

# SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

## FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 1994

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 2-5061*

## AMPAL-AMERICAN ISRAEL CORPORATION

(Exact name of registrant as specified in its charter)

New York

13-0435685

-----  
(State or other jurisdiction of  
incorporation or organization)  
No.)

(I.R.S. Employer  
Identification

1177 Avenue of the Americas, New York, New York

10036

-----  
(Address of principal executive offices)

(Zip Code)

Registrant's telephone number, including area code

(212) 782-2100  
-----

Former name, former address and former fiscal year, if changed since  
last report.

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

Yes  No

The number of shares outstanding of each of the issuer's classes of common stock is Common - 3,000,000; Class A - 20,753,996 (as of July 31, 1994).

**AMPAL-AMERICAN ISRAEL CORPORATION**

**Index to Form 10-Q**

Page

----

Part I	Financial Information	
	Consolidated Statements of Income	
	Six Months Ended June 30.....	1
	Three Months Ended June 30.....	2
	Consolidated Balance Sheets.....	3
	Consolidated Statements of Cash Flows.....	5
	Consolidated Statements of Changes in Shareholders' Equity.....	7
	Notes to the Consolidated Financial Statements.....	8
	Management's Discussion and Analysis of Financial Condition and Results of Operations.....	10
Part II	Other Information.....	13

AMPAL-AMERICAN ISRAEL CORPORATION AND  
SUBSIDIARIES

---

CONSOLIDATED STATEMENTS OF INCOME

SIX MONTHS ENDED JUNE 30,	1994	1993
(Dollars in thousands, except per share data)	(Unaudited)	(Unaudited)
<b>REVENUES</b>		
Interest:		
Related parties.....	\$ 7,214	\$ 8,989
Others.....	821	818
Food processing.....	16,176	17,709
Manufacturing and distribution.....	4,811	-
Equity in earnings of affiliates and others..	3,447	4,518
Other income:		
Related parties.....	1,574	1,799
Others.....	811	1,231
Gains on issuance of shares by affiliates (Note 4).....	2,692	-
Gain on sale of investments (Note 5).....	-	1,150
	-----	-----
Total revenues.....	37,546	36,214
	-----	-----
<b>EXPENSES</b>		
Interest:		
Related parties.....	1,820	2,541
Others.....	6,786	9,507
Food processing.....	14,071	15,448
Manufacturing and distribution.....	2,977	-
Other expenses.....	6,985	5,234
Minority interests.....	(275)	(331)
	-----	-----
Total expenses.....	32,364	32,399
	-----	-----
Income before income taxes.....	5,182	3,815
Income taxes.....	2,007	1,200
	-----	-----
Income before cumulative effect of change in accounting principle.....	3,175	2,615
Cumulative effect on prior years of change in accounting principle.....	-	(4,982)
	-----	-----
<b>NET INCOME (LOSS).....</b>	<b>\$ 3,175</b>	<b>\$ (2,367)</b>
	=====	=====
Earnings (loss) per Class A share:		
Earnings before cumulative effect of change in accounting principle.....	\$ .12	\$ .11
Cumulative effect on prior years of change in accounting principle.....	-	(.21)
	-----	-----
Earnings (loss) per Class A share.....	\$ .12	\$ (.10)
	=====	=====
Weighted average number of Class A and equivalent shares outstanding (in thousands)	23,933	20,717

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

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

THREE MONTHS ENDED JUNE 30,	1994	1993
(Dollars in thousands, except per share data)	(Unaudited)	(Unaudited)
<b>REVENUES</b>		
Interest:		
Related parties.....	\$ 4,156	\$ 6,334
Others.....	474	602
Food processing.....	8,896	9,038
Manufacturing and distribution.....	2,157	-
Equity in earnings of affiliates and others..	457	1,263
Other income:		
Related parties.....	821	911
Others.....	410	550
Gain on sale of investments (Note 5).....	-	1,150
Total revenues.....	17,371	19,848
<b>EXPENSES</b>		
Interest:		
Related parties.....	1,003	2,148
Others.....	3,846	6,932
Food processing.....	6,973	8,127
Manufacturing and distribution.....	1,383	-
Other expenses.....	3,625	2,477
Minority interests.....	4	(559)
Total expenses.....	16,834	19,125
Income before income taxes.....	537	723
Income taxes.....	36	339
NET INCOME.....	\$ 501	\$ 384
Earnings per Class A share.....	\$.02	\$.02
Weighted average number of Class A and equivalent shares outstanding (in thousands)	25,218	20,717

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

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

ASSETS AS AT	1994	1993
(Dollars in thousands)	(Unaudited)	(Note 2)
Cash and cash equivalents.....	\$ 35,379	\$ 3,178
Deposits:		
Related parties.....	86,084	99,481
Notes and loans receivable:		
Related parties.....	12,811	11,948
Others.....	2,229	4,964
Investments (Note 2):		
Related parties.....	103,558	103,319
Others.....	31,604	8,322
Property and equipment, less accumulated depreciation of \$10,522 and \$10,554.....	30,285	30,496
Other assets.....	43,531	42,352
	-----	-----
TOTAL ASSETS.....	\$ 345,481	\$ 304,060
	=====	=====

