AMPAL-AMERICAN ISRAEL CORP
Form 10-Q
August 12, 2004

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2004

OR

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

For the transition period from _____ to_____

Commission file number 0-538

AMPAL-AMERICAN ISRAEL CORPORATION

(Exact Name of Registrant as Specified in Its Charter)

New York	13-0435685
(State or Other Jurisdiction of Incorporation of Organization)	(I.R.S. Employer Identification Number
111 Arlozorov, Tel Aviv, Israel	62098
(Address of Principal Executive Offices)	(Zip code)

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

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

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

Yes x No o

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Yes o No x

The number of shares outstanding of the issuer s Class A Stock, its only authorized common stock, is 19,859,445 (as of August 3, 2004).

AMPAL-AMERICAN ISRAEL CORPORATION AND SUBSIDIARIES

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ITEM 1. FINANCIAL STATEMENTS

AMPAL-AMERICAN ISRAEL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

SIX MONTHS ENDED JUNE 30,	**2004**	**2003**
(Dollars in thousands, except per share amounts)	**(Unaudited)**	**(Unaudited)**
REVENUES		
Equity in earnings of affiliates	$ 1,399	$ 194
Interest	279	267
Real estate income	4,433	4,385
Realized and unrealized gains on investments	4,742	26,342
Other	4,797	4,739
Total revenues	15,650	35,927
EXPENSES		
Interest	2,230	3,634
Real estate expenses	4,259	3,921
Loss from impairment of investments	1,463	8,133
Minority interests	(29)	1,095
Translation loss	1,559	2,313
Other (mainly general and administrative)	5,071	4,583
Total expenses	14,553	23,679
Gain before income taxes	1,097	12,248
Provision for income taxes	1,624	4,184
Net (loss)Gain	$ (527)	$ 8,064
Basic EPS:		
(Loss)Gain per Class A share	$ (0.03)	$ 0.40
Shares used in calculation (in thousands)	19,814	19,698
Diluted EPS:		
(Loss)Gain per Class A share	$ (0.03)	$ 0.36
Shares used in calculation (in thousands)	19,814	22,103

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

ITEM 1. FINANCIAL STATEMENTS

AMPAL-AMERICAN ISRAEL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

THREE MONTHS ENDED JUNE 30,	**2004**	**2003**
(Dollars in thousands, except per share amounts)	**(Unaudited)**	**(Unaudited)**
REVENUES		
Equity in (loss) earnings of affiliates	$ (517)	$ 703
Interest	151	132
Real estate income	2,259	2,280
Realized and unrealized gains on investments	3,912	25,434
Other	2,376	2,444
Total revenues	8,181	30,993
EXPENSES		
Interest	1,387	1,417
Real estate expenses	2,128	1,988
Loss from impairment of investments	-	8,133
Minority interests	346	586
Translation loss	332	1,992
Other (mainly general and administrative)	2,553	2,246
Total expenses	6,746	16,362
Gain before income taxes	1,435	14,631
Provision for income taxes	1,151	4,400
Net Gain	$ 284	$ 10,231
Basic EPS:		
Gain per Class A share	$ 0.01	$ 0.52
Shares used in calculation (in thousands)	20,470	19,713
Diluted EPS:		
Gain per Class A share	$ 0.01	$ 0.46
Shares used in calculation (in thousands)	22,115	22,103

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

AMPAL-AMERICAN ISRAEL CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

ASSETS AS OF	**June 30, 2004**	**December 31, 2003**
(Dollars in thousands)	**(Unaudited)**	**(Audited)**
Cash and cash equivalents	$ 16,201	$ 4,572
Deposits, notes and loans receivable	3,333	12,288
Investments	168,380	171,121
Marketable Securities	61,030	64,701
Total Investments	229,410	235,822
Real estate property, less accumulated depreciation of $11,498 and $9,166	63,931	64,460
Other assets	36,800	37,225
Total Assets	$ 349,675	$ 354,367

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

AMPAL-AMERICAN ISRAEL CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

LIABILITIES AND SHAREHOLDERS' EQUITY AS OF	**June 30, 2004**	**December 31, 2003**
(Dollars in thousands except per share amounts)	**(Unaudited)**	**(Audited)**
LIABILITIES		
Notes and loans payable	$ 137,523	$ 134,455
Debentures	1,956	3,879
Accounts payable, accrued expense and others	83,790	91,015
Total Liabilities	223,269	229,349
Minority interests	10,139	9,995
SHAREHOLDERS EQUITY		
4% Cumulative Convertible Preferred Stock, $5 par value; authorized 189,287 shares; issued 126,077 and 131,952 shares; outstanding 122,727 and 128,602 shares	630	660
6-1/2% Cumulative Convertible Preferred Stock, $5 par value; authorized 988,055 shares; issued 666,070 and 697,380 shares; outstanding 543,534 and 574,844 shares	3,330	3,487
Class A Stock; $1 par value; authorized 60,000,000 shares; issued 25,690,515 and 25,567,210 shares; outstanding 19,858,851 and 19,735,546 shares	25,691	25,567
Additional paid-in capital	58,206	58,143
Retained earnings	75,582	76,109
Treasury Stock, at cost	(31,096)	(31,096)
Accumulated other comprehensive loss	(16,076)	(17,847)
Total shareholders' equity	116,267	115,023
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 349,675	$ 354,367

