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AMPAL AMERICAN ISRAEL CORP /NY/  
Form 10-Q  
May 15, 2002

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 March 31, 2002

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.)

660 Madison Avenue, New York, New York

10021

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

(Zip Code)

Registrant's Telephone Number, Including Area Code

(212) 593-9842  
-----

-----  
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  
only authorized common stock, is 19,934,040 (as of April 30, 2002).

AMPAL-AMERICAN ISRAEL CORPORATION AND SUBSIDIARIES

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ITEM 1. FINANCIAL STATEMENTS

AMPAL-AMERICAN ISRAEL CORPORATION AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF INCOME

THREE MONTHS ENDED MARCH 31,	2002	2001
(Dollars in thousands, except per share amounts)	(Unaudited)	(Unaudited)
REVENUES		
Equity in earnings of affiliates .....	\$ 2,047	\$ 843
Interest .....	337	215
Real estate income .....	1,839	3,123
Realized and unrealized (losses) on investments .....	(2,860)	(866)
Gain on sale of real estate rental property .....	137	7,971
Other .....	1,172	559
	-----	-----
Total revenues .....	2,672	11,845
	-----	-----
EXPENSES		
Interest .....	2,525	4,198
Real estate expenses .....	1,922	3,009
Loss from impairment of investments .....	3,892	1,250
Minority interests .....	(477)	(735)
Translation (gain) .....	(957)	(842)
Other .....	1,615	2,151
	-----	-----

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Total expenses .....	8,520	9,031
	-----	-----
(Loss) income before income taxes .....	(5,848)	2,814
(Benefit) provision for income taxes .....	327	2,454
	-----	-----
Net (loss) Income .....	\$ (6,175)	\$ 360
	=====	=====
Basic EPS		
(Loss) Earnings per Class A share .....	\$ (0.32)	\$ .02
Shares used in calculation (in thousands) .....	19,277	19,142
Diluted EPS		
(Loss) Earnings per Class A share .....	\$ (0.32)	\$ .02
Shares used in calculation (in thousands) .....	19,277	19,923

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	March 31, 2002	December 31, 2001
(Dollars in thousands)	(Unaudited)	
Cash and cash equivalents .....	\$ 2,034	\$ 7,973
Deposits, notes and loans receivable .....	14,534	17,172
Investments .....	252,708	260,175
Real estate property, less accumulated depreciation of \$7,896 and \$7,500 .....	66,370	66,643
Other assets .....	25,028	31,870
	-----	-----

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TOTAL ASSETS .....	\$360,674	\$383,833
	=====	=====

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AMPAL-AMERICAN ISRAEL CORPORATION AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS

LIABILITIES AND SHAREHOLDERS' EQUITY AS AT	March 31, 2002
(Dollars in thousands)	(Unaudited)
<b>LIABILITIES</b>	
Notes and loans payable .....	\$ 114,555
Debentures .....	21,499
Accounts and income taxes payable, accrued expenses and minority interests .....	85,210
	-----
Total liabilities .....	221,264
	-----
<b>SHAREHOLDERS' EQUITY</b>	
4% Cumulative Convertible Preferred Stock, \$5 par value; authorized 189,287 shares; issued 144,621 and 146,226 shares; outstanding 141,271 and 142,876 shares .....	723
6-1/2% Cumulative Convertible Preferred Stock, \$5 par value; authorized 988,055 shares; issued 715,827 and 726,680 shares; outstanding 593,291 and 604,144 shares .....	3,579
Class A Stock, \$1 par value; authorized 60,000,000 shares; issued 25,448,524 and 25,407,940 shares; outstanding 19,287,860 and 19,247,276 shares .....	25,448
Additional paid-in capital .....	58,275
Retained earnings .....	105,565
Treasury stock, at cost .....	(33,238)
Accumulated other comprehensive loss .....	(20,942)
	-----
Total shareholders' equity .....	139,410
	-----
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY .....</b>	<b>\$ 360,674</b>
	=====

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statements.