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 AT	JUNE 30, 1994	DECEMBER 31, 1993
(Dollars in thousands)	(Unaudited)	(Note 2)
<b>LIABILITIES</b>		
Deposits and notes and loans payable:		
Related parties.....	\$ 32,048	\$ 42,752
Others.....	16,293	18,091
Debentures outstanding.....	88,088	91,270
Accounts and income taxes payable and accrued expenses:		
Related parties.....	188	1,169
Others.....	36,109	33,621
Total liabilities.....	172,726	186,903
 MINORITY INTERESTS.....	 3,688	 340
 <b>SHAREHOLDERS' EQUITY (Note 3)</b>		
4% Cumulative, Participating, Convertible Preferred Stock, \$5 par value; authorized 650,000 shares; issued and outstanding 211,065 and 213,720 shares.....		
	1,055	1,068
6-1/2% Cumulative, Convertible Preferred Stock, \$5 par value; authorized 4,282,850 shares; issued and outstanding 1,140,736 and 1,202,342 shares.....		
	5,703	6,011
Class A Stock, \$1 par value; authorized 30,000,000 shares; issued 20,740,806 and 16,224,779 shares; outstanding 20,740,806 and 16,042,713 shares.....		
	20,741	16,225
Common Stock, \$1 par value; authorized, issued and outstanding 3,000,000 shares.....		
	3,000	3,000
Additional paid-in capital.....	57,246	10,605
Retained earnings.....	85,254	82,079
Cumulative translation adjustments..... (2,171)	(2,685)	
Unrealized loss on marketable securities (Note 2).....	(1,247)	-
Total shareholders' equity.....	169,067	116,817
 TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY.....	 \$ 345,481	 \$ 304,060

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,	1994	1993
(Dollars in thousands)	(Unaudited)	(Unaudited)
Increase (Decrease) in Cash and Cash Equivalents		
Cash flows from operating activities:		
Net income (loss).....	\$ 3,175	\$ (2,367)
Adjustments to reconcile net income to net cash provided by operating activities:		
Equity in earnings of affiliates and others.....	(3,447)	(4,518)
Gains on issuance of shares by affiliates.....	(2,692)	-
Cumulative effect on prior years of change in accounting principle.....	-	4,982
Gain on sale of investments.....	-	-
(1,150)		
Translation loss (gain).....	122	(41)
Depreciation expense.....	1,053	979
Amortization expense.....	2,399	2,294
Minority interests.....	(275)	(331)
(Increase) in other assets.....	(2,690)	(9,895)
(Decrease) increase in accounts and income taxes payable and accrued expenses:		
Related parties.....	(981)	(2,045)
Others.....	2,141	6,331
Dividend received from affiliate.....	4,277	1,409
	-----	-----
Net cash provided by (used in) operating activities.....	3,082	(4,352)
	-----	-----
Cash flows from investing activities:		
Deposits receivable collected:		
Related parties.....	15,355	13,517
Others.....	-	350
Notes and loans receivable granted:		
Related parties.....	(1,745)	-
Notes and loans receivable collected:		
Related parties.....	1,551	2,409
Others.....	2,665	769
Investments made:		
Related parties.....	(1,552)	(51,673)
Others.....	(25,249)	(2,052)
Proceeds from sale of investments:		
Others.....	2,323	5,392
Purchase of property and equipment.....	(1,367)	(3,902)
	-----	-----
Net cash (used in) investing activities...	(8,019)	(35,190)
	-----	-----

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,	1994	1993
(Dollars in thousands)	(Unaudited)	(Unaudited)
Cash flows from financing activities:		
Deposits and notes and loans payable received:		
Related parties.....	\$ 798	\$ 15,047
Others.....	1,304	44,992
Deposits and notes and loans payable repaid:		
Related parties.....	(12,180)	(17,660)
Others.....	(3,239)	(4,160)
Debentures outstanding issued.....	4,493	-
Debentures outstanding repaid.....	(11,443)	(5,210)
Proceeds from issuance of shares.....	57,572	686
	-----	-----
Net cash provided by financing activities.	37,305	33,695
Effect of exchange rate changes on cash and cash equivalents.....	(167)	(173)
	-----	-----
Net increase (decrease) in cash and cash equivalents.....	32,201	(6,020)
Cash and cash equivalents at beginning of period.....	3,178	9,698
	-----	-----
Cash and cash equivalents at end of period.....	\$ 35,379	\$ 3,678
	=====	=====
Supplemental Disclosure of Cash Flow Information		
Cash paid during the period:		
Interest:		
Related parties.....	\$ 865	\$ 1,203
Others.....	3,054	3,569
	-----	-----
Total interest paid.....	\$ 3,919	\$ 4,772
	=====	=====
Income taxes paid.....	\$ 1,375	\$ 1,590
	=====	=====