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

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

SIX MONTHS ENDED JUNE 30,	**2004**	**2003**
(Dollars in thousands)	**(Unaudited)**	**(Unaudited)**
Cash flows from operating activities:		
Net (loss) gain	$ (527)	$ 8,064
Adjustments to reconcile net loss to net cash provided by operating activities:		
Equity in earnings of affiliates	(1,399)	(194)
Realized and unrealized gain on investments	(4,742)	(26,342)
Depreciation expense	1,051	1,024
Amortization of deposits from tenants	(939)	(586)
Loss from impairment of investments and loans	1,463	8,133
Translation loss	1,559	2,313
Minority interests	(29)	1,095
(Increase)decrease in other assets	(2,224)	1,284
(Decrease) increase in accounts payable, accrued expenses and others	(4,245)	5,938
Investments made in trading securities	(28,331)	(20,057)
Proceeds from sale of trading securities	38,181	22,191
Dividends received from affiliates	273	3,529
Net cash provided by operating activities	91	6,392
Cash flows from investing activities:		
Deposits, notes and loans receivable collected	13,974	1,853
Deposits, notes and loans receivable granted	(5,195)	(3,363)
Investments made in affiliates and others	(6,212)	(1,000)
Proceeds from sale of investments	8,918	-
Return of capital by partnership	35	157
Capital improvements	(460)	(2,520)
Change of minority interest due to acquisition	-	1,464
Net cash provided by (used in) investing activities	11,060	(3,409)

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

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

SIX MONTHS ENDED JUNE 30,	**2004**	**2003**
(Dollars in thousands)	**(Unaudited)**	**(Unaudited)**
Cash flows from financing activities:		
Notes and loans payable received	$ 6,617	$ 20,263
Notes and loans payable repaid	(3,081)	(4,350)
Debentures repaid	(1,753)	(19,271)
Contribution to partnership by minority	40	-
Net cash provided by (used in) financing activities	1,823	(3,358)
Effect of exchange rate changes on cash and cash equivalents	(1,345)	1,602
Net increase in cash and cash equivalents	11,629	1,227
Cash and cash equivalents at beginning of period	4,572	1,557
Cash and cash equivalents at end of period	$ 16,201	$ 2,784
Supplemental Disclosure of Cash Flow Information		
Cash paid during the period:		
Interest paid to others	$ 3,070	$ 4,444
Income taxes paid	$ 3,711	$ 60
Supplemental Disclosure of Non-cash Investing Activities:		
Proceeds in tradable securities received from realization of an investment	2,267	-
Investing activities:		
Investment in investees	-	780

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

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

(Dollars in thousands, except share amounts)	**June 30 2004** (Unaudited)	**December 31 2003** (Audited)
4% PREFERRED STOCK		
Balance, beginning of year	$ 660	$ 697
Conversion of 5,875 and 7,439 shares into Class A Stock	(30)	(37)
Balance, end of period	$ 630	$ 660
6-1/2% PREFERRED STOCK		
Balance, beginning of year	$ 3,487	$ 3,532
Conversion of 31,310 and 9,070 shares into Class A Stock	(157)	(45)
Balance, end of period	$ 3,330	$ 3,487
CLASS A STOCK		
Balance beginning of year	$ 25,567	$ 25,503
Issuance of shares upon conversion of Preferred Stock	124	64
Balance, end of period	$ 25,691	$ 25,567
ADDITIONAL PAID-IN CAPITAL		
Balance, beginning of year	$ 58,143	$ 58,125
Conversion of Preferred Stock	63	18
Balance, end of period	$ 58,206	$ 58,143
RETAINED EARNINGS		
Balance, beginning of year	$ 76,109	$ 67,475
Net gain (loss)	(527)	8,847
Dividends:		
4% Preferred Stock - $0.2 per share	-	(26)
6-1/2% Preferred Stock - $0.325 per share	-	(187)
Balance, end of period	$ 75,582	$ 76,109

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

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

	June 30, 2004	December 31, 2003
(Dollars in thousands, except share amounts)	**(Unaudited)**	**(Audited)**
TREASURY STOCK		
4% PREFERRED STOCK		
Balance, end of period	(84)	(84)
6-1/2% PREFERRED STOCK		
Balance, end of period	(1,853)	(1,853)
CLASS A STOCK		
Balance, end of period	(29,159)	(29,159)
Balance, end of period	$ (31,096)	$ (31,096)

SIX MONTHS ENDED JUNE 30,	**2004**	**2003**
	(Unaudited)	**(Unaudited)**
ACCUMULATED OTHER COMPREHENSIVE LOSS		
Cumulative translation adjustments:		
Balance, beginning of year	(20,597)	(20,750)
Foreign currency translation adjustment	(544)	397
Balance, end of period	(21,141)	(20,353)
Unrealized gain on marketable securities:		
Balance, beginning of year	2,750	(3,308)
Unrealized gain, net	2,649	7,519
Sale of available-for-sale securities	(334)	(2,742)
Balance, end of period	5,065	1,469
Balance, end of period	$ (16,076)	$ (18,884)

