

AMPAL-AMERICAN ISRAEL CORP  
Form 10-Q  
August 05, 2009

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UNITED STATES  
**SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON D.C. 20549

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**FORM 10-Q**

(Mark One)

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

For the quarterly period ended June 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

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**AMPAL-AMERICAN ISRAEL CORPORATION**

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(Exact Name of Registrant as Specified in Its Charter)

**New York**

**13-0435685**

(State or Other Jurisdiction of  
Incorporation of Organization)

(I.R.S. Employer)  
Identification Number

**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

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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.

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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 July 27, 2009).

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## AMPAL-AMERICAN ISRAEL CORPORATION AND SUBSIDIARIES

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

| ASSETS AS OF   | June 30,<br>2009  | December 31,<br>2008 |
|--|-------------------|----------------------|
| (U.S. Dollars in thousands)  | (Unaudited)       | (Audited)            |
| <b>Current assets:</b>   |                   |                      |
| Cash and cash equivalents  | \$ 77,864         | \$ 68,682            |
| Marketable securities  | 31,252            | 52,859               |
| Accounts receivable (Net of allowance for doubtful amounts of \$0.1 and \$0.3) | 86,194            | 111,231              |
| Deposits   | 11,511            | 13,834               |
| Inventories  | 22,045            | 33,744               |
| Other assets   | 19,833            | 19,510               |
|  | <u>248,699</u>    | <u>299,860</u>       |
| <b>Non-current assets:</b>   |                   |                      |
| Investments  | 370,774           | 375,612              |
| Fixed assets, less accumulated depreciation of \$16,598 and \$13,175           | 138,823           | 112,195              |
| Deposits   | 39,531            | 45,134               |
| Deferred income taxes  | 24,333            | 22,819               |
| Other assets   | 13,481            | 13,958               |
| Goodwill   | 50,172            | 51,556               |
| Intangible assets  | 11,328            | 14,783               |
|  | <u>648,442</u>    | <u>636,057</u>       |
| <b>TOTAL ASSETS</b>  | <b>\$ 897,141</b> | <b>\$ 935,917</b>    |

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

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

| LIABILITIES AND EQUITY AS OF  | June 30,<br>2009  | December 31,<br>2008 |
|---|-------------------|----------------------|
| (U.S. Dollars in thousands, except share amounts)   | (Unaudited)       | (Audited)            |
| <b>LIABILITIES</b>  |                   |                      |
| <u>Current liabilities:</u>   |                   |                      |
| Notes and loans payable and current maturities  | \$ 141,916        | \$ 157,233           |
| Accounts payable, accrued expenses and others   | 67,546            | 83,925               |
| <b>Total current liabilities</b>  | <b>209,462</b>    | <b>241,158</b>       |
| <u>Long term liabilities:</u>   |                   |                      |
| Notes and loans payable   | 226,889           | 222,499              |
| Debentures  | 206,384           | 216,724              |
| Deferred income taxes   | 5,227             | 5,965                |
| Other long term liabilities   | 9,500             | 9,476                |
| <b>Total long term liabilities</b>  | <b>448,000</b>    | <b>454,664</b>       |
| <b>Total liabilities</b>  | <b>657,462</b>    | <b>695,822</b>       |
| <b>EQUITY</b>   |                   |                      |
| <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  | 191,636           | 191,263              |
| Retained earnings   | 30,152            | 31,062               |
| Accumulated other comprehensive loss  | (20,677)          | (17,876)             |
| Treasury stock, at cost   | (28,763)          | (28,500)             |
| <b>Total Ampal shareholders' equity</b>   | <b>235,625</b>    | <b>239,226</b>       |
| Noncontrolling interest   | 4,054             | 869                  |
| <b>Total equity</b>   | <b>239,679</b>    | <b>240,095</b>       |
| <b>TOTAL LIABILITIES AND EQUITY</b>   | <b>\$ 897,141</b> | <b>\$ 935,917</b>    |

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

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

| SIX MONTHS ENDED JUNE 30,   | 2009             | 2008             |
|---|------------------|------------------|
| (U.S. Dollars in thousands, except per share amounts)   | (Unaudited)      | (Unaudited)      |
| <b>REVENUES:</b>  |                  |                  |
| Chemical income   | \$ 186,293       | \$ 277,171       |
| Real estate income  | 94               | -                |
| Equity in earnings (losses) of affiliates   | (275)            | 578              |
| Realized gains on investments   | 522              | 379              |
| Realized and unrealized gains (losses) on marketable securities                                       | (155)            | 139              |
| Translation gain  | 11,959           | -                |
| Interest income   | 2,600            | 2,156            |
| Leisure-time income   | 1,308            | 1,492            |
| Gain from redemption of debt, gain from change in ownership interest in a subsidiary and other income | 3,376            | 718              |
| <b>Total revenues</b>   | <b>205,722</b>   | <b>282,633</b>   |
| <b>EXPENSES:</b>  |                  |                  |
| Chemical expense - cost of goods sold   | 171,804          | 259,142          |
| Real estate expenses  | 294              | 387              |
| Interest expense  | 13,405           | 14,931           |
| Translation loss  | -                | 25,381           |
| Loss from sale of fixed assets  | 29               | -                |
| Marketing expense   | 3,358            | 6,105            |
| General, administrative and other   | 16,095           | 18,307           |
| <b>Total expenses</b>   | <b>204,985</b>   | <b>324,253</b>   |
| Gain (loss) before income taxes   | 737              | (41,620)         |
| Provision for income taxes (tax benefits)   | (1,563)          | (1,081)          |
| <b>Net income (loss)</b>  | <b>2,300</b>     | <b>(40,539)</b>  |
| Less: Net income (loss) attributable to noncontrolling interests                                      | 3,210            | (12,894)         |
| <b>Net loss from continuing operations</b>  | <b>(910)</b>     | <b>(27,645)</b>  |
| Basic and diluted EPS:  |                  |                  |
| <b>Loss per share</b>   | <b>\$ (0.02)</b> | <b>\$ (0.48)</b> |
| Shares used in EPS calculation (in thousands)   | 56,168           | 57,722           |

