

# 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, 1999

OR

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

For the transition period from to

*Commission file number 0-538*

## AMPAL-AMERICAN ISRAEL CORPORATION

(Exact Name of Registrant as Specified in Its Charter)

New York  
(State or Other Jurisdiction of  
Incorporation or Organization)  
No.)

13-0435685  
(I.R.S. Employer  
Identification

1177 Avenue of the Americas, New York, New York  
(Address of Principal Executive Offices)

10036  
(Zip Code)

Registrant's Telephone Number, Including Area Code

(212) 782-2100

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

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

The number of shares outstanding of the issuer's Class A Stock, its only authorized common stock, is 18,278,812 (as of July 30, 1999).

AMPAL-AMERICAN ISRAEL CORPORATION AND SUBSIDIARIES

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

SIX MONTHS ENDED JUNE 30,	1999	1998
(Dollars in thousands, except per share data)	(Unaudited)	(Unaudited) (Note 2)
<b>REVENUES</b>		
Equity in earnings of affiliates .....	\$ 10,992	\$ 5,309
Manufacturing .....	3,414	3,317
Interest:		
Related parties .....	618	1,764
Others .....	503	678
Rental income .....	3,851	3,591
Realized and unrealized gains on investments .....	26,566	1,355
Other .....	2,315	1,051
	-----	-----
<b>Total revenues</b> .....	<b>48,259</b>	<b>17,065</b>
	-----	-----
<b>EXPENSES</b>		
Manufacturing .....	4,097	4,259
Interest:		
Related parties .....	2,285	2,216
Others .....	2,405	2,920
Rental property operating expenses .....	1,769	1,733
Loss from impairment of investments .....	2,559	270
Minority interests .....	(358)	(534)
Other .....	3,523	3,380
	-----	-----
<b>Total expenses</b> .....	<b>16,280</b>	<b>14,244</b>
	-----	-----
Income before income taxes .....	31,979	2,821
Provision for income taxes .....	11,676	1,734
	-----	-----
<b>NET INCOME</b> .....	<b>\$ 20,303</b>	<b>\$ 1,087</b>
	=====	=====
<b>Basic EPS</b>		
Earnings per Class A share .....	\$ .84	\$ .05
	=====	=====
Shares used in calculation (in thousands) .....	24,105	23,859
<b>Diluted EPS</b>		
Earnings per Class A share .....	\$ .73	\$ .03
	=====	=====
Shares used in calculation (in thousands) .....	27,716	27,616

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,	1999	1998
(Dollars in thousands, except per share data)	(Unaudited)	(Unaudited) (Note 2)
<b>REVENUES</b>		
Equity in earnings of affiliates .....	\$ 10,181	\$ 2,130
Manufacturing .....	1,570	1,416
Interest:		
Related parties .....	514	1,146
Others .....	282	432
Rental income .....	1,973	1,834
Realized and unrealized gains (losses) on investments .....	17,478	(281)
Other .....	560	555
Total revenues .....	<u>32,558</u>	<u>7,232</u>
<b>EXPENSES</b>		
Manufacturing .....	1,819	2,272
Interest:		
Related parties .....	1,243	1,279
Other .....	1,395	1,747
Rental property operating expenses .....	897	879
Loss from impairment of investments .....	2,500	270
Minority interests .....	(361)	(511)
Other .....	2,009	2,141
Total expenses .....	<u>9,502</u>	<u>8,077</u>
Income (loss) before income taxes .....	23,056	(845)
Provision for income taxes .....	8,305	74
NET INCOME (LOSS) .....	<u>\$ 14,751</u>	<u>\$ (919)</u>
<b>Basic EPS</b>		
Earnings (loss) per Class A share .....	<u>\$ .61</u>	<u>\$ (.03)</u>
Shares used in calculation (in thousands) .....	24,117	23,885
<b>Diluted EPS</b>		
Earnings (loss) per Class A share .....	<u>\$ .53</u>	<u>\$ (.04)</u>
Shares used in calculation (in thousands) .....	27,716	27,616