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**

SIX MONTHS ENDED JUNE 30,	1994	1993
(Dollars in thousands)	(Unaudited)	(Unaudited)
<b>4% PREFERRED STOCK</b>		
Balance, beginning of year.....	\$ 1,068	\$ 1,202
Conversion of 2,655 and 7,048 shares into Class A Stock.....	(13)	(35)
Balance, end of period.....	\$ 1,055	\$ 1,167
<b>6-1/2% PREFERRED STOCK</b>		
Balance, beginning of year.....	\$ 6,011	\$ 7,554
Conversion of 61,606 and 125,901 shares into Class A Stock.....	(308)	(629)
Balance, end of period.....	\$ 5,703	\$ 6,925
<b>CLASS A STOCK</b>		
Balance, beginning of year.....	\$ 16,225	\$ 15,164
Issuance of shares upon conversion of Preferred Stock.....	198	413
Issuance of shares in a public offering*.....	4,318	-
Balance, end of period.....	\$ 20,741	\$ 15,577
<b>ADDITIONAL PAID-IN CAPITAL</b>		
Balance, beginning of year.....	\$ 10,605	\$ 9,989
Conversion of Preferred Stock.....	122	251
Proceeds from issuance of shares in a public offering.....	46,519	-
Balance, end of period.....	\$ 57,246	\$ 10,240
<b>RETAINED EARNINGS</b>		
Balance, beginning of year.....	\$ 82,079	\$ 82,293
Net income (loss).....	3,175	(2,367)
Balance, end of period.....	\$ 85,254	\$ 79,926
<b>CUMULATIVE TRANSLATION ADJUSTMENTS</b>		
Balance, beginning of year.....	\$ (2,171)	\$ -
Foreign currency translation adjustment.....	(514)	(466)
Balance, end of period.....	\$ (2,685)	\$ (466)
<b>UNREALIZED LOSS ON MARKETABLE SECURITIES</b>		
Balance, beginning of year.....	\$ -	\$ -
Unrealized loss, net.....	(1,247)	-
Balance, end of period.....	\$ (1,247)	\$ -

\* Issuance of 4,500,000 shares, including 182,066 shares held in treasury.

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 December 31, 1993 consolidated balance sheet presented herein was derived from the audited December 31, 1993 consolidated financial statements of the Company.

Reference should be made to the Company's consolidated financial statements for the year ended December 31, 1993 for a description of the accounting policies which have been continued except for the following:

Effective January 1, 1994, the Company adopted Statement of Financial Accounting Standards No. 115, "Accounting for Certain Investments in Debt and Equity Securities" which requires that marketable equity securities, other than equity securities accounted for by the equity method, be reported at fair value. Unrealized gains and losses from those securities which are classified as available-for-sale are reported as a separate component of shareholders' equity. The cumulative effect of adopting this accounting principle as of January 1, 1994 was an increase in investments of \$7.4 million, an increase in deferred income taxes payable of \$3.1 million and an increase in shareholders' equity of \$4.3 million. From January 1 to June 30, 1994, the net effect of market fluctuations resulted in a decrease of \$1.2 million in shareholders' equity.

Also, reference should be made to the notes to the Company's December 31, 1993 consolidated financial statements for additional details of the Company's consolidated financial condition, results of operations and cash flows. The details in those notes have not changed except as a result of normal transactions in the interim. All adjustments (of a normal recurring nature) which are, in the opinion of management, necessary to a fair presentation of the results of the interim period have been included.

3. On January 25, 1994, Ampal sold 4.5 million units consisting of one share of Class A stock and one redeemable warrant to purchase one share of Ampal's Class A stock, for \$12.125 per unit in a public offering. The warrants are exercisable at \$16 per share at any time until January 31, 1999, and are callable by Ampal, in whole or in part, from and after February 1, 1996, without payment to the holder. The net proceeds which Ampal received from this offering amounted to approximately \$51 million.

On November 5, 1993, Ampal's Board of Directors approved a stock option plan which provides for grants of options to purchase up to 200,000 shares of Class A stock in the aggregate to employees, officers and directors of Ampal and certain subsidiaries of Ampal. On January 25, 1994, the Stock Option Committee of the Board of Directors approved the issuance of 134,900 options in the aggregate at an exercise price of \$10.91 per share (a 10% discount from market price on the date of grant). The Stock Option Plan is subject to approval by Ampal's shareholders.

4. In February 1994, the other shareholder of Pri Ha'emek (Canned and Frozen Food) 88 Ltd. ("Pri Ha'emek"), the Company's then 74.9%-owned subsidiary, purchased additional shares in Pri Ha'emek at the same price the Company paid for its shares in 1991, diluting the Company's ownership to 66.7%. In March 1994, Pri Ha'emek conducted an initial public offering in Israel on the Tel Aviv Stock Exchange. In

connection with this offering, the Company realized a gain on issuance of shares of \$2.3 million (\$1.5 million, after taxes). The Company's interest in Pri Ha'emek was initially diluted to 51.25%. Subsequent to the public offering, the Company has purchased additional shares at a cost of \$.2 million, and at June 30, 1994 its interest was 54.4%. Upon exercise of all warrants and convertible debentures, the Company's interest may be diluted to 37.4%. If the Company's interest in Pri Ha'emek decreases below 50%, Pri Ha'emek's results will no longer be consolidated with the Company's but will be recorded by the equity method of accounting.