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

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

| THREE MONTHS ENDED JUNE 30,   | 2009             | 2008            |
|---|------------------|-----------------|
| (U.S. Dollars in thousands, except per share amounts)   | (Unaudited)      | (Unaudited)     |
| <b>REVENUES:</b>  |                  |                 |
| Chemical income   | \$ 91,620        | \$ 151,559      |
| Real estate income  | 73               | -               |
| Equity in earnings (losses) of affiliates   | (231)            | (7)             |
| Realized gains on investments   | 522              | (33)            |
| Realized and unrealized gains (losses) on marketable securities                                       | 100              | 39              |
| Translation gain  | -                | -               |
| Interest income   | 1,936            | 1,508           |
| Leisure-time income   | 615              | 766             |
| Gain from redemption of debt, gain from change in ownership interest in a subsidiary and other income | 462              | 72              |
| <b>Total revenues</b>   | <b>95,097</b>    | <b>153,904</b>  |
| <b>EXPENSES:</b>  |                  |                 |
| Chemical expense - cost of goods sold   | 85,031           | 140,044         |
| Real estate expenses  | 157              | 188             |
| Interest expense  | 6,131            | 10,506          |
| Translation loss  | 14,632           | 12,158          |
| Marketing expense   | 1,741            | 3,008           |
| Loss from sale of fixed assets  | 5                | -               |
| General, administrative and other   | 8,615            | 10,560          |
| <b>Total expenses</b>   | <b>116,311</b>   | <b>176,464</b>  |
| Loss before income taxes  | (21,214)         | (22,560)        |
| Provision for income taxes (tax benefits)   | (1,982)          | (254)           |
| <b>Net loss</b>   | <b>(19,232)</b>  | <b>(22,306)</b> |
| Less: Net loss attributable to noncontrolling interests   | (5,828)          | (4,936)         |
| <b>Net loss from continuing operations</b>  | <b>(13,404)</b>  | <b>(17,370)</b> |
| Basic and diluted EPS:  |                  |                 |
| <b>Loss per share</b>   | <b>\$ (0.24)</b> | <b>\$ (0.3)</b> |
| 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

SIX MONTHS ENDED JUNE 30,

|   | 2009           | 2008            |
|---|----------------|-----------------|
| (U.S. Dollars in thousands)   | (Unaudited)    | (Unaudited)     |
| Cash flows from operating activities:   |                |                 |
| Net income (loss) for the period  | \$ 2,300       | \$ (40,539)     |
| Adjustments to reconcile net (income) loss for the period to net cash provided by (used in) operating activities: |                |                 |
| Equity in losses (earnings) of affiliates   | 275            | (578)           |
| Realized and unrealized loss (gain) on investments, net   | (367)          | (518)           |
| Depreciation and amortization expense   | 6,864          | 5,794           |
| Loss from sale of fixed assets  | 29             | -               |
| Non cash stock based compensation   | 878            | 418             |
| Translation (gain) loss   | (11,959)       | 25,381          |
| Decrease (increase) in other assets   | (3,977)        | 2,380           |
| Decrease (increase) in inventories  | 10,763         | (4,284)         |
| Decrease (increase) in accounts receivable  | 20,167         | (10,405)        |
| Increase (decrease) in accounts payable, accrued expenses and other   | (8,394)        | 13,728          |
| Investments made in trading securities  | -              | (79)            |
| Proceeds from sale of trading securities  | 1,069          | 1,642           |
| Gain from change in ownership interest in a subsidiary  | -              | (342)           |
| Dividends received from affiliates  | 572            | 3,140           |
|   | <u>18,220</u>  | <u>(4,262)</u>  |
| Net cash provided (used in) by operating activities   |                |                 |
| Cash flows from investing activities:   |                |                 |
| Deposits, notes and loans receivable collected  | 7,252          | 2,353           |
| Deposits, notes and loans receivable granted  | -              | (54,552)        |
| Capital improvements  | (29,824)       | (21,181)        |
| Investments made in affiliates and others   | (602)          | (23,730)        |
| Investments made in available for sale shares   | (7,783)        | -               |
| Proceeds from sale of available for sale shares   | 28,772         | -               |
| Proceeds from sale of investments   | 546            | 604             |
| Proceeds from sale of fixed assets  | 349            | 3,742           |
|   | <u>(1,290)</u> | <u>(92,764)</u> |
| Net cash used in investing activities   |                |                 |

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

SIX MONTHS ENDED JUNE 30,

2009

2008

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| (U.S. Dollars in thousands)  | (Unaudited) | (Unaudited) |
|--|-------------|-------------|
| <b>Cash flows from financing activities:</b>   |             |             |
| Notes and loans payable received   | \$ 26,468   | \$ 25,841   |
| Notes and loans payable repaid   | (32,191)    | (2,930)     |
| Proceeds from issuance of debentures   |             | 166,856     |
| Deferred expense relating to issuance of debentures  |             | (2,575)     |
| Proceeds from exercise of stock option and warrants  |             | 290         |
| Debentures repaid and shares repurchased   | (5,995)     | -           |
| Net cash (used in) provided by financing activities  | (11,718)    | 187,482     |
| Effect of exchange rate changes on cash and cash equivalents   | 3,970       | 1,734       |
| Net increase in cash and cash equivalents  | 9,182       | 92,190      |
| Cash and cash equivalents at beginning of period   | 68,682      | 44,267      |
| Cash and cash equivalents at end of period   | \$ 77,864   | \$ 136,457  |
| Supplement Disclosure of Non-cash Investing and Financing Activities-<br>Conversion of a convertible debenture in subsidiary | -           | 1,214       |

