance, end of period .....	\$ 3,674	\$ 3,748
	=====	=====

CLASS A STOCK



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Balance, beginning of year .....	\$ 25,303	\$ 24,817
Issuance of shares upon conversion of Preferred Stock .....	57	463
	-----	-----
Balance, end of period .....	\$ 25,360	\$ 25,280
	=====	=====
ADDITIONAL PAID-IN CAPITAL		
Balance, beginning of year .....	\$ 58,194	\$ 57,896
Conversion of Preferred Stock .....	25	284
Issuance of additional shares .....	18	10
Issuance of shares upon exercise of stock options .....	--	(1,518)
	-----	-----
Balance, end of period .....	\$ 58,237	\$ 56,672
	=====	=====
RETAINED EARNINGS		
Balance, beginning of year .....	\$ 118,941	\$ 118,362
Net (loss) income .....	(6,518)	8,756
	-----	-----
Balance, end of period .....	\$ 112,423	\$ 127,118
	=====	=====

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

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

NINE MONTHS ENDED SEPTEMBER 30,	2001	2000
	-----	-----
(Dollars in thousands, except share amounts)	(Unaudited)	(Unaudited)
TREASURY STOCK		
4% PREFERRED STOCK		
Balance, end of period .....	\$ (84)	\$ (84)
	-----	-----
6-1/2% PREFERRED STOCK		
Balance, end of period .....	(1,853)	(1,853)
	-----	-----
CLASS A STOCK		
Balance, beginning of year - 6,168,164 and 6,528,181 shares, at cost .....	(31,338)	(33,615)
Issuance of additional shares .....	37	--
Issuance of shares upon exercise of 360,017 stock options .....	--	2,277
	-----	-----
Balance, end of period - 6,160,664 shares, at cost	(31,301)	(31,338)

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	-----	-----
Balance, end of period .....	\$ (33,238)	\$ (33,275)
	=====	=====
ACCUMULATED OTHER COMPREHENSIVE LOSS		
Cumulative translation adjustments:		
Balance, beginning of year .....	\$ (17,217)	\$ (17,676)
Foreign currency translation adjustment .....	(2,794)	572
	-----	-----
Balance, end of period .....	(20,011)	(17,104)
	-----	-----
Unrealized (loss) gain on marketable securities:		
Balance, beginning of year .....	7,945	3,699
Unrealized (loss) gain, net .....	(8,208)	18,406
Sale of available-for-sale securities .....	(1,791)	--
	-----	-----
Balance, end of period .....	(2,054)	22,105
	-----	-----
Balance, end of period .....	\$ (22,065)	\$ 5,001
	=====	=====

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

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

NINE MONTHS ENDED SEPTEMBER 30,	2001	
-----		
(Dollars in thousands)	(Unaudited)	(U
Net (loss) income .....	\$ (6,518)	\$
	-----	-----
Other comprehensive (loss) income, net of tax:		
Foreign currency translation adjustments .....	(2,794)	
Unrealized (loss) gain on securities .....	(8,208)	
	-----	-----
Other comprehensive (loss) income .....	(11,002)	-----
	-----	-----
Comprehensive (loss) income .....	\$ (17,520)	\$
	=====	=====
Related tax benefit (expense) of other comprehensive (loss) income:		
Foreign currency translation adjustments .....	\$ 805	\$
Unrealized (loss) gain on securities .....	\$ 5,559	\$

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

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

(Unaudited)

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

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

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

NINE MONTHS ENDED SEPTEMBER 30,	2001
(Dollars in thousands)	
Revenues:	
-----	
Finance.....	\$ 202
Real estate rental.....	17,018
Leisure-time.....	1,407
Intercompany adjustments.....	(782)
	-----
Total.....	\$ 17,845
	=====
Pretax Operating (Loss) Income:	
-----	
Finance.....	\$ (15,738)
Real estate.....	8,192
Leisure-time.....	116
	-----
Total.....	\$ (7,430)