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

AMPAL-AMERICAN ISRAEL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE GAIN (LOSS)

SIX MONTHS ENDED JUNE 30,	**2004**	**2003**
(Dollars in thousands)	**(Unaudited)**	**(Unaudited)**
Net(loss) gain	$ (527)	$ 8,064
Other comprehensive gain (loss), net of tax:		
Foreign currency translation adjustments	(544)	397
Unrealized gain on securities	2,649	7,519
Other comprehensive (loss) income	2,105	7,916
Comprehensive income	$ 1,578	$ 15,980
Related tax(expense) on other comprehensive gain:		
Foreign currency translation adjustments	$ (27)	$ (175)
Unrealized gain on securities	$ (784)	$ (1,998)

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

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

(Unaudited)

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

2. The June 30, 2004 consolidated balance sheet presented herein was derived from the audited December 31, 2003 consolidated financial statements of the Company.

Reference should be made to the Company s consolidated financial statements for the year ended December 31, 2003 for a description of the accounting policies, which have been continued without change. Also, reference should be made to the notes to the Company s December 31, 2003 consolidated financial statements for additional details of the Company s consolidated financial condition, results of operations and cash flows. The details in those notes have not changed except as a result of normal transactions in the interim. All adjustments (of a normal recurring nature) which are, in the opinion of management, necessary to a fair presentation of the results of the interim period have been included.

3. Employee Stock Based Compensation

The Company accounts for all plans under APB Opinion No. 25, under which no compensation costs were incurred. The following table illustrates the effect on net income and net loss and EPS as if the Company had applied the fair value-recognition provisions of SFAS No. 123, Accounting for Stock-Based Compensation , to stock based incentive plans for the periods indicated below:

Six Months Ended June 30	**2004**	**2003**
(In thousands, except per share data)		
Basic EPS:		
Net(loss)gain:		
As reported[(1)]	$ (634)	$ 7,955
Less-stock based compensation expense Determined under fair value method	(256)	(247)
Pro forma	$ (890)	$ 7,708
As reported	$ (0.03)	$ 0.40
Pro forma	$ (0.04)	$ 0.39
Diluted EPS:		
Net(loss)gain:		
As reported	$ (634)	$ 8,064
Less-stock based compensation expense Determined under fair value method	(256)	(247)
Pro Forma	$ (890)	7,817
As Reported	$ (0.04)	$ 0.36
Pro forma	$ (0.05)	$ 0.35

Three Months Ended June 30	**2004**	**2003**
(In thousands, except per share data)		
Basic EPS:		
Net gain:		
As reported[1]	$ 231	$ 10,176
Less-stock based compensation expense Determined under fair value method	(125)	(124)
Pro forma	$ 106	$ 10,052
As reported	$ 0.01	$ 0.52
Pro forma	$ 0.01	$ 0.51
Diluted EPS:		
Net (loss) gain:		
As reported	$ 284	$ 10,231
Less-stock based compensation expense Determined under fair value method	(125)	(124)
Pro forma	$ 159	$ 10,107
As Reported	$ 0.01	$ 0.46
Pro forma	$ 0.01	$ 0.46

[1]After deduction of accrued Preferred Stock Dividend of $107 and $109 (for three months $53 and $55), respectively.

Under SFAS No. 123, the fair value of each option is estimated on the date of grant using the Black Scholes option-pricing model with the following assumptions: (1) expected life of options; (2) dividend yield; (3) volatility; and (4) risk-free interest rate. For the periods of six ended June 30, 2004, 15,000 options were granted. The fair value generated by the Black-Scholes model may not be indicative of the future benefit, if any, that may be received by the optionholder.

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

SIX MONTHS ENDED JUNE 30, (Dollars in thousands)	2004	2003
Revenues:		
Finance	$ 8,808	$ 30,476
Real Estate	4,433	4,385
Leisure-time	1,046	908
Intercompany adjustments	(36)	(36)
	14,251	35,733
Equity	1,399	194
Total	$ 15,650	$ 35,927
Pretax Operating Gain (Loss):		
Finance	$ (576)	$ 13,994
Real Estate	110	(909)
Leisure-time	135	64
	(331)	13,149
Equity	1,399	194
Minority Interest	29	(1,095)
Total	$ 1,097	$ 12,248
Total Assets:		
Finance	$ 272,377	$ 264,810
Real Estate	65,016	69,820
Leisure-Time*	16,606	16,444
Intercompany adjustments	(4,324)	(2,785)
Total	$ 349,675	$ 348,289

Corporate office expense is principally applicable to the financing operations and has been charged to that segment above.

The real estate rental segment consists of rental property owned in Israel and leased in the United States and leased or subleased to unrelated parties, and of the operations of Am-Hal Ltd., a wholly-owned subsidiary which owns and operates a chain of senior citizen facilities located in Israel.

*The leisure-time segment consists primarily of Coral World International Limited (marine parks located in Israel and around the world) and Country Club Kfar Saba, the Company s 51%-owned subsidiary located in Israel.