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

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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<br>paid in<br>capital | Retained<br>earnings | Accumulated<br>other<br>comprehensive<br>income (loss) | Treasury<br>stock | Non-controlling<br>interests | Total<br>equity |
|---|-------------------------|--------|----------------------------------|----------------------|--|-------------------|------------------------------|-----------------|
|   | Number<br>of<br>shares* | Amount |                                  |                      |  |                   |                              |                 |
| BALANCE AT JANUARY 1,<br>2009                 | 63,277                  | 63,277 | 191,263                          | 31,062               | (17,876)   | (28,500)          | 869                          | 240,095         |
| CHANGES DURING 2009:                          |                         |        |                                  |                      |  |                   |                              |                 |
| Net income for the period                     |                         |        |                                  | (910)                |  |                   | 3,210                        | 2,300           |
| Unrealized loss from<br>marketable securities |                         |        |                                  |                      | (1,453)  |                   |                              | (1,453)         |
| Foreign currency                              |                         |        |                                  |                      |  |                   |                              |                 |



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Ampal American Israel Corporation

|                                  |               |               |                |               |                 |                 |              |                |
|----------------------------------|---------------|---------------|----------------|---------------|-----------------|-----------------|--------------|----------------|
| translation adjustments          |               |               |                |               | (1,348)         |                 | (25)         | (1,373)        |
| Total comprehensive loss         |               |               |                |               |                 |                 |              | (526)          |
| Purchase of 292,103 shares       |               |               |                |               |                 | (263)           |              | (263)          |
| Share based compensation expense |               |               | 373            |               |                 |                 |              | 373            |
| <b>BALANCE AT JUNE 30, 2009</b>  | <b>63,277</b> | <b>63,277</b> | <b>191,636</b> | <b>30,152</b> | <b>(20,677)</b> | <b>(28,763)</b> | <b>4,054</b> | <b>239,679</b> |

\*In thousands

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

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AMPAL-AMERICAN ISRAEL CORPORATION AND SUBSIDIARIES  
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  |                   |               |                            | (27,645)          |   |                 | (12,894)                  | (40,539)       |
| Unrealized gain from marketable securities                       |                   |               |                            |                   | (96)  |                 |                           | (96)           |
| Foreign currency translation adjustments                         |                   |               |                            |                   | 13,736  |                 | (7,343)                   | 6,393          |
| Total comprehensive loss   |                   |               |                            |                   |   |                 |                           | (34,242)       |
| Reissuance of 89,750 treasury stock for exercise of stock option |                   |               |                            | (159)             |   | 449             |                           | 290            |
| Share based compensation expense                                 |                   |               | 418                        |                   |   |                 |                           | 418            |
| <b>BALANCE AT JUNE 30, 2008</b>                                  | <b>63,277</b>     | <b>63,277</b> | <b>190,317</b>             | <b>20,127</b>     | <b>(1,181)</b>                                | <b>(27,425)</b> | <b>2,969</b>              | <b>248,084</b> |

\*In thousands

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

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

(Unaudited)

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

*FAS 168*

In June 2009, the Financial Accounting Standards Board ( FASB ) issued SFAS No. 168, The FASB Accounting Standards Codification<sup>TM</sup> and the Hierarchy of Generally Accepted Accounting Principles a replacement of FASB Statement No. 162 ( 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, becomes effective for interim and annual periods ending on or after September 15, 2009. We will apply the Codification beginning in the third quarter of fiscal 2009. The adoption of SFAS 168 is not expected to have a material impact on our condensed consolidated financial statements or related footnotes.

*FAS 167*

In June 2009, the FASB issued FAS 167, Amendments to FASB Interpretation No. 46(R), which changes the approach to determining the primary beneficiary of a variable interest entity ( VIE ) and requires companies to more frequently assess whether they must consolidate VIEs. This new standard is effective for us beginning on January 1, 2010. We are currently assessing the potential impacts, if any, on our consolidated financial statements.

*FAS 157-4*

In April 2009, the FASB issued FASB Staff Position No. 157-4, Determining Whether a Market is not Active and a Transaction is not Distressed ( FSP FAS 157-4 ), which provides additional guidance in accordance with FASB No. 157, Fair Value Measurements, when the volume and level of activity for the asset or liability has significantly decreased. FSP FAS 157-4 shall be 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.

*FAS 107-1*

In April 2009, the FASB issued FASB Staff Position No. 107-1 ( FSP FAS 107-1 ) and APB 28-1 ( APB 28-1 ), which amends FASB Statement No. 107, Disclosures about Fair Value of Financial Instruments and APB Opinion No. 28, Interim Financial Reporting, to require disclosures about the fair value of financial instruments for interim reporting periods. FSP FAS 107-1 and APB 28-1 is effective for interim reporting periods ending after June 15, 2009 and the adoption did not have a material impact on our financial statements.

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*EITF 03-6-1*

In June 2008, the FASB issued FASB Staff Position No. EITF 03-6-1, Determining Whether Instruments Granted in Share-Based Payment Transactions are Participating Securities ( FSP EITF 03-6-1 ). The FASB decided that unvested share-based payout awards that contain non-forfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and shall be included in the computation of EPS pursuant to the two-class method under SFAS 128, Earnings per Share. FSP EITF 03-6-1 became effective for the Company on January 1, 2009 and the adoption did not have an impact on our financial statements.

*SFAS No. 157 Fair Value Measurements*

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements ( SFAS 157 ), which provides guidance on how to measure assets and liabilities that use fair value. SFAS 157 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. SFAS 157 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 SFAS 157 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 SFAS 157 that became effective in 2008 did not have a material impact on the Company's financial statements. The adoption of the remaining parts of SFAS 157 did not have a material impact on our financial statements.

*SFAS No. 141R Business Combinations*

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

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

In December 2007, the FASB issued SFAS No. 160 Noncontrolling Interests in Consolidated Financial Statements an amendment of ARB No. 51" ( SFAS 160 ). SFAS 160 amends ARB No. 51 and establishes accounting and reporting standards that require noncontrolling interests (previously referred to as minority interest) to be reported as a component of equity, changes in a parent's ownership interest while the parent retains its controlling interest be accounted for as equity transactions, and upon a loss of control, retained ownership interest will be remeasured at fair value, with any gain or loss recognized in earnings. The presentation and disclosure requirements of SFAS 160 were applied retrospectively. Other than the change in presentation of noncontrolling interests, the adoption of SFAS 160 had no material impact on the financial statements.