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

THREE MONTHS ENDED MARCH 31,	2002	2001
(Dollars in thousands)	(Unaudited)	(Unaudited)
Cash flows from operating activities:		
Net (loss) income .....	\$ (6,175)	\$ 360
Adjustments to reconcile net income to net cash provided by operating activities:		
Equity in earnings of affiliates .....	(2,047)	(843)
Realized and unrealized losses		
on investments .....	2,860	866
Gain on sale of real estate rental property ...	(137)	(7,971)
Depreciation expense .....	555	715
Amortization expense .....	(3)	96
Loss from impairment of investments and loans .	3,892	1,250
Translation (gain) .....	(957)	(842)
Minority interests .....	(477)	(735)
Decrease in other assets .....	7,007	4,059
(Increase) decrease in accounts and income taxes payable, accrued expenses and minority interests .....	(592)	2,608
Investments made in trading securities .....	(15)	--
Proceeds from sale of trading securities .....	468	2,965
Dividends received from affiliates .....	43	48
	-----	-----
Net cash provided by operating activities .....	4,422	2,576
	-----	-----
Cash flows from investing activities:		
Deposits, notes and loans receivable collected .	1,846	2,369
Deposits, notes and loans receivable granted ...	(709)	(5,211)
Investments made in:		
Available-for-sale securities .....	--	(752)
Affiliates and others .....	(967)	(7,604)
Proceeds from sale of investments:		
Available-for-sale securities .....	--	2,800
Others .....	--	134
Proceeds from sale of real estate property, net of commissions and transfer taxes .....	250	31,723
Return of capital by partnership .....	107	--
Capital improvements .....	(373)	(1,253)
	-----	-----
Net cash provided by investing activities .....	154	22,206
	-----	-----

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

THREE MONTHS ENDED MARCH 31,	2002	2001
(Dollars in thousands)	(Unaudited)	(Unaudited)
Cash flows from financing activities:		
Notes and loans payable received .....	\$ 621	\$ 6,940
Notes and loans payable repaid:		
Related parties .....	--	(301)
Others .....	(8,478)	(19,206)
Contribution to partnership by minority interests .....	--	1,295
Debentures repaid .....	(1,763)	(1,894)
	-----	-----
Net cash (used in) financing activities .....	(9,620)	(13,166)
	-----	-----
Effect of exchange rate changes on cash and cash equivalents .....	(895)	(1,498)
	-----	-----
Net (decrease) increase in cash and cash equivalents	(5,939)	10,118
Cash and cash equivalents at beginning of period .....	7,973	5,842
	-----	-----
Cash and cash equivalents at end of period .....	\$ 2,034	\$ 15,960
	=====	=====
Supplemental Disclosure of Cash Flow Information		
Cash paid during the period:		
Interest paid to others: .....	\$ 4,602	\$ 7,223
	=====	=====
Income taxes paid .....	\$ 137	\$ 12
	=====	=====

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

THREE MONTHS ENDED MARCH 31,	2002	2001
(Dollars in thousands, except share amounts)	(Unaudited)	(Unaudited)

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4% PREFERRED STOCK		
Balance, beginning of year .....	\$ 731	\$ 782
Conversion of 1,605 and 1,931 shares into Class A Stock .....	(8)	(10)
	-----	-----
Balance, end of period .....	\$ 723	\$ 772
	=====	=====
6-1/2% PREFERRED STOCK		
Balance, beginning of year .....	\$ 3,633	\$ 3,729
Conversion of 10,853 and 2,475 shares into Class A Stock .....	(54)	(12)
	-----	-----
Balance, end of period .....	\$ 3,579	\$ 3,717
	=====	=====
CLASS A STOCK		
Balance, beginning of year .....	\$ 25,408	\$ 25,303
Issuance of shares upon conversion of Preferred Stock .....	40	17
	-----	-----
Balance, end of period .....	\$ 25,448	\$ 25,320
	=====	=====
ADDITIONAL PAID-IN CAPITAL		
Balance, beginning of year .....	\$ 58,253	\$ 58,194
Conversion of Preferred Stock .....	22	5
	-----	-----
Balance, end of period .....	\$ 58,275	\$ 58,199
	=====	=====
RETAINED EARNINGS		
Balance, beginning of year .....	\$ 111,740	\$ 118,941
Net (loss) income .....	(6,175)	360
	-----	-----
Balance, end of period .....	\$ 105,565	\$ 119,301
	=====	=====