5. The following table summarizes securities that were not included in the calculations of diluted earnings per Class A share for the six-month periods ended June 30, 2004 and 2003 because such shares are anti-dilutive.

(Shares in thousands)	June 30, 2004	2003
Options and Rights	1,333	1,338
6-1/2% Preferred Stock	666	-
4% Preferred Stock	126	-

6. LEGAL PROCEEDINGS:

Ampal Communications L.P.

1. On May 10, 2004, Ampal Communications L.P., a limited partnership controlled by Ampal and in which Ampal holds a 75% equity interest, filed a claim in the Tel-Aviv District Court against Motorola Communications Israel Ltd., Motorola Israel Ltd., Elisha Yanai, Peter Brum, Rami Guzman, Nathan Gidron, Shimon Tal and MIRS Communications Ltd. (collectively, the Defendants), for injunctive and declaratory relief as described below. The claim is in connection with the exploitation by the defendants of Ampal Communications minority rights by virtue of its 33% holding in MIRS Communications Ltd.

   Ampal Communications L.P. requested the Court to issue relief as follows:

A. Declaring that the business of MIRS Communications Ltd. is conducted in such a way as to be prejudicial to the rights of Ampal Communications L.P. as a minority share holder;

B. Appointing an appraiser to conduct a valuation of MIRS Communications Ltd. and Ampal Communications L.P. s holdings therein, which will encompass a review of the way MIRS Communications Ltd. conducts its business, including a review of the related party transactions between MIRS Communications Ltd. and Motorola Israel Ltd. and/or any other of the Defendants;

C. Instructing each of the Defendants to acquire and purchase from Ampal Communications L.P. the shares it holds in MIRS Communications Ltd. at the highest of the following prices:

(1) based on a company valuation of MIRS Communications Ltd. as presented to Ampal Communications L.P. by Motorola prior to the signing of the Share Purchase Agreement for MIRS Communications Ltd.; or

(2) based on the amount paid by Ampal Communications L.P. for its share holding in MIRS Communications Ltd. plus linkage to the Israeli consumer index and interest; or

(3) based on the company valuation that will be determined by the valuation specified in Section B above, excluding any material negative effect brought about by the Defendants omissions and/or negligence in their management of MIRS Communications Ltd., all as may be assessed and computed by the appraiser specified in Section B above;

D. Determining that each of the individual Defendants, as officers in MIRS Communications Ltd., has violated his respective fiduciary obligations towards Ampal Communications L.P. as a minority shareholder in MIRS Communications Ltd.;

E. Declaring that the Share Purchase Agreement pursuant to which Ampal Communications L.P. acquired its shareholding in MIRS Communications Ltd. and the Shareholders Agreement in respect thereof, are void.

2. On May 24, 2004 and on May 31, 2004 the Defendants requested the district court to strike out the claim *in limine*, on the grounds that Ampal had allegedly not paid sufficient fees when filing the claim, and further requested an extension of the time for filing statements of defense until after the district court had reached a decision regarding the request to strike out the Claim. Ampal and the Defendants filed various responses and on June 30, 2004, the district court requested the Attorney General to furnish an opinion regarding the Defendants request before issuing its own decision. The Court also decided that the statements of defense should be filed 10 days after it issues its decision regarding the striking out of the claim.

3. As of June 30, 2004, the Company had not received its dividend from MIRS in the amount of $7.1 million, included among other assets , due March 31, 2004. The dividend was not received due to the legal dispute discussed above. As a result of not receiving the dividend, the principal and the interest of the loan which were due March 31, 2004 were only partially paid (see Debt).

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 s consolidated financial statements is in conformity with accounting principles generally accepted in the United States 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 Annual Report for the year ended December 31, 2003 for a summary of all of Ampal s significant accounting policies.

Portfolio Investments

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

Investment in MIRS

MIRS is our largest investment and is being accounted for at cost (our equity interest is 25%). The cost method is applied due to preference features we have been granted in our investment in preferred shares in Mirs. Revenues from guaranteed payments from Motorola are recognized as income. We perform annual tests for impairment regarding our investment.

Marketable Securities

We determine the appropriate classification of marketable securities at the time of purchase. We hold marketable securities classified as trading securities that are carried at fair value, and marketable securities classified as available-for-sale that are carried at fair value with unrealized gains and losses included in the component of accumulated other comprehensive loss in stockholders equity. If according to management s assessment it is determined that a decline in the fair value of the available for sale securities is other than temporary, an impairment loss is recorded and included in the consolidated statements of income as loss from impairment of investments.

Long-Lived Assets

On January 1, 2002, Ampal adopted FAS 144, Accounting for the Impairment or Disposal of Long- Lived Assets. FAS 144 requires that long-lived assets, to be held and used by an entity, be reviewed for impairment and, if necessary, written down to the estimated fair values, whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable through undiscounted future cash flows.