*SFAS No. 161 Disclosures about Derivative Instruments and Hedging Activities*

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In March 2008, FASB issued Statement No. 161, Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133 ( FAS 161 ). FAS 161 amends and expands the disclosure requirements of FAS 133 to clarify how and why companies use derivative instruments. In addition, FAS 161 requires more disclosures regarding how companies account for derivative instruments and the impact derivatives have on a company's financial statements. Other than the required disclosures (see note 10), the adoption of SFAS 161 had no material impact on the financial statements.

### *SFAS No. 142-3 Determination of the Useful Life of Intangible Assets*

In April 2008, the FASB issued FASB Staff Position FAS No. 142-3 ( FSP FAS 142-3 ), which amends the factors that must be considered in developing renewal or extension assumptions used to determine the useful life over which to amortize the cost of a recognized intangible asset under FAS No. 142, Goodwill and Other Intangible Assets. FSP FAS 142-3 requires an entity to consider its own assumptions about renewal or extension of the term of the arrangement, consistent with its expected use of the asset, and is an attempt to improve consistency between the useful life of a recognized intangible asset under FAS No. 142 and the period of expected cash flows used to measure the fair value of the asset under FAS No. 141, Business Combinations. The adoption of FSP FAS 142-3 had no impact on material the financial statements.

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#### 4. Cash and cash equivalents

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

Cash equal to \$2.0 million has been placed as a compensating balance for various loans provided to the Company and would therefore be unavailable if the Company wished to pledge them in order to provide an additional source of cash.

#### 5. Inventories

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

#### 6. East Mediterranean Gas Company

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. 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 was signed with Dorad Energy, Ltd. ( Dorad ) (an independent power producer) for a quantity of 0.735 BCM annually over 17-22 years. 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.

In September 2008, Midroog downgraded the rating on Ampal's Series A and Series B Debentures from A2 to A3 and will continue to maintain Ampal on its Watchlist. Midroog concluded that there is a possibility that new agreements between EMG and the Egyptian gas supplier may adversely affect EMG's financial results compared to previous expectations, which will result in reduced cash flow from EMG to Ampal and other financial parameters resulting from such reduced cash flow. Midroog added that it will monitor the situation, including the negotiations between EMG and the Egyptian gas supplier, the regularity of the gas supply and other matters, and will review Ampal's rating accordingly. Ampal's rating will remain on the Watchlist.

As of June 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 negotiations are underway.

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

## 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, MAE. 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.

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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.

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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 (\$2.6 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 FAS 161, Disclosures about Derivative Instruments and Hedging Activities. SFAS 161 is an amendment of SFAS 133, Accounting for Derivative Instruments and Hedging Activities ( SFAS 133 ). This statement requires enhanced disclosures about an entity's derivative and hedging activities and thereby improves the transparency of financial reporting. FAS 161 became effective for the Company on January 1, 2009 and we have incorporated the additional disclosure information for FAS 161 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.

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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 variability 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, contracts to purchase Yen 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 SFAS 133. 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 are shown by those in an asset or liability position and categorized as commodity derivatives.

### Asset Derivatives

|                         |              | (U.S. Dollars in thousands) |                   |               |
|-------------------------|--------------|-----------------------------|-------------------|---------------|
| Derivative Instrument   | Location     | June 30, 2009               | December 31, 2008 | June 30, 2008 |
| SWAP contracts          | Other assets | 1,512                       | -                 | 2,724         |
| Exchange rate contracts | Other assets | 102                         | 9,601             | -             |

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### Liability Derivatives

|                         |   | (U.S. Dollars in thousands) |                   |               |
|-------------------------|---|-----------------------------|-------------------|---------------|
| Derivative Instrument   | Location                                      | June 30, 2009               | December 31, 2008 | June 30, 2008 |
| SWAP contracts          | Accounts payable, accrued expenses and others | 798                         | 4,218             | -             |
| Exchange rate contracts | Accounts payable, accrued expenses and others | 419                         | 10,105            | 611           |

### Statement of Operation

|                             |                    | (U.S. Dollars in thousands) |               |
|-----------------------------|--------------------|-----------------------------|---------------|
| Derivative Instrument       | Location           | June 30, 2009               | June 30, 2008 |
| SWAP contract               | Translation income | 3,421                       | 2,724         |
| Interest rate SWAP contract | Interest income    | 1,511                       | -             |

|                         |                       |         |       |
|-------------------------|-----------------------|---------|-------|
| Exchange rate contracts | Translation (expense) | (1,576) | (611) |
|-------------------------|-----------------------|---------|-------|

## 11. Fair Value Measurements

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

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

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

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.

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.

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

**Fair Value Measurements as Using at:**

|                                 | June 30, 2009    |               |                  | December 31, 2008 |                   |                  |
|---------------------------------|------------------|---------------|------------------|-------------------|-------------------|------------------|
|                                 | Level 1          | Level 2       | Total            | Level 1           | Level 2           | Total            |
| Trading securities *            | \$ 3,331         | \$ -          | \$ 3,331         | \$ 4,396          | \$ -              | \$ 4,396         |
| Available for sale securities * | 27,921           | -             | 27,921           | 48,463            | -                 | 48,463           |
| Derivative assets **            | -                | 1,614         | 1,614            | -                 | 9,601             | 9,601            |
| Derivative liabilities **       | -                | (1,217)       | (1,217)          | -                 | (14,323)          | (14,323)         |
| <b>Total</b>                    | <b>\$ 31,252</b> | <b>\$ 397</b> | <b>\$ 31,649</b> | <b>\$ 52,859</b>  | <b>\$ (4,722)</b> | <b>\$ 48,137</b> |



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

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

\*\* See note 10

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

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

The chemical segment consists of 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.