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

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

31, ASSETS AS AT	June 30, 1999	December 1998
----- (Dollars in thousands)	----- (Unaudited)	
Cash and cash equivalents .....	\$ 21,032	\$ 12,047
Deposits, notes and loans receivable .....	23,466	27,816
Investments .....	261,289	214,421
Investment held for sale(Note 5) .....	--	25,104
Real estate rental property, less accumulated depreciation of \$6,976 and \$6,492 .....	30,141	29,735
Property and equipment, less accumulated depreciation of \$2,832 and \$2,608 .....	3,147	3,227
Other assets .....	16,544	16,896
TOTAL ASSETS .....	\$355,619 =====	\$329,246 =====

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, 1999	December 31, 1998
	-----	-----
(Dollars in thousands)	(Unaudited)	
<b>LIABILITIES</b>		
Notes and loans payable:		
Related parties .....	\$ 71,699	\$ 57,557
Others .....	40,634	40,636
Debentures .....	27,988	32,817
Accounts and income taxes payable, accrued expenses and minority interests .....	38,040	37,071
	-----	-----
<b>Total liabilities .....</b>	<b>178,361</b>	<b>168,081</b>
	-----	-----
<b>SHAREHOLDERS' EQUITY</b>		
4% Cumulative Convertible Preferred Stock, \$5 par value; authorized 189,287 shares; issued and outstanding 168,946 and 172,238 shares .....	845	861
6-1/2% Cumulative Convertible Preferred Stock, \$5 par value; authorized 988,055 shares; issued and outstanding 914,814 and 925,279 shares .....	4,574	4,626
Class A Stock, \$1 par value; authorized 60,000,000 shares; issued 24,732,677 and 24,684,822 shares; outstanding 24,127,277 and 24,079,422 shares .....	24,733	24,685
Additional paid-in capital .....	57,849	57,829
Retained earnings .....	110,918	90,615
Treasury Stock, 605,400 shares of Class A Stock, at cost .....	(3,829)	(3,829)
Accumulated other comprehensive loss .....	(17,832)	(13,622)
	-----	-----
<b>Total shareholders' equity .....</b>	<b>177,258</b>	<b>161,165</b>
	-----	-----
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY .....</b>	<b>\$ 355,619</b>	<b>\$ 329,246</b>
	=====	=====

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,	1999	1998
-----	-----	
(Dollars in thousands)	(Unaudited)	(Unaudited) (Note 2)
Cash flows from operating activities:		
Net income .....	\$ 20,303	\$ 1,087
Adjustments to reconcile net income to net cash used in operating activities:		
Equity in earnings of affiliates .....	(10,992)	(5,309)
Realized and unrealized gains on investments ..	(26,566)	(1,355)
Depreciation expense .....	639	670
Amortization expense .....	705	705
Loss from impairment of investments .....	2,559	270
Translation (gain) .....	(52)	(8)
Minority interests .....	(358)	(534)
(Increase) decrease in other assets .....	(1,891)	3,599
Increase (decrease) in accounts and income taxes payable, accrued expenses and minority interests .....	2,624	(4,291)
Investments made in trading securities .....	(14,247)	(8,542)
Proceeds from sale of trading securities .....	9,845	5,483
Dividends received from affiliates .....	10,120	3,144
	-----	-----
Net cash (used in) operating activities .....	(7,311)	(5,081)
	-----	-----
Cash flows from investing activities:		
Deposits, notes and loans receivable collected .	9,077	15,616
Deposits, notes and loans receivable granted ...	(4,104)	(272)
Investments made in:		
Available-for-sale security .....	(24,147)	--
Affiliates and others .....	(2,973)	(113,119)
Proceeds from sale of investments:		
Affiliate .....	29,622	--
Available-for-sale .....	--	353
Others .....	1,072	1,206
Purchase of property and equipment .....	(44)	(99)
Real estate rental property - capital improvements .....	(754)	(911)
	-----	-----
Net cash provided by (used in) investing activities .....	7,749	(97,226)
	-----	-----