Accounting for Income Taxes

As part of the process of preparing our consolidated financial statements, we are required to estimate our income taxes in each of the jurisdictions in which we operate. This process involves us estimating our current tax exposure together with assessing temporary differences resulting from differing treatment of items for tax and accounting purposes. These differences result in deferred tax assets and liabilities, which are included in our consolidated balance sheet. We must then assess the likelihood that our deferred tax assets will be recovered from future taxable income, and, to the extent we believe that recovery is not likely, we must establish a valuation allowance. To the extent we establish a valuation allowance or increase this allowance in a period, we must include an expense within the tax provision in the statement of operations. A valuation allowance is currently set against certain tax assets because management believes it is more likely than not that these deferred tax assets will not be realized through the generation of future taxable income. We also do not provide for taxes on undistributed earnings of our foreign subsidiaries, as it is our intention to reinvest undistributed earnings indefinitely outside the United States.

Significant management judgment is required in determining our provision for income taxes, our deferred tax assets and liabilities and our future taxable income for purposes of assessing our ability to realize any future benefit from our deferred tax assets. In the event that actual results differ from these estimates or we adjust these estimates in future periods, our operating results and financial position could be materially affected.

Results of Operations

Six months ended June 30, 2004 compared to six months ended June 30, 2003:

Ampal-American Israel Corporation (Ampal) and its subsidiaries (the Company) recorded a consolidated net loss of $0.5 million for the six months ended June 30, 2004 as compared to a net gain of $8.1 million for the same period in 2003. The decrease in net gain is primarily attributable to the decrease in realized and unrealized gains on investments in the six months ended June 30, 2004 as compared to the same period in 2003. These decreases were partially offset by the increase in equity in earnings of affiliates, a decrease in loss from impairment, a decrease in minority interests and a decrease in interest expense in the six months ended June 30, 2004, as compared to the same period in 2003.

In the six month period ended June 30, 2004, the Company recorded $4.7 million of realized and unrealized gains on investments, as compared to $26.3 million of realized and unrealized gains in the same period in 2003. The gains recorded in the six months ended June 30, 2004 are mainly attributable to the realized gains on the sale of approximately 49% of the Company s holdings in PowerDSine Ltd. (PowerDSine) ($3.5 million). The remaining shares of PowerDSine were treated as available-for-sale and $2.4 million were recorded as unrealized gains on marketable securities under, Accumulated Other Comprehensive Loss . The realized and unrealized gains on investment in the six months ended June 30, 2003 were primarily attributable to the gains on the sale of the Company s investment in Granite Hacarmel Investments Ltd. (Granite) ($20.8 million). During the second quarter of 2003, the Company sold 1,466,454 shares in Granite and through July 7, 2003 sold an additional 12,350,000 shares. Consequently, the Company s investment in Granite, which was previously accounted for under the equity method, was accounted for as an investment in a trading marketable security at June 30, 2003.

Equity in earnings of affiliates increased to $1.4 million for the six months ended June 30, 2004, as compared to a gain of $0.2 million for the same period in 2003. The increase is primarily attributable to a $1.7 million loss in Granite, which was recorded in the first quarter of 2003.

In the six month period ended June 30, 2004, the Company recorded $1.5 million in losses from the impairment of its investments in Identify Solutions Ltd. ($0.7 million) and Star Management of Investment II (2000) L.P., ($0.8 million). In the same period in 2003, the Company recorded an $8.1 million loss from impairment of its investments.

The Company recorded a translation loss of $1.6 million in the six months ended June 30, 2004 as compared to a translation loss of $2.3 million in the same period in 2003. The translation losses in 2004 and 2003 are attributable to the devaluation of the new Israeli shekel against the U.S. dollar.

The Company recorded lower interest expense of $2.2 million in the six months ended June 30, 2004, as compared to $3.6 million in the same period in 2003, primarily as a result of lower interest rates.

Results of Operations

Three months ended June 30, 2004 compared to three months ended June 30, 2003:

The Company recorded a consolidated net gain of $0.3 million for the three months ended June 30, 2004 as compared to a net gain of $10.2 million for the same period in 2003. The decrease in net gain is primarily attributable to the decrease in equity in earnings of affiliates, and a decrease in realized and unrealized gains on investment in the three months ended June 30, 2004 as compared to the same period in 2003. These decreases were partially offset by the decrease in loss from impairment and a translation loss in the three months ended June 30, 2004, as compared to the same period in 2003.

In the three month period ended June 30, 2004, the Company recorded a $3.9 million realized and unrealized gain on investments, as compared to a $25.4 million realized and unrealized gain on investments in the same period of fiscal 2003. The gains recorded in 2004 are primarily attributable to the realized gains on the sale of approximately 49% the Company s holdings in PowerDSine Ltd ($3.9 million). The remaining shares of PowerDSine were treated as available-for-sale and $2.4 million were recorded as unrealized gains on marketable securities under Accumulated Other Comprehensive Loss . The realized and unrealized gains on investment in the three months ended June 30, 2003 were primarily attributable to the gains on the sale of Granite ($20.8 million). During the second quarter of 2003, the Company sold 1,466,454 shares in Granite and through July 7, 2003 sold an additional 12,350,000 shares. Consequently, the Company s investment in Granite, which was previously accounted for under the equity method, was accounted for as an investment in a trading marketable security at June 30, 2003.

Equity in loss of affiliates was $0.5 million for the three months ended June 30, 2004, as compared to a gain of $0.7 million for the same period in 2003. The decrease is primarily attributable to a gain recorded by Ophir Holdings Ltd. as a result of a sale of real estate in 2003.