During the first quarter of 1994, Granite Hacarmel Investments Ltd. ("Granite") issued additional shares upon conversions of its debentures. The Company's interest in Granite was diluted from 21.6% to 21.2% and the Company recorded a gain on issuance of shares of approximately \$.3 million (\$.2 million, after taxes).

5. In June 1993, the Company sold shares in Teledata Communication Ltd. and realized a gain on sale of \$1.1 million (approximately \$.6 million, after taxes).

**AMPAL-AMERICAN ISRAEL CORPORATION AND SUBSIDIARIES**

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION  
AND RESULTS OF OPERATIONS**

**Liquidity and Capital Resources**

As of June 30, 1994, cash and cash equivalents were \$35.4 million; an increase of approximately \$32 million from December 31, 1993. This increase is mainly attributable to the proceeds received by Ampal in a public offering (see below); at June 30, \$21.1 million was invested in cash and cash equivalents. The Company's food processing subsidiary, Pri Ha'emek (Canned and Frozen Food) 88 Ltd. ("Pri Ha'emek") raised \$11.4 million (\$7 million of equity and \$4.4 of debentures) in a public offering in Israel (see Results of Operations). The Company received a dividend from Granite Hacarmel Investments Ltd. ("Granite") of \$4.3 million in March 1994.

On January 25, 1994, Ampal sold 4.5 million units consisting of one Class A share and one redeemable warrant to purchase one share of Ampal's Class A stock in a public offering. This offering resulted in net proceeds to Ampal of approximately \$51 million which Ampal intends to use for the financing of acquisitions, additions to existing holdings and other working capital and general corporate purposes, including early redemption of Ampal's outstanding debentures. The Company's investments increased by approximately \$23.5 million; this increase is related to the investment of the proceeds of this public offering in short-term interest-bearing securities.

Deposits, notes and loans receivable, and deposits and notes and loans payable declined as a result of scheduled repayments. Outstanding debentures declined primarily as a result of the early redemption of \$6.5 million of high interest-bearing debentures and the scheduled repayment of approximately \$5 million. Pri Ha'emek issued debentures in the amount of \$4.4 million. On July 1, 1994, Ampal called approximately \$4.4 million of its 8%-10% interest-bearing debentures which are scheduled to mature in 2000 and later in 1994 it intends to make further redemptions of approximately \$4.7 million of this same series of debentures.

**Results of Operations**

Six months ended June 30, 1994 compared to six months ended June 30, 1993:

Consolidated net income increased to \$3.2 million for the six months ended June 30, 1994, as compared with a net loss of \$2.4 million for the six months ended June 30, 1993. In 1993, the Company was required to record a nonrecurring charge to net income of approximately \$5 million with respect to its adoption of Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes." In addition, net income in 1994 increased as a result of gains on issuances of shares and a reduction in net interest expense. These increases were partially offset by a loss incurred by the Company's food processing subsidiary, reductions in equity in earnings of affiliates and other income, and a higher effective income tax rate in 1994.

The decreases in interest revenue, interest expense and net interest expense for the six months ended June 30, 1994 as compared to the same period in 1993 resulted from the repayment of deposits, notes and loans receivable as well as deposits, notes and

loans payable and outstanding debentures. Also, Ophir Holdings Ltd.'s ("Ophir") results, which were consolidated in the first six months of 1993, are reflected by the equity method in 1994 because the Company's interest in Ophir was diluted to 42.5% in November 1993. In the second quarter of 1993, Ophir incurred significant interest expense on bank borrowings used to finance its March 1993 investment in Industrial Buildings Corporation Ltd. ("Industrial Buildings") and as a result recorded a loss in the first six months.

Equity in earnings of affiliates decreased for the six months ended June 30, 1994 as compared to the same period in 1993 because Ophir's 1993 loss was not reported by the equity method in 1993 as its financial statements were consolidated with the Company's (see above). In 1994, Ophir reported greater losses due to significant financing expense associated with its acquisition of Industrial Buildings. Were it not for the change in accounting for Ophir's losses, equity in earnings of affiliates would have shown an increase, primarily because the Moriah Hotel group reported increased earnings due to higher occupancy rates. Also, Granite's earnings were reduced because it reported lower interest income than in 1993.

In February 1994, the other shareholder of Pri Ha'emek, the Company's then 74.9%-owned subsidiary, purchased additional shares in Pri Ha'emek at the same price the Company paid for its shares in 1991, diluting the Company's ownership to 66.7%. In March 1994, Pri Ha'emek conducted an initial public offering in Israel on the Tel Aviv Stock Exchange. In connection with this offering, the Company realized a gain on issuance of shares of \$2.3 million (\$1.5 million, after taxes). The Company's interest in Pri Ha'emek was initially diluted to 51.25%. Subsequent to the public offering, the Company has purchased additional shares at a cost of \$.2 million, and at June 30, 1994 its interest was 54.4%. Upon exercise of all warrants and convertible debentures, the Company's interest may be diluted to 37.4%. If the Company's interest in Pri Ha'emek decreases below 50%, Pri Ha'emek's results will no longer be consolidated with the Company's but will be recorded by the equity method of accounting. The increase in minority interests in the balance sheet is attributable to the minority interests' share of proceeds from this offering.