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

THREE MONTHS ENDED MARCH 31,	2002	2001
	-----	-----
(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)

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CLASS A STOCK		
Balance, beginning of year - 6,160,664 and 6,168,164 shares, at cost .....	(31,301)	(31,338)
	-----	-----
Balance, end of period .....	\$ (33,238)	\$ (33,275)
	=====	=====
ACCUMULATED OTHER COMPREHENSIVE LOSS		
Cumulative translation adjustments:		
Balance, beginning of year .....	\$ (20,163)	\$ (17,217)
Foreign currency translation adjustment .....	(1,339)	(1,406)
	-----	-----
Balance, end of period .....	(21,502)	(18,623)
	-----	-----
Unrealized gain on marketable securities:		
Balance, beginning of year .....	4,856	7,945
Unrealized (loss), net .....	(3,615)	(6,182)
Sale of available-for-sale securities .....	(681)	(1,485)
	-----	-----
Balance, end of period .....	560	278
	-----	-----
Balance, end of period .....	\$ (20,942)	\$ (18,345)
	=====	=====

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

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

THREE MONTHS ENDED MARCH 31,	2002	2001
(Dollars in thousands)	(Unaudited)	(Unaudited)
Net (loss) income .....	\$ (6,175)	\$ 360
	-----	-----
Other comprehensive (loss), net of tax:		
Foreign currency translation adjustments .....	(1,339)	(1,406)
Unrealized (loss) on securities .....	(3,615)	(6,182)
	-----	-----
Other comprehensive (loss) .....	(4,954)	(7,588)
	-----	-----
Comprehensive (loss) .....	\$ (11,129)	\$ (7,228)
	=====	=====
Related tax benefit (expense) of other comprehensive (loss) income:		
Foreign currency translation adjustments .....	\$ 109	\$ 534
Unrealized (loss) gain on securities .....	\$ (1,102)	\$ 4,193



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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, 2001 consolidated balance sheet presented herein was derived from the audited December 31, 2001 consolidated financial statements of the Company.

Reference should be made to the Company's consolidated financial statements for the year ended December 31, 2001 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, 2001 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. On January 1, 2002, the Company adopted Statement of Financial Accounting Standards No. 142, Goodwill and other Intangible Assets (SFAS 142). The adoption of SFAS 142 does not have a material effect on the financial statements.
4. Segment information presented below results primarily from operations in Israel.

THREE MONTHS ENDED MARCH 31,	2002	2001
-----		
(Dollars in thousands)		
Revenues:		
Finance .....	\$ (1,613)	\$ 200
Real estate .....	1,839	11,094
Leisure-time .....	419	447
Intercompany adjustments .....	(20)	(739)
	-----	-----
Total .....	\$ 625	\$ 11,002
	=====	=====
Pretax Operating Income (Loss):		
Finance .....	\$ (8,356)	\$ (5,626)
Real estate .....	(63)	6,790

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Leisure-time .....	47	72
	-----	-----
Total .....	\$ (8,372)	\$ 1,236
	=====	=====
Total Assets:		
Finance* .....	\$ 281,054	\$ 339,467
Real estate .....	69,499	75,400
Leisure-time .....	14,546	13,803
Intercompany adjustments .....	(4,425)	(6,872)
	-----	-----
Total .....	\$ 360,674	\$ 421,798
	=====	=====

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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 leased to related and unrelated parties and of the operations of Am-Hal Ltd., the Company's 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.

5. The following table summarizes securities that were outstanding as of March 31, 2002 and 2001, but not included in the calculations of diluted earnings per Class A share because such shares are antidilutive.