In the three-month period ended June 30, 2004 the Company did not record an impairment loss, while in the three-month period ended June 30, 2003, the Company recorded $8.1 million in losses from the impairment of its investments.

The Company recorded a translation loss of $0.3 million in the three months ended June 30, 2004 as compared to a translation loss of $2.0 million in the same period in 2003. The translation losses in 2003 are attributable to the devaluation of the new Israeli shekel against the U.S. dollar.

Liquidity and Capital Resources

Cash Flows

On June 30, 2004, cash and cash equivalents were $16.2 million, as compared with $4.6 million at December 31, 2003.

The Company s sources of cash include cash and cash equivalents, marketable securities, cash from operations, cash from investing activities and amounts available under credit facilities, as described below. The Company believes that these sources are sufficient to fund the current requirements of operations, capital expenditures, investing activities, dividends on preferred stock 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. To the extent that the Company intends to rely on the sale of its unpledged marketable securities in order to satisfy its cash needs, it is subject to the risk of a shortfall in the amount of proceeds from any such sale as compared with the anticipated sale proceeds due to a decline in the market price of those securities. In the event of a decline in the market price of its marketable securities, the Company may need to draw upon its other sources of cash, which may include additional borrowing, refinancing of its existing indebtedness or liquidating other assets, the value of which may also decline. In addition, the shares of MIRS owned by the Company, the shares of Ophir Holdings Ltd. and $9 million of marketable securities have already been pledged as security 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.

Cash flows from operating activities

Net cash provided by operating activities totaled approximately $0.1 million for the six months ended June 30, 2004, as compared to approximately $6.4 million at the same period in 2003. The decrease in cash provided is primarily attributable to the Company not receiving from MIRS its dividend in the amount of $7.1 million which was not received due to the legal dispute with the major partner, Motorola Communication Israel Ltd.(see Legal Proceedings)and a decrease in accounts payable which was partially offset by an increase in net proceeds from marketable securities.

Cash flows from investing activities

Net cash provided by investing activities totaled approximately $11.0 million for the six months ended June 30, 2004, as compared to approximately $3.4 million used in investing activities for the same period in 2003. The increase in cash provided by investing activities is primarily attributable to an increase of deposits collected and proceeds from the sales of XACCT and PowerDSine which was partially offset by an increase in investments in Telecom Partners and other investee companies.

Cash flows from financing activities

Net cash provided by financing activities was approximately $1.8 million at June 30, 2004, as compared to approximately $3.4 million used in financing activities at June 30, 2003. The increase in the cash provided in 2004 is primarily attributable to the decrease in the amount of notes and loans payable ($6.6 million and $20.3 million in 2004 and 2003, respectively) which were used to pay down the debentures ($1.8 million and $19.3 million in 2004 and 2003, respectively) and loans.

Investments

On June 30, 2004, the aggregate fair value of trading and available-for-sale securities was approximately $61.0 million, as compared to $64.7 million at December 31, 2003. The decrease in 2004 is attributable to the sale of various trading securities.

During the fiscal six months ended June 30, 2004, the Company made the following investments:

In February and June 2004, the Company invested EUR 4.7 million (approximately US $5.8 million) in Telecom Partners, a newly formed entity that will serve as a platform for investments in the telecommunication industry predominantly outside of Israel. Ampal s investment consists of a EUR 4 million convertible debenture, which converts into a one-third partnership interest in Telecom Partners, and a EUR 0.7 million loan. The

debenture is convertible at the Company s discretion. Telecom Partners currently holds investments in PSINet Europe B.V. and Grapes Communications N.V./S.A., two European telecom service providers.

On January 4, 2004, the Company loaned $0.2 million to ShellCase Ltd.(ShellCase), the principal business of which is the packaging process of semiconductor chips.

In April 2004, the Company invested an additional $0.2 million in Fimi Opportunity Fund, L.P.(Fimi).

Debt

In connection with its investment in MIRS, the Company has two long-term loans from Bank Hapoalim Ltd. (Hapoalim) and Bank Leumi le-Israel B.M. (Leumi) in the outstanding amount of $37.3 million and $33.4 million, respectively, as of June 30, 2004. Both loans are due on March 31, 2008 and bear interest at a rate of LIBOR plus 0.8%. Other than as described in this paragraph, the loans are non-recourse to the Company and are secured by the Company s shares in MIRS. The principal payments are due as follows: 10% on March 31, 2004, 15% on March 31, 2005 and 25% on each of March 31, 2006, 2007 and 2008. Interest will be paid annually on March 31 of each year from March 31, 2002 until and including March 31, 2008. As a result of not receiving the dividend from MIRS in the amount of $7.1 million, (see Cash Flow from Operating Activity) the principal and the interest of the loan due March 31, 2004 were only partially paid. As of the date hereof, the banks have not declared a default with respect to such unpaid amounts. These loans are subject to the compliance by MIRS with covenants regarding its operations and financial results.

As of June 30, 2004, the company had $2.0 million in debentures outstanding with interest rates of 7.5% These debentures, which mature in March 2005, are secured by $2.0 million deposit held in a secured account.