=====

Total Assets:	
-----	
Finance.....	\$293,356*
Real estate.....	74,774
Leisure-time.....	14,555
Intercompany adjustments.....	(5,066)
-----	
Total.....	\$377,619
=====	

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

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

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

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

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

(Shares in thousands)	September 30,	
	-----	
	2001	2000
	----	----
Options	2,941	2,375
4% Preferred Stock	150	--
6-1/2% Preferred Stock	618	--

5. On March 28, 2001, the Company concluded the sale of its interest in a building located at 800 Second Avenue in New York City for \$33 million and recorded a pre-tax gain of approximately \$8 million (\$4.3 million net of taxes).

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

6. On September 30, 2001, the Supreme Court in Israel dismissed the appeal filed by Ampal in connection with the July 1998 decision of the Tel

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Aviv District Court concerning a dispute between Ampal and Yakhin Hakal Ltd. Yakhin Hakal Ltd. is the manager and co-owner of Ampal's 50%-owned affiliates, Etz Vanir Ltd. ("Etz Vanir") and Yakhin Mataim Ltd. ("Yakhin Mataim"), which cultivate citrus groves in Israel. The District Court's decision allowed Etz Vanir and Yakhin Mataim to redeem debentures owned by Ampal for approximately \$.8 million and require Ampal to surrender all of its preferred shares in Etz Vanir and Yakhin Mataim for their par value, which is nominal. Ampal's financial statements will not be affected as a result of this dismissal.

On October 12, 2001, Ampal filed a request in the Tel-Aviv District Court for a preliminary injunction and other remedies in relation to the validity and enforceability of Etz Vanir's and Yakhin Mataim's decisions to redeem the debentures owned by Ampal and to require Ampal to surrender all of its preferred shares in Etz Vanir and Yakhin Mataim. In addition, on November 1, 2001, Ampal filed a petition with the Supreme Court seeking permanent injunctive relief from, among other things, the September 30, 2001 dismissal of its appeal.

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

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

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

#### AMPAL-AMERICAN ISRAEL CORPORATION AND SUBSIDIARIES

##### Results of Operations

Nine months ended September 30, 2001 compared to nine months ended September 30, 2000:

Ampal-American Israel Corporation ("Ampal") and its subsidiaries (the "Company") recorded a consolidated net loss of \$6.5 million for the nine months ended September 30, 2001, as compared to net income of \$8.8 million for the same

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period in 2000. The decrease in income is primarily attributable to the decrease in equity in earnings of affiliates, lower gains on sale of investments, higher unrealized losses on investments, lower other income, higher loss from impairment of investments, decrease in net real estate income and a higher effective income tax rate. These decreases in net income were partially offset by the gain on sale of real estate rental property and a translation gain in 2001, as compared to a translation loss in 2000.

Equity in earnings of affiliates decreased to \$3 million for the nine months ended September 30, 2001, from \$18.6 million for the same period in 2000. The decrease is primarily attributable to the decreased earnings of the Company's 50%-owned affiliate, Trinet Venture Capital Ltd. ("Trinet"), which recorded unrealized gains on its investments in Smart Link Ltd., Netformx Ltd. and Sim-Player.com Ltd. in 2000, and Ophir Holdings Ltd. ("Ophir Holdings"), the Company's 42.5%-owned affiliate, which recorded an unrealized gain on a trading security in 2000. There were no similar gains in 2001.

In the nine months ended September 30, 2001, the Company recorded \$1.6 million of gains on the sale of investments, which were primarily attributable to its investment in Floware Wireless Systems Ltd. ("Floware"). In the nine months ended September 30, 2000, the Company recorded \$12.3 million of gains on the sale of investments, which were primarily attributable to its investment in BreezeCOM Ltd. ("BreezeCOM"). In August 2001, BreezeCOM acquired Floware and changed the name of the combined entity to Alvarion Ltd.