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,	1999	1998
(Dollars in thousands)	----- (Unaudited)	----- (Unaudited) (Note 2)
Cash flows from financing activities:		
Notes and loans payable received:		
Related parties .....	\$ 15,433	\$ 72,537
Others .....	106	68,763
Notes and loans payable repaid:		
Related parties .....	(1,316)	(35,737)
Others .....	(155)	(32,834)
Debentures repaid .....	(5,783)	(8,224)
Contribution to partnership by minority interests .....	--	9,765
	-----	-----
Net cash provided by financing activities .....	8,285	74,270
	-----	-----
Effect of exchange rate changes on cash and cash equivalents .....	262	(847)
	-----	-----
Net increase (decrease) in cash and cash equivalents .....	8,985	(28,884)
Cash and cash equivalents at beginning of period .....	12,047	45,457
	-----	-----
Cash and cash equivalents at end of period .....	\$ 21,032	\$ 16,573
	=====	=====
Supplemental Disclosure of Cash Flow Information		
Cash paid during the period:		
Interest:		
Related parties .....	\$ 656	\$ 1,127
Others .....	1,034	1,787
	-----	-----
Total interest paid .....	\$ 1,690	\$ 2,914
	=====	=====
Income taxes paid .....	\$ 10,037	\$ 1,159
	=====	=====

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,	1999	1998
-----	-----	
(Dollars in thousands, except share amounts)	(Unaudited)	
(Unaudited)		
<b>4% PREFERRED STOCK</b>		
Balance, beginning of year .....	\$ 861	\$ 898
Conversion of 3,292 and 3,254 shares into Class A Stock .....	(16)	
(16)		
	-----	-----
Balance, end of period .....	\$ 845	\$ 882
	=====	=====
<b>6-1/2% PREFERRED STOCK</b>		
Balance, beginning of year .....	\$ 4,626	\$ 4,842
Conversion of 10,465 and 32,031 shares into Class A Stock .....	(52)	
(161)		
	-----	-----
Balance, end of period .....	\$ 4,574	\$ 4,681
	=====	=====
<b>CLASS A STOCK</b>		
Balance, beginning of year .....	\$ 24,685	\$ 24,418
Issuance of shares upon conversion of Preferred Stock .....	48	113
	-----	-----
Balance, end of period .....	\$ 24,733	\$ 24,531
	=====	=====
<b>ADDITIONAL PAID-IN CAPITAL</b>		
Balance, beginning of year .....	\$ 57,829	\$ 57,491
Conversion of Preferred Stock .....	20	64
	-----	-----
Balance, end of period .....	\$ 57,849	\$ 57,555
	=====	=====
<b>RETAINED EARNINGS</b>		
Balance, beginning of year .....	\$ 90,615	\$ 88,775
Net income .....	20,303	1,087
	-----	-----
Balance, end of period .....	\$ 110,918	\$ 89,862
	=====	=====
<b>ACCUMULATED OTHER COMPREHENSIVE LOSS</b>		
Balance, beginning of year: .....	\$ (13,622)	\$
(10,085)		
Cumulative translation adjustments:		
Balance, beginning of year .....	(18,580)	
(10,085)		
Foreign currency translation adjustment .....	956	
(2,038)		
	-----	-----
Balance, end of period .....	(17,624)	
(12,123)		
	-----	-----
Unrealized (loss) gain on marketable securities:		
Balance, beginning of year .....	4,958	--
Unrealized (loss) gain, net .....	(208)	5,688
Sale of available-for-sale security .....	(3,247)	--
Transfer to trading securities .....	(1,711)	--
	-----	-----
Balance, end of period .....	(208)	5,688
	-----	-----
Balance, end of period .....	\$ (17,832)	\$
(6,435)	=====	=====