The Company financed a portion of the development of Am-Hal, a wholly-owned subsidiary which develops and operates luxury retirement centers for senior citizens, through bank loans from Hapoalim and others. At June 30, 2004, and December 31, 2003 the amounts outstanding under these loans were $8.9 million and $9.2 million respectively. The loans are dollar linked, mature in up to one year and have interest rates of LIBOR plus 1%. The Company generally repays these loans with the proceeds received from deposits and other payments from the apartments in Am-Hal facilities. The loans are secured by a lien on Am-Hal s properties. The Company also issued guarantees in the amount of $4.2 million in favor of clients of Am-Hal in order to secure their deposits.

The Company also finances its general operations and other financial commitments through bank loans from Bank Hapoalim. The long-term loans in the amount of $32.8 million mature through 2005-2011.

The weighted average interest rates and the balances of these short-term borrowings (including Am-Hal loans) at June 30, 2004 and December 31, 2003 were 3.43% on $31.8 million and 3.6% on $27.5 million, respectively.

As of June 30, 2004, the Company had issued guarantees on certain outstanding loans to its investees and subsidiaries in the aggregate principal amount of $11.9 million. This includes:

$0.5 million guarantee to Leumi with respect to the MIRS loan.

$6.3 million guarantee on indebtedness incurred by Bay Heart ($3.8 million of which is recorded as a liability in the Company s financial statements) in connection with the development of its property. 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.

$4.2 million guarantee to Am-Hal tenants as described above.

$0.9 million guarantee to Galha 1960 Ltd.

FOREIGN CURRENCY CONTRACTS

The Company s derivative financial instruments consist of foreign currency forward exchange contracts. These contracts are utilized by the Company, from time to time, to manage risk exposure to movements in foreign exchange rates. None of these contracts have been designated as hedging instruments. These contracts are recognized as assets or liabilities on the balance sheet at their fair value, which is the estimated amount at which they could be settled based on market prices or dealer quotes, where available, or based on pricing models. Changes in fair value are recognized currently in earnings. As of June 30, 2004, the Company had a $10 million open foreign currency forward exchange contract.

SUBSEQUENT EVENTS

None.

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 (as such term is defined in the Private Securities Litigation Reform Act of 1995) and information relating to the Company that are based on the beliefs of management of the Company as well as assumptions made by and information currently available to the management of the Company. When used in this Quarterly Report, the words anticipate, believe, estimate, expect, intend, plan, and similar expressions, as they relate to the Company or the management of the Company, identify forward-looking statements. Such statements reflect the current views of the Company with respect to future events or future financial performance of the Company, the outcome of which is subject to certain risks and other factors which could cause actual results to differ materially from those anticipated by the forward-looking statements, including among others, the economic and political conditions in Israel, the Middle East, including the situation in Iraq, 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 outcome may vary from those described herein as anticipated, believed, estimated, expected, intended or planned. Subsequent written and oral forward-looking statements attributable to the Company or persons acting on its behalf are expressly qualified in their entirety by the cautionary statements in this paragraph and elsewhere described in this quarterly Report and other Reports filed with the Securities and Exchange Commission.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

MARKET RISKS AND SENSITIVITY ANALYSIS

The Company is exposed to various market risks, including changes in interest rates, foreign currency rates and equity price changes. The following analysis presents the hypothetical loss in earnings, cash flows and fair values of the financial instruments which were held by the Company at June 30, 2004, and are sensitive to the above market risks.

During the six months ended June 30, 2004, 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, 2003.

Interest Rate Risks

At June 30, 2004, the Company had financial assets totaling $8.2 million and financial liabilities totaling $139.4 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.

At June 30, 2004, the Company had fixed rate financial assets of $8.2 million and held no variable rate financial assets. Holding other variables constant, a ten percent increase in interest rates would decrease the unrealized fair value of the fixed financial assets by approximately $0.1 million.

At June 30, 2004, the Company had fixed rate debt of $16.4 million and variable rate debt of $123 million. A ten percent decrease in interest rates would increase the unrealized fair value of the fixed rate debt by approximately $0.1 million.

The net decrease in earnings for the next year resulting from a ten percent interest rate increase would be approximately $0.3 million, holding other variables constant.

Exchange Rate Sensitivity Analysis

The Company s exchange rate exposure on its financial instruments results from its investments and ongoing operations in Israel. During 2004, the Company entered into a foreign exchange forward purchase contract to partially hedge this exposure. At June 30, 2004, the Company had open foreign exchange forward purchase contract in the amount of $10 million. Holding other variables constant, if there were a ten percent devaluation of the foreign currency, the Company s cumulative translation (loss) reflected in the Company s accumulated other comprehensive (loss) would increase by $1.9 million, and in the statements of operations, a ten percent devaluation of the foreign currency would decrease net earnings in the amount of approximately $4.3 million.

Securities Price Risk

The Company s investments at June 30, 2004, included marketable securities (trading and available-for-sale)which are recorded at fair value of $61.0 million. Those securities have exposure to price risk. The estimated potential loss in fair value resulting from a hypothetical ten percent decrease in prices quoted on stock exchanges is approximately $6.1 million.