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| SIX MONTHS ENDED JUNE 30,             | 2009           | 2008            |
|---------------------------------------|----------------|-----------------|
| <b>(Dollars in thousands)</b>         |                |                 |
| <b>Revenues:</b>                      |                |                 |
| Chemicals                             | \$ 186,293     | \$ 277,513      |
| Finance                               | 18,396         | 3,050           |
| Leisure-time                          | 1,308          | 1,492           |
|                                       | <u>205,997</u> | <u>282,055</u>  |
| Equity in (losses) gain of affiliates | (275)          | 578             |
|                                       | <u>205,722</u> | <u>282,633</u>  |
| <b>Pre-tax Operating Gain (loss):</b> |                |                 |
| Chemicals                             | \$ (529)       | \$ (2,337)      |
| Finance                               | 1,273          | (39,847)        |
| Leisure-time                          | 268            | (14)            |
|                                       | <u>1,012</u>   | <u>(42,198)</u> |
| Equity in (losses) gain of affiliates | (275)          | 578             |
|                                       | <u>737</u>     | <u>(41,620)</u> |

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| SIX MONTHS ENDED JUNE 30,        | 2009              | 2008                |
|----------------------------------|-------------------|---------------------|
| <b>Total Assets:</b>             |                   |                     |
| Chemicals                        | \$ 356,091        | \$ 405,862          |
| Finance                          | 499,785           | 608,029             |
| Energy                           | 361,323           | 361,323             |
| Leisure-Time                     | 3,323             | 4,359               |
| Inter- segments adjustments      | (323,381)         | (378,136)           |
| <b>Total consolidated assets</b> | <b>\$ 897,141</b> | <b>\$ 1,001,437</b> |

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 June 30, 2009 and 2008 because such shares are anti-dilutive.

| (Shares in thousands)                    | Three Months ended<br>June 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 (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

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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 for 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.

Rental income is recorded over the rental period. Revenues from services provided to tenants and country-club subscribers are recognized ratably over the contractual period or as services are performed. Revenue from amortization of tenant deposits (included in discontinued operation) was calculated at a fixed periodic rate based on the specific terms in the occupancy agreement signed with the tenants.

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

### Recently adopted and recently Issued Accounting Pronouncements

#### *FAS 168*

In June 2009, the Financial Accounting Standards Board ( FASB ) issued SFAS No. 168, The FASB Accounting Standards Codification<sup>TM</sup> and the Hierarchy of Generally Accepted Accounting Principles a replacement of FASB Statement No. 162 ( 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, becomes effective for interim and annual periods ending on or after September 15, 2009. We will apply the Codification beginning in the third quarter of fiscal 2009. The adoption of SFAS 168 is not expected to have a material impact on our condensed consolidated financial statements or related footnotes.

#### *FAS 167*

In June 2009, the FASB issued FAS 167, Amendments to FASB Interpretation No. 46(R), which changes the approach to determining the primary beneficiary of a variable interest entity ( VIE ) and requires companies to more frequently assess whether they must consolidate VIEs. This new standard is effective for us beginning on January 1, 2010. We are currently assessing the potential impacts, if any, on our consolidated financial statements.

#### *FAS 157-4*

In April 2009, the FASB issued FASB Staff Position No. 157-4, Determining Whether a Market is not Active and a Transaction is not Distressed ( FSP FAS 157-4 ), which provides additional guidance in accordance with FASB No. 157, Fair Value Measurements, when the volume and level of activity for the asset or liability has significantly decreased. FSP FAS 157-4 shall be 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.

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In April 2009, the FASB issued FASB Staff Position No. 107-1 ( FSP FAS 107-1 ) and APB 28-1 ( APB 28-1 ), which amends FASB Statement No. 107, Disclosures about Fair Value of Financial Instruments and APB Opinion No. 28, Interim Financial Reporting, to require disclosures about the fair value of financial instruments for interim reporting periods. FSP FAS 107-1 and APB 28-1 is effective for interim reporting periods ending after June 15, 2009 and the adoption did not have a material impact on our financial statements.

### *EITF 03-6-1*

In June 2008, the FASB issued FASB Staff Position No. EITF 03-6-1, Determining Whether Instruments Granted in Share-Based Payment Transactions are Participating Securities ( FSP EITF 03-6-1 ). The FASB decided that unvested share-based payout awards that contain non-forfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and shall be included in the computation of EPS pursuant to the two-class method under SFAS 128, Earnings per Share. FSP EITF 03-6-1 became effective for the Company on January 1, 2009 and the adoption did not have an impact on our financial statements.

### *SFAS No. 157 Fair Value Measurements*

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements ( SFAS 157 ), which provides guidance on how to measure assets and liabilities that use fair value. SFAS 157 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. SFAS 157 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 SFAS 157 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 SFAS 157 that became effective in 2008 did not have a material impact on the Company's financial statements. The adoption of the remaining parts of SFAS 157 did not have a material impact on our financial statements.

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

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

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

In December 2007, the FASB issued SFAS No. 160 Noncontrolling Interests in Consolidated Financial Statements an amendment of ARB No. 51" ( SFAS 160 ). SFAS 160 amends ARB No. 51 and establishes accounting and reporting standards that require noncontrolling interests (previously referred to as minority interest) to be reported as a component of equity, changes in a parent's ownership interest while the parent retains its controlling interest be accounted for as equity transactions, and upon a loss of control, retained ownership interest will be remeasured at fair value, with any gain or loss recognized in earnings. The presentation and disclosure requirements of SFAS 160 were applied retrospectively. Other than the change in presentation of noncontrolling interests, the adoption of SFAS 160 had no material impact on the financial statements.

### *SFAS No. 161 Disclosures about Derivative Instruments and Hedging Activities*

In March 2008, FASB issued Statement No. 161, Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133 ( FAS 161 ). FAS 161 amends and expands the disclosure requirements of FAS 133 to clarify how and why companies use derivative instruments. In addition, FAS 161 requires more disclosures regarding how companies account for derivative instruments and the impact derivatives have on a company's financial statements. Other than the required disclosures (see note 10), the adoption of SFAS 161 had no material impact on the financial statements.