In February and June 1993, the Company invested an aggregate of approximately \$4.3 million in Paradise Mattresses (1992) Ltd. ("Paradise") for approximately 85.1% of the shares of Paradise. Paradise's assets and liabilities were consolidated commencing June 30, 1993; its manufacturing and distribution operations were included in equity in earnings of affiliates for the six months ended June 30, 1993 and consolidated thereafter. This also accounts for the 1994 increase in the "Other expenses" category. Paradise is a company which manufactures and markets mattresses and fold-out beds in Israel and is a licensee of the Sealy Posturepedic Mattress name and manufacturing process.

Other income, and specifically rental income which is included in this category, decreased because Ophir's financial statements, which were consolidated with the Company's financial statements in the first nine months of 1993, are reflected by the equity method thereafter.

During the first quarter of 1994, Granite issued additional shares upon conversions of its debentures. The Company's interest in Granite was diluted from 21.6% to 21.2% and the Company recorded a gain on issuance of shares of approximately \$.3 million (\$.2 million, after taxes).

The increase in income tax expense and the effective income tax rate in the six months ended June 30, 1994 as compared to the same period in 1993 is attributable to the lesser availability of tax loss carryforwards of certain Israeli subsidiaries in 1994 as compared to 1993, and changes in the components of these taxable incomes.

Three months ended June 30, 1994 compared to three months ended June 30, 1993:

Consolidated net income increased to \$.5 million for the three months ended June 30,

1994 as compared with \$.4 million for the three months ended June 30, 1993. Net income increased as a result of a reduction of net interest expense, improved earnings of the Company's food processing subsidiary and a reduction in income tax expense, which was offset by a decrease in equity in earnings of affiliates. Also, in 1993 the Company recorded a \$1.1 million gain on sale of investments.

Interest revenue, interest expense and net interest expense declined in the three months ended June 30, 1994 as compared to the same period in 1993 for the reasons discussed in Results of Operations - Six months ended June 30, 1994 compared to six months ended June 30, 1993.

In the three months ended June 30, 1994, the decline in equity in earnings of affiliates resulted from the accounting for Ophir's losses (see discussion in Results of Operations - Six months ended June 30, 1994 compared to six months ended June 30, 1993, above) which was offset by the Moriah Hotel group's increased earnings due to higher occupancy rates.

The Company's food processing subsidiary recorded earnings in the second quarter of 1994 as compared to a loss in 1993 because of the change in the mix of products sold and a greater emphasis on local sales.

In the three months ended June 30, 1993, the Company sold shares in Teledata Communication Ltd. and reported a gain on sale of investments of approximately \$1.1 million (approximately \$.6 million, after taxes).

The decline in income tax expense and the effective income tax rate in the three months ended June 30, 1994 as compared to the same period in 1993 is attributable to changes in the components of taxable income.

**PART II - OTHER INFORMATION**

**Item 1. Legal Proceedings - None.**

**Item 2. Changes in 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 - None.**

**Item 6. Exhibits and Reports on Form 8-K**

(a) Index to Exhibits:

Schedule setting forth the computation of earnings per Class A share.....Page 14

Agreement of Sublease dated as of June 22, 1993, by and between Bank Hapoalim B.M. and Ampal-American Israel Corporation.....Page E-1\*

(b) No Reports on Form 8-K were filed during the quarter covered by this Report.

\* Refers to a separately bound exhibit volume

**AMPAL-AMERICAN ISRAEL CORPORATION AND SUBSIDIARIES**

**SCHEDULE SETTING FORTH COMPUTATION OF EARNINGS PER CLASS A SHARE**

SIX MONTHS ENDED JUNE 30,	1994	1993	
-----			
(Amounts in thousands, except per share data)	(Unaudited)	(Unaudited)	
Weighted average number of shares outstanding:			
4% Preferred.....	212	229	
6-1/2% Preferred.....	1,159	1,444	
Class A.....	19,396	15,240	
Common.....	3,000	3,000	
	=====	=====	
 Weighted average number of shares outstanding assuming conversion of preferred stock into Class A shares:			
Class A.....	23,933	88.86%	20,717
87.35%			
Common.....	3,000	11.14	3,000
	-----	-----	12.65
-----			
100.00%	26,933	100.00%	23,717
	=====	=====	=====
=====			
 Income before cumulative effect of change in accounting principle.....	\$ 3,175		\$ 2,615
Cumulative effect on prior years of change in accounting principle.....	-		(4,982)
	-----		-----
 NET INCOME (LOSS).....	\$ 3,175		\$ (2,367)
	=====		=====

Allocation of net income (loss) on the basis of the respective dividend rights of the above classes of

stock, pro rata:				
Class A.....	\$ 2,821	88.86%	\$(2,068)	
87.35%				
Common.....	354	11.14	(299)	12.65
	-----	-----	-----	
-----				
100.00%	\$ 3,175	100.00%	\$(2,367)	
	=====	=====	=====	
=====				