The Company recorded \$4.7 million of unrealized losses on investments which are classified as trading securities in the nine-month period ended September 30, 2001, as compared to \$2.9 million of unrealized losses in the same period in 2000. The unrealized losses recorded in 2001 are primarily attributable to the Company's investment in shares of Bank Leumi Le'Israel B.M. ("Leumi") and Zeevi Computers and Technology Ltd. ("Zeevi"), while the unrealized losses in 2000 are primarily attributable to the Company's investment in shares of Arel Communications and Software Ltd. ("Arel"). At September 30, 2001 and December 31, 2000, the aggregate fair value of trading securities amounted to approximately \$11.1 million and \$23.8 million, respectively.

On March 28, 2001, the Company concluded the sale of its interest in a building located at 800 Second Avenue ("800 Second Avenue") in New York City for \$33 million and recorded a pre-tax gain of approximately \$8 million (\$4.3 million net of taxes).

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

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

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

In the nine-month period ended September 30, 2001, the Company recorded a \$4.1 million loss from impairment of its investments in Realm Technologies Ltd. (\$1.25 million), Enbaya Ltd. ("Enbaya") (\$.95 million), Shiron Satellite Communications (1996) Ltd. ("Shiron") (\$.9 million), mPrest Technologies Ltd. ("mPrest") (\$.75

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million) and Babylon Ltd. ("Babylon") (\$.25 million), while in the same period in 2000, the Company recorded a \$3.5 million loss from impairment of its investment in M.D.F. Industries Ltd.

The Company recorded a translation gain of \$1.8 million in the nine months ended September 30, 2001, as compared to a translation loss of \$1.3 million in the same period in 2000. The translation gain in 2001 is attributable to the devaluation of the new Israeli shekel against the U.S. dollar in the nine months ended September 30, 2001, while the translation loss in 2000 was primarily attributable to foreign exchange forward contracts executed by the Company, which were outstanding during 2000.

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

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

The consolidated net loss was \$3.1 million for the three months ended September 30, 2001, as compared to net income of \$.4 million for the same period in 2000. The decrease in income is primarily attributable to the decrease in equity in earnings of affiliates, unrealized losses on investments in the third quarter of 2001, as compared to unrealized gains on investments in 2000, loss from impairment of an investment in the third quarter of 2001, which was absent in the comparable period in 2000, and a higher effective income tax rate. These decreases in net income were partially offset by the lower interest expense and a translation gain in 2001, as compared to a translation loss in 2000.

Equity in earnings of affiliates decreased to \$.7 million for the three months ended September 30, 2001, from income of \$2.5 million for the same period in 2000. The decrease is primarily attributable to an unrealized gain recorded by Ophir Holdings in 2000, and there were no similar gains in 2001.

The Company recorded \$1.1 million of unrealized losses on investments which were classified as trading securities in the three-month period ended September 30, 2001, as compared to \$2.8 million of unrealized gains in the same period in 2000. The unrealized losses recorded in 2001 are primarily attributable to the Company's investment in shares of Leumi and Arel, while the unrealized gains in 2000 were primarily attributable to the Company's investment in shares of BreezeCOM.

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

The decrease in interest expense in the three months ended September 30, 2001, as compared to the same period in 2000 is attributable to the repayments of notes and loans payable.

In the three-month period ended September 30, 2001, the Company recorded a \$.95 million loss from impairment of its investment in Enbaya.

The Company recorded a translation gain of \$1.2 million in the quarter ended September 30, 2001, as compared to loss of \$.6 million in the same period in

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2000. The translation gain in 2001 is attributable to the devaluation of the new Israeli shekel against the U.S. dollar in the three months ended September 30, 2001, while the translation loss in the third quarter of 2000 was attributable to the shekel's revaluation against the dollar during that period.