*SFAS No. 142-3 Determination of the Useful Life of Intangible Assets*

In April 2008, the FASB issued FASB Staff Position FAS No. 142-3 ( FSP FAS 142-3 ), which amends the factors that must be considered in developing renewal or extension assumptions used to determine the useful life over which to amortize the cost of a recognized intangible asset under FAS No. 142, Goodwill and Other Intangible Assets. FSP FAS 143-2 requires an entity to consider its own assumptions about renewal or extension of the term of the arrangement, consistent with its expected use of the asset, and is an attempt to improve consistency between the useful life of a recognized intangible asset under FAS No. 142 and the period of expected cash flows used to measure the fair value of the asset under FAS No. 141, Business Combinations. The adoption of FSP FAS 142-3 had no impact on material the financial statements.

Results of Operations

## Changes in pricing and demand for chemicals

The overall demand for chemical products, especially commodity chemicals, is highly dependent on general economic conditions. In the past few months, both the prices and demand for chemicals decreased dramatically due to the global recession. The economic indicators from the United States and Europe reveal the intensity of the recession and it is unclear when the market sentiment will change. The economic slowdown is felt in all sectors of the economy.

Six months ended June 30, 2009 compared to six months ended June 30, 2008

The Company recorded a consolidated net loss of \$0.9 million for the six months ended June 30, 2009 compared to a net loss of \$27.6 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 is primarily attributable to interest expenses and translation loss in 2008.

In the six months ended June 30, 2009 and 2008, the Company included the results of operations of Gadot. Below is data from Gadot results of operations (in millions of dollars):

|  | <u>June 30, 2009</u> | <u>June 30, 2008</u> |
|--|----------------------|----------------------|
| Chemical income                                      | \$ 186.3             | \$ 277.2             |
| Chemical expense                                     | \$ 171.8             | \$ 259.1             |
| Marketing expense                                    | \$ 3.4               | \$ 6.1               |
| Other expense (mainly<br>general and administrative) | \$ 8.6               | \$ 11.0              |
| Interest expense                                     | \$ 3.5               | \$ 3.9               |
| Net gain   | \$ 0.1               | \$ 1.4               |

In the six months ended June 30, 2009, the Company recorded \$3.4 million of marketing expense, as compared to a \$6.1 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 due to the result of a restructuring plan that took place at Gadot during the second half of 2008.

In the six months ended June 30, 2009, the Company recorded a \$16.1 million of general, administrative and other expense, as compared to \$18.3 million in the corresponding period in 2008. The decrease is due to the result of a restructuring plan that took place at Gadot during the second half of 2008.

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In the six months ended June 30, 2009, the Company recorded a \$3.2 million of noncontrolling interests share in gain of subsidiaries, net, as compared to \$12.9 million share in loss in the corresponding period in 2008. These gains are mainly attributable to translation gains 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.

In the six months ended June 30, 2009, the Company recorded a \$13.4 million interest expense, as compared to a \$14.9 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 and the interest expense of the SWAP agreements.

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In the six months ended June 30, 2009, the Company recorded a \$12.0 million translation gain, as compared to a \$25.4 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, an increase of 3.1% in the six months ended June 30, 2009, as compared to a decrease of 12.7% for the corresponding period in 2008.

The Company recorded a net loss of \$0.3 million in Equity in losses of affiliates for the six months ended June 30, 2009, compared to a net gain in Equity in earnings of affiliates of \$0.6 million for the corresponding period in 2008.

Results of operations analyzed by segments for six months ended June 30:

|   | 2009                        | 2008              |
|---|-----------------------------|-------------------|
|   | (U.S. Dollars in thousands) |                   |
| <b>Revenues:</b>                          |                             |                   |
| Chemicals                                 | \$ 186,293                  | \$ 277,513        |
| Finance                                   | 18,396                      | 3,050             |
| Leisure-time                              | 1,308                       | 1,492             |
|   | 205,997                     | 282,055           |
| Equity in earnings (losses) of affiliates | (275)                       | 578               |
|   | 205,722                     | 282,633           |
| <b>Total</b>                              | <b>\$ 205,722</b>           | <b>\$ 282,633</b> |

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 six months ended June 30, 2009, the Company recorded \$205.7 million in revenue which was comprised of \$186.3 million in the Chemicals segment, \$18.4 million in the Finance segment, \$1.3 million in the Leisure-time segment and a net loss of \$0.3 million in Equity in losses of affiliates, as compared to \$282.6 million for the same period in 2008, which was comprised of \$277.5 million in the Chemicals segment, \$3.1 million in the Finance segment, \$1.5 million in the Leisure-time segment and a \$0.6 million gain in Equity in earnings of affiliates. 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. This was partially offset by the change in the valuation of the New Israeli Shekel as compared to the Euro. The recession and the resulting significant decrease in the demand for chemical carrier ships were felt during the first half 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.

The increase in the Finance segment revenue is primarily related to the \$12.0 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 \$25.4 million translation loss in 2008.

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|                  | 2009                        | 2008              |
|------------------|-----------------------------|-------------------|
|                  | (U.S. Dollars in thousands) |                   |
| <b>Expenses:</b> |                             |                   |
| Chemicals        | \$ 188,007                  | \$ 279,850        |
| Finance          | 15,938                      | 42,897            |
| Leisure-time     | 1,040                       | 1,506             |
| <b>Total</b>     | <b>\$ 204,985</b>           | <b>\$ 324,253</b> |

In the six months ended June 30, 2009, the Company recorded \$205.0 million in expenses which was comprised of \$188.0 million of expenses in the Chemicals segment, \$15.9 million of expenses in the Finance segment and \$1.0 million of expenses in the Leisure-time segment, as compared to \$324.3 million in expenses for the same period in 2008 which was comprised of \$279.9 million in the Chemicals segment, \$42.9 million in the Finance segment and \$1.5 million in the Leisure-time segment. The decrease in expenses in the Finance segment is primarily attributable to the \$12.0 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 \$25.4 million translation loss in 2008, and was partially offset by to 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.