(Shares in thousands)	March 31,	
	2002	2001
	-----	-----
Options and Rights	2,822	3,013
6-1/2% Preferred Stock	593	621
4% preferred stock	141	151

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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

Ampal-American Israel Corporation ("Ampal") and its subsidiaries (the "Company")

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recorded a consolidated net loss of \$6.2 million for the three months ended March 31, 2002, as compared to a net income of \$.4 million for the same period in 2001. The decrease in net income is primarily attributable to gains from the sale of real estate rental property in the first quarter of 2001, which were insignificant in the same period in 2002, gains from the sale of investments in the first quarter of 2001 which were absent in the same period in 2002, higher loss from impairment of investments, higher unrealized losses on investments and loans. These decreases in net income were partially offset by the increase in equity in earnings of affiliates, lower interest expense, higher other income and lower headquarters expenses.

Ampal recorded \$2.9 million of unrealized losses on investments which are classified as trading securities in the three-month period ended March 31, 2002, as compared to \$2.2 million in the same period in 2001. The unrealized losses recorded in 2002 were primarily attributable to the Company's investment in shares of Bank Leumi Le'Israel B.M. ("Leumi"), Alvarion Ltd. ("Alvarion") and Arel Communications and Software Ltd., while the unrealized losses in 2001 are primarily attributable to the investment in shares of Leumi. At March 31, 2002 and December 31, 2001, the aggregate fair value of trading securities amounted to approximately \$7.5 million and \$9.9 million, respectively.

In the three months ended March 31, 2001, the Company recorded \$1.3 million of gains on the sale of investments, which were primarily attributable to its investment in Alvarion. There were no similar gains in the quarter ended March 31, 2002.

Equity in earnings of affiliates increased to \$2 million for the three months ended March 31, 2002, from \$0.8 million for the same period in 2001.

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).

The decrease in real estate income and expenses in the first quarter of 2002 as compared to the same period in 2001 is attributable to the sale of 800 Second Avenue and the absence of a comparable event in the first quarter of 2002.

The increase in other income in the three months ended March 31, 2002, as compared to the same period in 2001, is attributable to the officer's life insurance proceeds received by the Company as a beneficiary.

The Company recorded lower interest expense in the three months ended March 31, 2002, as compared to the same period in 2001, primarily as a result of loan repayments.

In the three-month period ended March 31, 2002, the Company recorded \$3.9 million in losses from the impairment of its investments and loans in the following companies: Bay Heart Limited ("Bay Heart") (\$1.5 million), Bridgewave Communications, Inc. (\$0.8 million), Camelot Information Technologies Ltd. ("Camelot") (\$0.5 million), Netformx Ltd. (\$0.5 million), Enbaya Inc. (\$0.5 million), Tulip Ltd. (\$0.1 million), while in

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the same period in 2001, the Company recorded a \$1.25 million loss from the impairment of its investment in RealM Technologies, Ltd.

### Liquidity and Capital Resources

At March 31, 2002, cash and cash equivalents were \$2 million, as compared with \$8

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million at December 31, 2001. The decrease in cash and cash equivalents is primarily attributable to the repayments of notes and loans payable. The increase in accumulated other comprehensive loss is primarily attributable to the unrealized currency translation losses and the unrealized losses on available-for-sale securities.

At March 31, 2002, the aggregate fair value of trading and available-for-sale securities was approximately \$34.2 million, as compared to \$40.6 million at December 31, 2001, due both to sales and decreases in the market prices of such securities.

On January 2, 2002, the Company made a \$0.5 million loan to Camelot. In February 2002, the Company, together with other Camelot debtholders, acted to put Camelot into liquidation proceedings. The Company has written off its investment in Camelot.

On January 4, 2002, the Company made an additional investment of \$0.5 million in ShellCase Ltd., a developer and manufacturer of chip size packaging. The Company currently holds an approximately 14% equity interest in ShellCase Ltd.

On January 28, 2002, the Company made an additional investment of \$0.5 million in PowerDsine Ltd., a leading designer and developer of software controlled power solutions. The Company currently holds an approximately 8.1% equity interest in PowerDsine Ltd.