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

### Liquidity and Capital Resources

At September 30, 2001, cash and cash equivalents were \$.8 million, as compared with \$5.8 million at December 31, 2000. The decrease in cash and cash equivalents is primarily attributable to the income tax payments in connection with the sale of 800 Second Avenue and to the investment in long-term financial investments. The decrease in other assets, notes and loans payable and real estate property are primarily attributable to the sale of 800 Second Avenue. The increase in accumulated other comprehensive loss is primarily attributable to the unrealized losses on the available-for-sale securities.

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

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

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

On January 1, 2001, and March 26, 2001, the Company made additional investments of an aggregate of \$.9 million in Cute Ltd. ("Cute"), a developer of bandwidth efficient technologies for the delivery of digital media over wireless networks. The Company holds an approximate 20% equity interest in Cute.

The Company's sources of cash liquidity include cash and cash equivalents, cash from operations, cash from investing activities and amounts available under credit facilities. The Company believes that these sources are sufficient to fund the current requirements of operations, capital expenditures, investing activities, dividends, and other financial commitments.

### Recently Issued Accounting Pronouncements

In June 2001, the Financial Accounting Standards Board ("FASB") issued SFAS Nos. 141 and 142 titled "Business Combinations" and "Goodwill and Other Intangible Assets", respectively. SFAS No 141, among other things, eliminates the pooling of interests method of accounting for business acquisitions entered into after June 30, 2001. SFAS No. 142 requires companies to use a fair-value approach to determine whether

there is an impairment of existing and future goodwill. These statements are effective beginning January 1, 2002. In June 2001, FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations". This statement addresses



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financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. It applies to (a) all entities and (b) legal obligations associated with the retirement of long-lived assets that result from the acquisition, construction, development and/or the normal operation of long-lived assets, except for certain obligations of lessees. This statement amends SFAS No. 19 "Financial Accounting and Reporting by Oil and Gas Producing Companies", and is effective for financial statements issued for fiscal years beginning after June 15, 2002. In August 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets". This statement addresses financial accounting and reporting for the impairment or disposal of long-lived assets. SFAS No. 144 will be effective for financial statements of fiscal years beginning after December 15, 2001. The Company is in the process of evaluating the SFAS Nos. 141, 142, 143 and 144 and the effect that they will have on the Company's financial position, results of operations and cash flows.

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

#### MARKET RISKS AND SENSITIVITY ANALYSIS

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

#### Interest Rate Risks

At September 30, 2001, the Company had financial assets totaling \$18.6 million and financial liabilities totaling \$149 million. For fixed rate financial instruments, interest rate changes affect the fair market value but do not impact earnings or cash flows. Conversely, for variable rate financial instruments, interest rate changes generally do not affect the fair market value but do impact future earnings and cash flows, assuming other factors held constant.

At September 30, 2001, the Company had fixed rate financial assets of \$13.3 million and variable rate financial assets of \$5.3 million. Holding other variables constant, a ten percent increase in interest rates would decrease the unrealized fair value of the fixed financial assets by approximately \$.1 million.

At September 30, 2001, the Company had fixed rate debt of \$36.4 million and variable rate debt of \$112.6 million. A ten percent decrease in interest rates would increase the unrealized fair value of the fixed rate debt by approximately \$.3 million.

The net decrease in earnings for the next year resulting from a ten percent interest rate increase would be approximately \$.6 million, holding other variables constant.

#### Exchange Rate Sensitivity Analysis

The Company's exchange rate exposure on its financial instruments results from its investments and ongoing operations in Israel. To partially hedge this exposure, the Company sometimes enters into various foreign exchange forward purchase contracts. At September 30, 2001, the Company did not have any open

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foreign exchange forward purchase contracts. Holding other variables constant, if there were a ten percent devaluation of the foreign currency, the Company's cumulative translation loss (reflected in the Company's accumulated other comprehensive loss) would increase by \$2.3 million. Conversely, if there were a 10% revaluation of the foreign currency, the net decrease in earnings would be \$1.3 million.