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

The Company recorded a consolidated net loss of \$13.4 million for the three months ended June 30, 2009 compared to a net loss of \$17.4 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 June 30, 2008 and 2009, the Company included the results of operations of Gadot. Below is data from Gadot results of operations (in millions of dollars):

|   | June 30, 2009 | June 30, 2008 |
|---|---------------|---------------|
| Chemical income                                   | \$ 91.6       | \$ 151.6      |
| Chemical expense                                  | \$ 85.0       | \$ 140.0      |
| Marketing expense                                 | \$ 1.7        | \$ 3.0        |
| Other expense (mainly general and administrative) | \$ 4.8        | \$ 6.2        |
| Interest expense                                  | \$ 0.7        | \$ 2.4        |
| Net gain  | \$ 0.4        | \$ 1.8        |

In the three months ended June 30, 2009, the Company recorded \$1.7 million of marketing expense, as compared to a \$3.0 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 due to the result of a restructuring plan that took place in Gadot during the second half of 2008.

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In the three months ended June 30, 2009, the Company recorded a \$8.6 million of general, administrative and other expense, as compared to \$10.6 million in the corresponding period in 2008. The decrease is due to the result of a restructuring plan that took place in Gadot during the second half of 2008.

In the three months ended June 30, 2009, the Company recorded a \$5.8 million of noncontrolling interests share in loss of subsidiaries, net, as compared to \$4.9 million share in loss in the corresponding period in 2008. These loss 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 June 30, 2009, the Company recorded a \$6.1 million interest expense, as compared to a \$10.5 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 June 30, 2009 as compared to the increase in the Israeli Consumer Price Index in the three months ended June 30, 2008.

In the three months ended June 30, 2009, the Company recorded a \$14.6 million translation loss, as compared to a \$12.2 million translation loss 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 \$0.2 million net loss in Equity in losses of affiliates for the three months ended June 30, 2009, compared to a minor net loss in Equity in losses of affiliates for the corresponding period in 2008.

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

|   | 2009                        | 2008       |
|---|-----------------------------|------------|
|   | (U.S. Dollars in thousands) |            |
| <b>Revenues:</b>                          |                             |            |
| Chemicals                                 | \$ 91,615                   | \$ 151,410 |
| Finance                                   | 3,122                       | 1,735      |
| Leisure-time                              | 591                         | 766        |
|   | 95,328                      | 153,911    |
| Equity in earnings (losses) of affiliates | (231)                       | (7)        |
|   | \$ 95,097                   | \$ 153,904 |

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 June 30, 2009, the Company recorded \$95.1 million in revenue which was comprised of \$91.6 million in the Chemicals segment, \$3.1 million in the Finance segment, \$0.6 million in the Leisure-time segment and a net loss of \$0.2 million in Equity in losses of affiliates, as compared to \$153.9 million for the same period in 2008, which was comprised of \$151.4 million in the Chemicals segment, \$1.7 million in the Finance segment, \$0.8 million in the Leisure-time segment and a minor net loss in Equity in losses of affiliates. 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 recession and the resulting significant decrease in the demand for chemical carrier ships were felt during the second quarter 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. The increase in the Finance segment revenue is primarily related to the increase in interest income from deposits and loans receivable.



|                  | 2009                        | 2008              |
|------------------|-----------------------------|-------------------|
|                  | (U.S. Dollars in thousands) |                   |
| <b>Expenses:</b> |                             |                   |
| Chemicals        | \$ 93,057                   | \$ 151,530        |
| Finance          | 22,728                      | 24,006            |
| Leisure-time     | 526                         | 928               |
| <b>Total</b>     | <b>\$ 116,311</b>           | <b>\$ 176,464</b> |

In the three months ended June 30, 2009, the Company recorded \$116.3 million in expenses which was comprised of \$93.1 million of expenses in the Chemicals segment, \$22.7 million of expenses in the Finance segment and \$0.5 million of expenses in the Leisure-time segment, as compared to \$176.5 million in expenses for the same period in 2008 which was comprised of \$151.5 million in the Chemicals segment, \$24.0 million in the Finance segment and \$0.9 million in the Leisure-time segment.

#### Income taxes

In the six month periods ended June 31, 2009 the Company reported tax benefit of \$0.3 million as compared to approximately \$1.0 million of tax benefit in the corresponding periods in 2008. The Company's loss for the period includes \$13.5 million from translation gains (these gains represent temporary differences for tax purposes). We created a deferred tax asset and full valuation allowance for such gains. The tax benefit which was recorded pertains to Gadot's income.

## Liquidity and Capital Resources

### Cash Flows

On June 30, 2009, cash, cash equivalents and marketable securities were \$109.1 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 June 30, 2009, the Company had \$31.3 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 equal to \$2.0 million has been placed as a compensating balance for various loans provided to the Company.

### Cash flows from operating activities

Net cash provided by operating activities totaled approximately \$18.2 million for the six months ended June 30, 2009, compared to approximately \$4.3 million used in operating activities for the corresponding period in 2008. The increase in cash provided by operating activities is primarily attributable to the decrease in accounts receivable and inventories. This was partially offset by a decrease in accounts payable and proceeds from trading securities.

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### Cash flows from investing activities

Net cash used in investing activities totaled approximately \$1.3 million for the six months ended June 30, 2009, compared to approximately \$92.8 million used in investing activities for the corresponding period in 2008. The change in cash used in investing activities is primarily attributable to deposits granted, investments made in affiliates in 2008 and proceeds from the sale of available for sale securities in 2009 which were partially offset by increase in capital improvements in 2009.

### Cash flows from financing activities

Net cash used in financing activities was approximately \$11.7 million for the six months ended June 30, 2009, compared to approximately \$187.5 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 loans repaid, the repurchase of Company's Series B debentures, and the issuance in 2008 of the Company's Series B debentures in the amount of \$166.9 million.