Earnings (loss) per Class A share:

Earnings before cumulative effect		
of change in accounting principle...	\$ .12	\$ .11
Cumulative effect on prior years of		
change in accounting principle.....	-	(.21)
	-----	-----
Earnings (loss) per Class A share....	\$ .12	\$(.10)
	=====	=====

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/ Lawrence Lefkowitz*  
-----

*Lawrence Lefkowitz  
President  
(Principal Executive Officer)*

*By:/s/ Alan L. Schaffer*  
-----

*Alan L. Schaffer  
Vice President - Finance  
and Treasurer  
(Principal Financial Officer)*

*By:/s/ Alla Kanter*  
-----

*Alla Kanter  
Controller  
(Principal Accounting  
Officer)*

Dated: August 15, 1994

- 15 -

AGREEMENT OF SUBLEASE, dated as of the 22nd day of June 1993,

by and between BANK HAPOALIM B.M., a corporation organized under the

laws of the State of Israel (hereinafter the "Landlord") and AMPAL-

AMERICAN ISRAEL CORPORATION, a New York corporation (hereinafter the

"Tenant").

**WITNESSETH:**

WHEREAS, Landlord is presently the holder of the tenant's

estate in and to the following lease (hereinafter the "Overlease"):

Lease dated as of August 21, 1992 between KG A&A Corporation,

as landlord (hereinafter the "Overlandlord") and Landlord, as tenant,

and first amendment thereto dated as of November 1, 1993, covering the

eleventh, twelfth and fourteenth floors in the building known as

Americas Tower, 1177 Avenue of the Americas, New York, New York 10036

(hereinafter the "Building"), which premises are more particularly

described in the Overlease; and

WHEREAS, Tenant desires to sublet from Landlord a portion of

the premises demised in the Overlease located on the twelfth floor of

the Building, which portion contains 2,825 usable square feet, as more

particularly described on the Exhibit annexed hereto and made a part

hereof (hereinafter the "Sublet Space") upon the terms and conditions

hereinafter set forth.

NOW, THEREFORE, in consideration of the mutual covenants

herein, Landlord and Tenant do hereby agree as follows:

E-1

1. Leased Premises and Term. Landlord hereby leases to Tenant, and Tenant hereby hires from Landlord, the Sublet Space for a term of 17 years and 9 days, which term shall commence as of August 21, 1992 and shall expire on August 30, 2009 or on such earlier date upon which said term may expire or be canceled or terminated pursuant to any of the provisions of this Lease upon and subject to the covenants, agreements, terms and conditions herein contained. Tenant shall have the same option as Landlord to extend the term of the Lease under the provisions of Article 40 of the Overlease, provided Landlord exercises its option thereunder.

2. Fixed Rent. The fixed rent shall commence on September 1, 1994 and shall be equal to Tenant's Proportionate Share, as defined in Section 5(c) of this Lease, of the rent paid under the Overlease, which Tenant agrees to pay in equal monthly installments in advance on the first day of each and every calendar month during the term, and shall initially be at the rate of \$168,640.00 per annum. Tenant covenants to pay the fixed rent, additional rent and other charges herein reserved or payable to Landlord at the office of Landlord or at such other place as Landlord may designate, by notice, in lawful money of the United States Of America, without demand therefor and without deduction, setoff or abatement whatsoever, except as expressly provided or incorporated by reference in this Lease. The fixed rent shall not be increased beyond Tenant's Proportionate Share of the rent payable by Landlord to Overlandlord under Article 1 of the Overlease without taking into account the provisions of any

E-2

amendment to the Overlease, unless Tenant shall consent thereto in writing.

3. Tenant Fund. Tenant shall pay its Proportionate Share, as defined in Section 5(c) of the Lease, of Landlord's costs of Initial Alterations, as defined in the Overlease, beyond those costs covered by the Tenant Fund, as defined in Section 3.4 of the Overlease. Tenant shall also pay Landlord for equipment, furniture and filing systems, purchased by Landlord for Tenant if: a) not included in Initial Alterations and b) requested or approved by Tenant.

4. Provisions of Overlease. Tenant acknowledges that it is fully familiar with the terms of the Overlease. Tenant hereby assumes all of the responsibilities and obligations on the part of the Tenant to be performed under the Overlease with respect to the Sublet Space other than the obligation to pay to Overlandlord the fixed rent and additional rent as provided in the Overlease. Any sums which are paid or credited by Overlandlord to Landlord as tenant under the Overlease shall be credited by Landlord to Tenant's rent account hereunder to the extent of Tenant's Proportionate Share, as defined in Section 5(c) of this Lease. Except as otherwise expressly provided in this Lease, all of the terms, provisions, covenants and conditions contained in the Overlease, and such rights and obligations as are contained in the Overlease, are hereby imposed upon the respective parties hereto, the Landlord being substituted for the Overlandlord in said Lease, with the Landlord having all of the rights, remedies and powers of