The Company's sources of cash include cash and cash equivalents, marketable securities, cash from operations, cash from 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, dividends and other financial commitments of the Company for the next 12 months. However, to the extent that the contingencies and payment obligations described below and in other parts of this Report including the proceedings described in "Part II - Item 1. Legal Proceedings", require the Company to make unanticipated payments, the Company would need to further utilize these sources of cash. To the extent that the Company intends to rely on the sale of marketable securities in order to satisfy its cash needs, it is subject to the risk of a shortfall in the amount of proceeds from any such sale as compared with the anticipated sale proceeds due to a decline in the market price of those securities. In the event of a decline in the market price of its marketable securities, the Company may need to draw upon its other sources of cash, including by increasing its borrowings or by refinancing its indebtedness or liquidating other assets, the value of which may also decline. In addition, some of the Company's assets have already been pledged as security for specific loans or guarantees and would therefore be unavailable if the Company wished to sell or pledge them in order to provide an additional source of cash.

The Company had in place an unused committed line of credit of \$6 million at March 31, 2002.

In connection with its investment in MIRS, the Company has two long-term loans from Hapoalim and Leumi in the amount outstanding of \$37.3 million and \$34.9 million, respectively, as of March 31, 2002. Both loans are due on March 31, 2008 and bear interest at a rate of LIBOR plus 0.8%. Other than as described in this paragraph,

the loans are non-recourse to the Company and are secured by the Company's shares in MIRS. The principal payments are due as follows: 10% on March 31, 2004, 15% on March 31, 2005 and 25% on each of the following dates - March 31,

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2006, 2007 and 2008. Interest will be paid annually on March 31 of each year from March 31, 2002 until and including March 31, 2008. These loans are subject to the compliance by MIRS with covenants regarding its operations and financial results. In March 2002, some of the covenants in the Leumi loan were amended to reflect changes in MIRS' business. In connection with these amendments, the Company agreed that Leumi will have recourse to the Company for an amount of up to \$3.5 million if Motorola Israel does not make a guaranteed payment to the Company in March 2003 as is required by the terms of the agreement under which the Company purchased its interest in MIRS from Motorola Israel. In addition, Leumi will have recourse to the Company for another \$0.5 million beginning in 2006 in relation to the Company's repayment obligations under the loan. The Company anticipates that similar amendments will be required in the Hapoalim loan. In the event that any such amendments are made to the Hapoalim loan, the terms of the security provided by the Company under that loan may also be changed. Any such changes may result in the Company directly guaranteeing part of this loan too.

As of March 31, 2002, the Company had outstanding \$5.3 million in debentures with interest rates of 7.5%. These debentures, which mature in 2005, are secured by \$5.5 million in cash held in a secured account. In addition, the Company also had outstanding as of March 31, 2002, \$18 million in 11% discount debentures. These debentures mature in 2003. However, the debentures also allow for early redemption by their holders in 2002, provided that in the event of early redemption the Company would not be required to pay \$2 million in unamortized discounts. In the event that these debentures are redeemed early, the Company may need to draw upon various sources of cash, including by increasing its borrowings or by refinancing its indebtedness or liquidating assets in order to pay the \$16 million owed.

The Company financed a portion of the development of its Am-Hal facilities through bank loans from Hapoalim. At March 31, 2002 and December 31, 2001 the amounts outstanding under these loans were \$13.5 million and \$14.3 million, respectively. The loans are dollar linked, mature through 2002 and have interest rates of zero to LIBOR plus 1%. The Company generally repays these loans with the proceeds received from the sale of apartments in Am-Hal facilities. The loans are secured by a lien on Am-Hal's properties.

The Company also finances its general operations and other financial commitments through short-term borrowings, mainly from Hapoalim. The term of these borrowings is up to one year. The weighted average interest rates and the balances of these short-term borrowings at March 31, 2002 and December 31, 2001 were 3.6% on \$39.5 million and 3.23% on \$31.1 million, respectively.

As of March 31, 2002, the Company had issued guarantees on certain outstanding loans to its investees and subsidiaries in the aggregate principal amount of \$9.8 million. This includes a \$4 million guarantee to bank Leumi with respect to the MIRS loan as described above, and a guarantee of \$5.8 million of indebtedness incurred by Bay Heart (\$2.5 million of which was recorded in the Company's financial statements at March 31, 2002) in connection with the development of its property. Bay Heart recorded increased losses in 2002 as a result of decreased rental revenues, increased financing expenses and a higher provision for income taxes. Bay Heart's decreased rental revenues were due to lower average rental rates on its properties caused, in part, by the general recession in Israel which affected the real estate sector and by the surplus of mall properties in the Haifa area. 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.