### Investments

In the six months ended June 30, 2009, the Company made additional investments in the form of a \$0.6 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 June 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%. 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 June 30, 2009, the outstanding debt under the debentures amounts to \$134.3 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 June 30, 2009, the outstanding amount of the deposit was \$29.4 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.

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

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 a percentage spread and is payable on a current basis. Ampal has guaranteed all the obligations of MAE under the Credit Facility and Ampal's interest in Gadot has also been pledged to IDB as a security 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.

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As of June 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 \$5.4 million bearing interest at rates between 4.6% and 4.8% to be repaid during 2009.

As of June 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 June 30, 2009, the Company is in compliance with its debt covenants.

As of June 30, 2009, the Company has a \$93.5 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 \$2.9 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 June 30, 2009, the outstanding debt under the notes amounts to \$63.6 million, due to the change in valuation of the New Israeli Shekel as compared to the U.S. dollar. The Company deposited an amount of \$10.2 million with Hermetic Trust (1975) Ltd. to secure the first three years worth of payments of interest on the debentures. As of June 30, 2009, the outstanding amount of the deposit was \$1.9 million.

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

Other long term borrowings in the amount of \$0.2 million are linked to the Consumer Price Index in Israel, mature between 2009 and 2010 and bear annual interest of 5.7%.

As of June 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) is convertible into one ordinary share of Gadot, par value NIS 0.1, subject to adjustments.

As of June 30, 2009, Gadot had \$8.8 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.

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As of June 30 2009, Gadot has short term loans payable (including current maturities of long term loans in amount of \$9.6 million) in the amount of \$74.1 million and long term loans payable (excluding current maturities of long term loans) in the amount of \$83.6 million. The various short term loans payable are either unlinked or linked to the Euro and bear interest at rates between 2.2 % to 5 %. The various long term loans payable are either unlinked or linked to the Consumer Price Index in Israel or linked to the Euro and bear interest at rates between 2 % to 9 %.

The weighted average interest rates and the balances of these short-term borrowings at June 30, 2009 and December 31, 2008 were 2.9% on \$141.9 million and 5.1% on \$157.2 million, respectively.

As of June 30, 2009, the Company had issued guarantees on certain outstanding loans to its investees and subsidiaries in the aggregate principal amount of \$34.9 million. These include:

1. A \$8.0 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 \$26.9 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 June 30, 2009, the Company had open foreign currency forward exchange contracts to purchase U.S. Dollars and sell Euros in the amount of \$0.8 million, contracts to purchase Euros and sell U.S. Dollars in the amount of \$3.8 million, contracts to purchase New Israeli Shekel and sell U.S. Dollars in the amount of \$2.5 million and contracts to purchase U.S. Dollars and sell New Israeli Shekel in the amount of \$8.5 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, 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 June 30, 2009, and are sensitive to the above market risks.

During the six months ended June 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.

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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 June 30, 2009, the value of the currency swap s contracts resulted in a \$4.9 million increase in other assets and a corresponding in interest and translation expenses.

As of June 30, 2009, the Company had financial assets totaling \$112.3 million and financial liabilities totaling \$575.3 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 June 30, 2009, the Company did not have fixed rate financial assets and had variable rate financial assets of \$112.3 million. A ten percent decrease in interest rates would not increase the unrealized fair value of the fixed rate assets.

As of June 30, 2009, the Company had fixed rate debt of \$319.3 million and variable rate debt of \$256.0 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 \$6.9 million.

The net decrease in earnings and cash flows for the next year resulting from a ten percent interest rate increase would be approximately \$0.8 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 June 30, 2009, the Company had open foreign currency forward exchange contracts to purchase U.S. Dollars and sell Euros in the amount of \$0.8 million, contracts to purchase Euros and sell U.S. Dollars in the amount of \$3.8 million, contracts to purchase New Israeli Shekel and sell U.S. Dollars in the amount of \$2.5 million and contracts to purchase U.S. Dollars and sell New Israeli Shekel in the amount of \$8.5 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 \$2.5 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 \$22.1million, and a ten percent increase in the Euro exchange rate would result in a net increase in losses and cash flows of \$0.4 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 June 30, 2009, the value of the currency swap resulted in a \$3.4 million decrease in other assets and a corresponding increase 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 fix interest rate of 2.95% as compare to a Libor in the original loan agreement. As of June 30, 2009, the value of the currency swap resulted in a \$1.5 million increase in other assets and a corresponding increase in interest expense.

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### Equity Price Risk

The Company s investments at June 30, 2009 included trading marketable securities which are recorded at a fair value of \$3.3 million, including a net unrealized loss of \$0.3 million, and \$27.9 million of trading securities that are classified as available for sale, including a net unrealized loss of \$1.5 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 \$3.1 million. There will be no impact on cash flow resulting from a hypothetical ten percent decrease in prices quoted on stock exchanges.

## ITEM 4. CONTROLS AND PROCEDURES

### Disclosure Controls and Procedures

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

### Internal Control Over Financial Reporting

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

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## 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:

- 10.1 English Translation of Hebrew Language Agreement between Gadot Chemical Tankers and Terminals Ltd. and Erez I. Meltzer, dated April 13, 2009 (filed as Exhibit 10.1 to Form 8-K filed with the SEC on April 14, 2009 and incorporated herein by reference).
- 11.1 Schedule Setting Forth Computation of Earnings Per Share of Class A Stock.
- 31.1 Certification of Yosef A. Maiman pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification of Irit Eluz pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1 Certification of Yosef A. Maiman and Irit Eluz pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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AMPAL-AMERICAN ISRAEL CORPORATION AND SUBSIDIARIES

SIGNATURES

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

AMPAL-AMERICAN ISRAEL CORPORATION

By: /s/ Yosef A. Maiman

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: August 5, 2009

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AMPAL-AMERICAN ISRAEL CORPORATION AND SUBSIDIARIES

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Exhibit Index

| Exhibit No. | Description   |
|-------------|---|
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