the Overlandlord as set forth in the Overlease, and the Tenant being substituted for the tenant in the Overlease, with the Tenant having all the rights, obligations and duties of the tenant as set forth in the Overlease, it being distinctly understood and agreed, however, that Landlord shall not be bound by any warranties and representations made by the Overlandlord in the Overlease, nor shall Landlord be obligated to perform any of the terms, covenants, conditions and agreements in the Overlease required to be performed by the Overlandlord; and Tenant agrees to look solely to the Overlandlord for the performance of the same. Tenant further covenants and agrees not to violate any of the terms, covenants and provisions of the Overlease. Tenant shall be bound by all of the restrictions and limitations placed upon the Landlord as tenant under the Overlease, as if the Tenant were the tenant thereunder. In the event the Overlease is terminated pursuant to its terms for any reason, this Lease shall automatically cease and terminate as of the date upon which the Overlease is so terminated. Upon any such termination of the Overlease, all fixed rent and additional rent provided for in this Lease shall be prorated as of the date of such termination and all fixed rent and additional rent owing to the Landlord hereunder shall be paid to the Landlord, prorated as aforesaid, and thereafter, neither party shall have any further obligation or liability to the other thereafter arising under this Lease except as more particularly set forth herein. Tenant hereby indemnifies and agrees to hold harmless Landlord against any and all claims, loss and damage, including

without limitation attorneys' fees and disbursements, which may at any time be asserted by Overlandlord against Landlord for failure of Landlord to perform any of the covenants, agreements, terms, provisions or conditions contained in the Overlease, which by reason of the provisions of this Lease, Tenant is obligated to perform.

5. Additional Rent.

(a) Tenant agrees to pay to Landlord as additional rent hereunder, Tenant's Proportionate Share of all additional rent required to be paid by Landlord to Overlandlord under the Overlease and an amount equal to three (3) times Tenant's Proportionate Share, as defined in Section 5(c) of the Lease, of electricity costs incurred by Landlord for the 12th Floor of the Building, not later than the date on which such amounts are required to be paid by Landlord to Overlandlord under the Overlease.

(b) Tenant agrees to pay to Landlord as additional rent hereunder, Tenant's Proportionate Share of all other sums and charges required to be paid by Landlord to Overlandlord under the Overlease, whether or not therein referred to as additional rent, not later than the date on which such amounts are required to be paid by Landlord to Overlandlord under the Overlease.

(c) The term "Tenant's Proportionate Share" shall mean that fraction, the numerator of which is the number 4,960 (which number represents the number of square feet of the total rentable area allocable to Tenant and which may be adjusted pursuant to the Access Agreement of even date herewith between Landlord and Tenant)

and the denominator of which is the number of square feet of the total rentable area of the "Premises", as defined in the Overlease, which is the number 68,700. In the event that the area of the "Premises", as defined in the Overlease, should change during any period for which additional rent is payable hereunder, then Tenant's Proportionate Share will be appropriately adjusted to reflect Tenant's equitable share of any such additional rent payable for such period.

6. Landlord Not Liable for Acts of Overlandlord.

Notwithstanding anything in this Lease contained to the contrary, Landlord shall not be liable for any of the obligations, duties, responsibilities or liabilities of the Landlord under the Overlease or for the failure or any delay by the Overlandlord to perform or discharge the same. Landlord shall not be obligated to take any action by reason of any matter relating to the operation or maintenance, repair, replacement or restoration of the Sublet Space or of any facilities or services thereof.

7. Tenant's Rights Against Overlandlord. Tenant shall have all of the benefits, privileges, powers and rights against Overlandlord and others that Landlord has against Overlandlord and others under the Overlease and otherwise. Landlord hereby assigns to Tenant its rights under the Overlease (to the full extent permitted by law) to require and obtain compliance by Overlandlord with all the provisions of the Overlease insofar as the same affects the Sublet Space or any part thereof, or the access to or use or occupancy thereof, and all other rights and remedies

Landlord would have as a result of Overlandlord's failure or refusal to comply with such provisions whether arising under the Overlease or at law or in equity. Landlord agrees that in the event Overlandlord fails or refuses to comply with any provision of the Overlease affecting the Sublet Space or any part thereof or the access to or use or occupancy thereof, then Tenant shall have, but shall not be limited to, the right in its own name or as the true and lawful representative and attorney-in-fact of Landlord in Landlord's name but at Tenant's sole cost and expense, to require and obtain performance by Overlandlord pursuant to the terms of the Overlease. In the event of such failure or refusal by Overlandlord, Landlord covenants and agrees that, at the request of Tenant, Landlord will join in and give its full cooperation and assistance to any action or proceeding in connection with or resulting from Overlandlord's failure or refusal to comply with any of the terms, covenants and conditions of the Overlease affecting the Sublet Space or the access to or the use or occupancy thereof, provided that the same shall be without cost or expense to it. In the event Landlord shall so join in any action or proceeding, Tenant shall indemnify Landlord against any loss or liability actually incurred by Landlord by reason of such action or proceeding.