The Company also issued guarantees in the amount of \$5.5 million in favor of

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clients of Am-Hal in order to secure their deposits.

The Company's derivative financial instruments consist of foreign currency forward exchange contracts. 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.

### CRITICAL ACCOUNTING POLICIES

The Company accounts for a number of its investments, including many of its investments in the high-technology and communications industries, on the basis of the cost method. Application of this method requires the Company to periodically review these investments in order to determine whether to maintain the current carrying value or to write off some or all of the investment. While the Company uses some objective measurements in its review, such as the portfolio company's liquidity, burn rate, termination of a substantial number of employees, achievement of milestones set forth in its business plan or projections and seeks to obtain relevant information from the company under review, the review process involves a number of judgments on the part of the Company's management. These judgments include assessments of the likelihood of the company under review to obtain additional financing, to achieve future milestones, make sales and to compete effectively in its markets. In making these judgments the Company must also attempt to anticipate trends in the particular company's industry as well as in the general economy. There can be no guarantee that the Company will be accurate in its assessments and judgments. To the extent that the Company is not correct in its conclusion it may decide to write down all or part of the particular investment.

### SUBSEQUENT EVENT

On April 25, 2002, Rebar Financial Corp., a corporation owned and controlled by Raz and Daniel Steinmetz, had completed the sale of approximately 51% (on a fully-diluted basis) of the outstanding shares of Ampal-American Israel Corporation to Y.M. Noy Investments Ltd. ("Y.M.Noy"), a company controlled by Yosef A.Maiman, for an aggregate purchase price of approximately \$83 million. All regulatory approvals necessary for the closing of the transaction have been received.

As part of the sale, Ampal's employees sold to Y.M. Noy 329,000 Ampal Class A shares at \$7.46 per share which were issued to them upon their exercise of the stock options.

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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 March 31, 2002, and are sensitive to the above market risks.

#### Interest Rate Risks

At March 31, 2002, the Company had financial assets totaling \$16.2 million and

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financial liabilities totaling \$136.1 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 March 31, 2002, the Company had fixed rate financial assets of \$10.9 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 variable financial assets by approximately \$.1 million.

At March 31, 2002, the Company had fixed rate debt of \$31.7 million and variable rate debt of \$104.4 million. A ten percent decrease in interest rates would increase the unrealized fair value of the variable rate debt by approximately \$.1 million.

The net decrease in earnings for the next year resulting from a ten percent interest rate increase would be approximately \$.5 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 March 31, 2002, the open foreign exchange forward purchase contracts amounted to \$5 million. Holding other variables constant, if there were a ten percent devaluation of the foreign currency, the Company's cumulative translation loss (reflected in the Company's accumulated other comprehensive loss) would increase by \$1.6 million. Conversely, if there were a 10% revaluation of the foreign currency, the net decrease in earnings would be \$.3 million.

### Equity Price Risk

The Company's investments at March 31, 2002 included marketable securities (trading and available-for-sale) which are recorded at fair value of \$34.2 million, including a net unrealized loss of \$13.6 million. Those securities have exposure to price risk. The estimated potential loss in fair value resulting from a hypothetical 10% decrease in prices quoted by stock exchanges is approximately \$3.4 million.

AMPAL-AMERICAN ISRAEL CORPORATION AND SUBSIDIARIES

### PART II - OTHER INFORMATION

#### Item 1. Legal Proceedings.

##### Kaniel

On December 2, 1997, Kaniel, the Israeli Company for Tin Containers Ltd. ("Kaniel") filed a suit against the Company in the Tel Aviv District Court, in the amount of NIS 3,623,058 (\$0.8 million). The suit relates to eight loans given to Kaniel by the Company in 1984. Kaniel claimed that the Company's actions in connection with the loans were forbidden under the Israeli Interest Law. On November 19, 1998, the Tel Aviv District Court ruled that the statute of limitations applies to the majority of the plaintiff's claim, and thereby rejected such claims. The plaintiff filed an appeal with the Israeli Supreme

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Court, and withdrew the remainder of its claim until the Supreme Court's ruling. The parties agreed at the Supreme Court session that the claim shall be returned to the Tel Aviv District Court. On May 6, 2002 the evidentiary hearings were completed. The judgment hearing is scheduled for October 28, 2002. At this stage, the Company cannot estimate the impact this claim will have on it.