ITEM 4. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

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

Internal Control Over Financial Reporting

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

Part II OTHER INFORMATION

Item 1. Legal Proceedings:

Ampal Communications L.P.

1. On May 10, 2004, Ampal Communications L.P., a limited partnership controlled by Ampal and in which Ampal holds a 75% equity interest, filed a claim in the Tel-Aviv District Court against Motorola Communications Israel Ltd., Motorola Israel Ltd., Elisha Yanai, Peter Brum, Rami Guzman, Nathan Gidron, Shimon Tal and MIRS Communications Ltd. (collectively, the Defendants), for injunctive and declaratory relief as described below. The claim is in connection with the exploitation by the defendants of Ampal Communications minority rights by virtue of its 33% holding in MIRS Communications Ltd.

   Ampal Communications L.P. requested the Court to issue relief as follows:

A. Declaring that the business of MIRS Communications Ltd. is conducted in such a way as to be prejudicial to the rights of Ampal Communications L.P. as a minority share holder;

B. Appointing an appraiser to conduct a valuation of MIRS Communications Ltd. and Ampal Communications L.P. s holdings therein, which will encompass a review of the way MIRS Communications Ltd. conducts its business, including a review of the related party transactions between MIRS Communications Ltd. and Motorola Israel Ltd. and/or any other of the Defendants;

C. Instructing each of the Defendants to acquire and purchase from Ampal Communications L.P. the shares it holds in MIRS Communications Ltd. at the highest of the following prices:

(1) based on a company valuation of MIRS Communications Ltd. as presented to Ampal Communications L.P. by Motorola prior to the signing of the Share Purchase Agreement for MIRS Communications Ltd.; or

(2) based on the amount paid by Ampal Communications L.P. for its share holding in MIRS Communications Ltd. plus linkage to the Israeli consumer index and interest; or

(3) based on the company valuation that will be determined by the valuation specified in Section B above, excluding any material negative effect brought about by the Defendants omissions and/or negligence in their management of MIRS Communications Ltd., all as may be assessed and computed by the appraiser specified in Section B above;

D. Determining that each of the individual Defendants, as officers in MIRS Communications Ltd., has violated his respective fiduciary obligations towards Ampal Communications L.P. as a minority shareholder in MIRS Communications Ltd.;

E. Declaring that the Share Purchase Agreement pursuant to which Ampal Communications L.P. acquired its shareholding in MIRS Communications Ltd. and the Shareholders Agreement in respect thereof, are void.

2. On May 24, 2004 and on May 31, 2004 the Defendants requested the district court to strike out the claim *in limine*, on the grounds that Ampal had allegedly not paid sufficient fees when filing the claim, and further requested an extension of the time for filing statements of defense until after the district court had reached a decision regarding the request to strike out the Claim. Ampal and the Defendants filed various responses and on June 30, 2004, the district court requested the Attorney General to furnish an opinion regarding the Defendants request before issuing its own decision. The Court also decided that the statements of defense should be filed 10 days after it issues its decision regarding the striking out of the claim.

Item 2. Changes in Securities, Use of Proceeds and Issuer Purchases of Equity Securities None.

Item 3. Defaults upon Senior Securities None.

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

Item 5. Other Information

Because Y.M. Noy Investments Ltd. owns more than 50% of the voting power in the Company, the Company is deemed to be a controlled company under the rules of the Nasdaq National Market (Nasdaq). As a result, the Company is exempt from the Nasdaq rules that require listed companies to have (i) a majority of independent directors on the Board of Directors, (ii) a compensation committee and nominating committee composed solely of independent directors, (iii) the compensation of executive officers determined by a majority of independent directors or a compensation committee composed solely of independent directors and (iv) a majority of the independent directors or a nominating committee composed solely of independent directors elect or recommend director nominees for selection by the Board of Directors.

The Company has not yet set the date for its 2004 annual meeting of shareholders. The deadline for shareholders to submit proposals for inclusion in the Company s proxy statement was April 29, 2004, but because the 2004 annual meeting will take place more than 30 days later than last year s meeting, the Company shall treat as timely any shareholder proposal submitted within a reasonable time prior to printing the Company s proxy materials.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits:

11.1 Schedule Setting Forth Computation of Loss per Share of Class A Stock.

31.1 Certification of Jack Bigio 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 Jack Bigio and Irit Eluz pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

(b) Reports on Form 8-K: None

AMPAL - AMERICAN ISRAEL CORPORATION AND SUBSIDIARIES

SIGNATURES

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

AMPAL - AMERICAN ISRAEL CORPORATION

BY: /S/ Jack Bigio

Jack Bigio
Chief Executive Officer
(Principal Executive Officer)

BY: /S/ Irit Eluz

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

BY: /S/ Giora Bar-Nir

Giora Bar-Nir
Controller
(Principal Accounting Officer)

Dated: August 12, 2004

AMPAL - AMERICAN ISRAEL CORPORATION AND SUBSIDIARIES

Exhibit Index

Exhibit No.	Description
11.1	Schedule Setting Forth Computation of Earnings Per Share of Class A Stock
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31.2	Certification of Irit Eluz pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Jack Bigio and Irit Eluz pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.