8. Condition of Premises. Neither Landlord nor Landlord's agents have made any representations or promises with respect to the Sublet Space or the equipment and improvements therein situated or the physical condition thereof except as the

E-7

parties hereafter may otherwise agree.

9. Landlord's Services. To the extent that the

Overlandlord, pursuant to the provisions of the Overlease, shall furnish services to or for the benefit of the Sublet Space under the Overlease without additional charge or rental, Tenant shall be entitled to receive such services to and for the benefit of the Sublet Space without additional charge or rental. Landlord shall endeavor to assist Tenant in obtaining such services from Overlandlord, but Tenant agrees to look solely to the Overlandlord for the rendition of such services in the Sublet Space, and Landlord shall not be liable to Tenant for any loss, damage or expense resulting from any failure of the Overlandlord to furnish such services.

10. Notice. Wherever any period of time after notice

is specified in the Overlease, the applicable period for performance by Tenant shall be two (2) days less than the period of time specified in

**the Overlease.**

11. Consents of Overlandlord. Whenever Tenant wishes to do

something to or affecting the Sublet Space or any part thereof which requires the consent of the Overlandlord or whenever the consent of the Overlandlord is required under the Overlease with respect to any matter affecting the Sublet Space or any part thereof, upon request from Tenant, Landlord will request such consent from the Overlandlord and will not unreasonably withhold its consent if the Overlandlord consents thereto. Whenever the consent or approval or other action on the part

**of the Landlord is**

E-8

required hereunder, Landlord shall not be obligated or required to give any such consent or approval or to take any action in the event the consent or approval or other action of the Overlandlord under the Overlease is also required by the provisions of the Overlease, unless and until the Overlandlord under the Overlease shall have given such consent or approval or taken such action. In the event, however, that Overlandlord shall refuse to grant such consent, Landlord shall have no liability to the Tenant hereunder, nor shall the rent abate, nor shall the obligations of the parties hereto to each other be affected by reason thereof.

12. Overlandlord's Consent to this Lease. This Lease is subject to the consent of Overlandlord as required by the Overlease.

13. Conditional Limitations. Landlord, at its option, may terminate this Lease on Five (5) days' notice to Tenant if at any time during the term of this Lease, or any renewal thereof, any of the following shall occur:

(a) Tenant shall default beyond the applicable grace period in the performance of any of its duties or obligations, whether relating to the payment of any sum or otherwise, under the terms of any agreement between Landlord and Tenant, including but not limited to, any lease of personal property, lease of real property, or security agreement; or

(b) Tenant shall fail, beyond the applicable

grace period, to (i) pay any sum when due to Landlord, whether under any note, purchase agreement, lease or otherwise, or (ii) perform any duty or obligation when due under any of the aforesaid.

Upon such termination, Tenant shall quit and surrender the Sublet Space to Landlord and Landlord shall thereupon have all of the rights and remedies provided Overlandlord upon termination as set forth in the Overlease with the same force and effect as though set forth herein. As used herein, "Tenant" shall mean any assignee or successor of Tenant named herein.

14. Quiet Enjoyment. Landlord covenants and agrees with Tenant that upon Tenant paying the rent and additional rent and observing and performing all the terms, covenants and conditions on Tenant's part to be observed and performed, Tenant may peaceably and quietly enjoy the Sublet Space, subject, nevertheless, to the terms and conditions of this Lease and the terms and conditions of the Overlease. In addition, Tenant will cause its employees to adhere to Landlord's practices, rules and regulations regarding conduct in the sublet space.

15. Communications from Overlandlord. Landlord shall deliver to Tenant copies of all notices, requests or demands which relate to the Sublet Space upon receipt thereof from Overlandlord.

16. Applicable Laws. This Lease shall be governed by, and subject to, all provisions of New York and, to the extent applicable, federal law.

17. Notices. All communications and notices hereunder shall be in writing and shall be sent by personal delivery or by mail (certified or registered, and in any event, return receipt requested), addressed as follows or to such other address as either party may notify the other in accordance with the provisions hereof.

To Landlord: Bank Hapoalim B.M.  
1177 Avenue of the Americas  
New York, N.Y. 10036  
Attention: Regional Manager

To Tenant: Ampal-American Israel  
Corporation  
1177 Avenue of the Americas  
New York, N.Y. 10036  
Attention: President

All notices except notice of change of address shall be deemed given when mailed and notice of change of address shall be deemed given when received.

18. Insurance Policies. Whenever any insurance coverage is required to be obtained or maintained by the tenant under the Overlease with respect to the Sublet Space, Tenant shall obtain and maintain such insurance coverage naming as insureds therein Overlandlord, Landlord and Tenant, as their interest may appear, and any other party required to be named under the provisions of the Overlease.

E-11

IN WITNESS WHEREOF, Landlord and Tenant have caused

this Lease to be executed and delivered the date first above written.

**BANK HAPOALIM B.M., Landlord**

By: /s/ Arie Abend

-----

/s/ Barry Ben-Zeev

-----

**AMPAL-AMERICAN ISRAEL CORPORATION,  
Tenant**

By: /s/ Lawrence Lefkowitz

-----

**E-12**

# End of Filing