### Galha

On January 1, 2002, Galha (1960) Ltd. ("Galha") filed a suit against the Company and other parties, including directors of Paradise Industries Ltd. ("Paradise") appointed by the Company, in the Tel Aviv District Court, in the amount of NIS 8,121,456 (\$1.8 million). Galha claimed that the Company, which was a shareholder of Paradise, and another shareholder of Paradise, misused funds that were received by Paradise from an insurance company for the purpose of reconstructing an industrial building owned by Galha and used by Paradise which burnt down. Paradise is currently under liquidations proceedings. At this stage, the Company cannot estimate the impact this claim will have on it.

### Am-Hal

The Israeli Income Tax Authority conducted a review of Am-Hal Ltd., the Company's wholly-owned subsidiary, in 2000 and 2001. Following the review, the Income Tax Authority assessed Am-Hal for additional taxes for the years 1995-1999. Am-Hal disputed the assessment, based on its disagreement with the Income Tax Authority concerning the proper methodology for calculating nursing home revenues. The assessment is appealable and Am-Hal intends to file such an appeal. Am-Hal believes that there is a reasonable chance that its appeal will be accepted. Based on the assessment, Am-Hal would have a tax obligation of NIS 5.9 million for the years 1995-1999. In addition, its tax loss carry forward brought forward from 1999 to 2000 would have been reduced from NIS 9 million to NIS 0.8 million. If the principles applied by the Tax Authority to the calculation of nursing home revenue would be applied for the tax years 2000 and 2001 (which were not reviewed), Am-Hal would have a tax obligation of \$0.9 million and \$0 for 1999 and 2000, respectively. The effect of the assessment, if upheld, would be an acceleration of tax payments which Am-Hal had accrued for on an ongoing basis. There was no net tax expense in 2001 as a result of this issue. However, a payment of \$2.2 million will be due if the assessment is upheld in full.

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### Ampal (Israel)

In May 2002, the Israeli Income Tax Authority issued an assessment to Ampal (Israel) Ltd., the Company's wholly-owned subsidiary, for payment of approximately NIS 34 million for the tax years 1998-2000. Ampal (Israel) intends to file an appeal regarding this assessment and believes that there is a very good chance that its appeal will be accepted. In addition, the Company has previously established a reserve in the amount of NIS 10 million in connection with potential tax liabilities for these tax years.

- 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 -- None.

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Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits:

Exhibit 3 - Certificate of Incorporation and By-Laws.

3a. Amended and Restated Certificate of Incorporation of Ampal-American Israel Corporation, dated May 28, 1997. (Filed as Exhibit 3a. to Form 10-Q, for the quarter ended June 30, 1997 and incorporated herein by reference. File No. 0-538).

3b. By-Laws of Ampal-American Israel Corporation as amended, dated February 14, 2002. (Filed as Exhibit 3b. to Form 10-K, for the year ended December 31, 2001 and incorporated herein by reference. File No. 0-538).

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

(b) Reports on Form 8-K:

The issuer filed a current report on Form 8-K dated May 2, 2002, reporting under Item 1 a change in control of the registrant and under Item 5 changes in the composition of the Board of Directors.

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AMPAL-AMERICAN ISRAEL CORPORATION AND SUBSIDIARIES

SIGNATURES

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

AMPAL-AMERICAN ISRAEL CORPORATION

By:/s/ Jack (Tato) Bigio

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Jack (Tato) Bigio  
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)

By:/s/ Giora Bar-Nir

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Giora Bar-Nir  
Controller  
(Principal Accounting Officer)

Dated: May 15, 2002

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AMPAL-AMERICAN ISRAEL CORPORATION AND SUBSIDIARIES

Exhibit Index

Exhibit No.	Description	Page *
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