### Equity Price Risk

The Company's investments at September 30, 2001 included marketable securities (trading and available-for-sale) which are recorded at fair value of \$33.4 million, including a net unrealized loss of \$21.2 million. Those securities have exposure to price risk. The estimated potential loss in fair value resulting from a hypothetical 10% decrease in prices quoted by stock exchanges is approximately \$3.3 million.

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## AMPAL-AMERICAN ISRAEL CORPORATION AND SUBSIDIARIES

### PART II - OTHER INFORMATION

Item 1. Legal Proceedings - On July 27, 1998 a Tel Aviv District Court judge ruled in favor of Yakhin Hakal Ltd., the manager and co-owner of Ampal's 50%-owned affiliates, Etz Vanir Ltd. ("Etz Vanir") and Yakhin Mataim Ltd. ("Yakhin Mataim"). The judge's decision allowed Etz Vanir and Yakhin Mataim to redeem debentures owned by Ampal for approximately \$.8 million and to require Ampal to surrender all of its shares of Etz Vanir and Yakhin Mataim for their par value, which is nominal. After the redemption and surrender, Ampal will no longer have any interest in Etz Vanir or Yakhin Mataim.

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

On July 31, 2001, the registrar for the Supreme Court issued a decision dismissing, on technical grounds, Ampal's appeal in its dispute with Yakhin Hakal. The registrar determined that Ampal had failed to produce a guarantee for Yakhin Hakal's expenses in the appeal within the required time. On August 7, 2001, Ampal appealed the dismissal. On September 30, 2001, the Supreme Court dismissed the appeal filed by Ampal regarding the registrar's decision.

On October 12, 2001, Ampal filed in the Tel-Aviv District Court a request for a preliminary injunction and other remedies in relation to the validity and enforceability of Etz Vanir's and Yakhin Mataim's decisions to redeem debentures owned by Ampal for approximately \$.8 million and to require Ampal to surrender all of its preferred shares in Etz Vanir and Yakhin Mataim for their par value, which is nominal. In addition, on November 1, 2001, Ampal filed a petition with the Supreme Court seeking permanent injunctive relief from the decision of the registrar and the dismissal of its appeal regarding that decision.

As previously reported, in 2001, a claim was filed in the Jerusalem District Court against Sonol, a wholly-owned subsidiary of Granite Hacarmel Investments Ltd. ("Granite"), its subsidiary company, Sprint Motors Ltd., and four unrelated companies by customers who purchased fuel products in filling stations, contending that the defendants charged an illegal "service charge" over a period of many years. The plaintiffs have requested the court to recognize their claim as a class action. The amount of the claim is NIS. 5.30 and, should the court allow a class action, it will total approximately NIS. 372 million (approximately \$93 million). From the claim, it is not clear what is Sonol's and its subsidiary's share of this amount. Granite's management denies the

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plaintiff's request and the claim which, in its opinion, has no real basis.

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

Item 2. Changes in Securities and Use of Proceeds -- None.

Item 3. Defaults upon Senior Securities -- None.

Item 4. Submission of Matters to a Vote of Security Holders - None.

Item 5. Other Information.

On October 23, 2001, Ampal announced that its controlling stockholder, Rebar Financial Corp., made a public filing indicating that it is considering the sale of its interest in Ampal. Rebar, which is owned and controlled by Raz Steinmetz and Daniel Steinmetz, currently owns approximately 58% of the outstanding Class A Stock of Ampal. Raz Steinmetz is Ampal's Chief Executive Officer and Daniel Steinmetz is Ampal's Chairman of the Board.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits:

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

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

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/ Raz Steinmetz

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

By: /s/ Shlomo Meichor

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

By: /s/ Alla Kanter

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

Dated: November 14, 2001

AMPAL-AMERICAN ISRAEL CORPORATION AND SUBSIDIARIES

Exhibit Index

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

\* This exhibit was included in the copy of this report filed with the Securities and Exchange Commission and is

available upon request from Ampal.