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

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

SIX MONTHS ENDED JUNE 30,	1999	1998
(Dollars in thousands)	(Unaudited)	(Unaudited)
Net income .....	\$ 20,303	\$ 1,087
Other comprehensive income (loss), net of tax:		
Foreign currency translation adjustments .....	956	(2,038)
Unrealized (loss) gain on securities .....	(208)	5,688
Other comprehensive income .....	748	3,650
Comprehensive income .....	\$ 21,051	\$ 4,737
Related tax (expense) benefit of other comprehensive income:		
Foreign currency translation adjustments .....	\$ (153)	\$ 298
Unrealized (loss) gain on securities .....	\$ 112	\$ (3,063)

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, 1998 consolidated balance sheet presented herein was derived from the audited December 31, 1998 consolidated financial statements of the Company.

Reference should be made to the Company's consolidated financial statements for the year ended December 31, 1998 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, 1998 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. Certain amounts in the 1998 consolidated statements of income and cash flows have been reclassified to conform with the current period's presentation. All adjustments (of a normal recurring nature) which are, in the opinion of management, necessary to a fair presentation of the results of the interim period have been included.

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

SIX MONTHS ENDED JUNE 30, .....	1999	1998
	-----	-----
(Dollars in thousands)		
Revenues:		
Finance .....	\$ 29,471	\$ 4,305
Real estate rental .....	3,851	3,591
Mattress manufacturing .....	3,414	3,317
Leisure-time .....	755	796
Intercompany adjustments .....	(224)	
(253)		
	-----	-----
Total .....	\$ 37,267	\$ 11,756
	=====	=====
Pretax Operating Income (Loss):		
Finance .....	\$ 19,963	\$
(3,079)		
Real estate rental .....	1,410	1,199
Mattress manufacturing .....	(836)	
(1,076)		
Leisure-time .....	92	
(66)		
	-----	-----
Total .....	\$ 20,629	\$
(3,022)		
	=====	=====
Total Assets:		
Finance .....	\$ 315,362*	\$
272,190*		
Real estate rental .....	36,321	34,857
Mattress manufacturing .....	5,362	5,757
Leisure-time .....	12,894	37,925
Intercompany adjustments .....	(14,320)	
(11,577)		
	-----	-----
Total .....	\$ 355,619	\$ 339,152
	=====	=====

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

operating income above exclude equity in earnings of affiliates and minority interests.

The real estate rental segment consists of rental property owned in Israel and the United States leased to related and unrelated parties. The mattress manufacturing segment consists of Paradise Industries, Ltd., which is a leading

manufacturer and distributor of mattresses and fold-out beds in Israel whose customer base consists of independent stores as well as hotel chains. The leisure-time segment consists primarily of Moriah Hotels Ltd. (hotel chain in Israel, see Note 5 below), Coral World International Limited (marine parks located around the world) and Country Club Kfar Saba (the company's 51%-owned subsidiary located in Israel).

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

4. The following table summarizes securities that were outstanding as of June 30, 1999 and 1998, but not included in the calculations of diluted earnings per Class A share because such shares are antidilutive.

(Shares in thousands)	June 30,	
	1999	1998
Options and Rights	1,100(a)	
1,238(a)(b)		
Warrants	--	4,500(b)

a) On June 29, 1999, Dr. Gleitman, the Company's then Chief Executive Officer announced his resignation, effective July 1, 1999. The Stock Option and Stock Repurchase Plan Agreement that the Company entered into with Dr. Gleitman in 1998 was terminated on the date of his resignation. According to the Agreement, the Chief Executive Officer was granted options to purchase up to one million shares of the Company's Class A Stock. The Company also granted the rights to purchase at discount up to 200,000 shares of the Company's Class A Stock. Through June 30, 1999, none of the stock options and 100,000 of the stock rights were exercised by Dr. Gleitman.

b) 38,000 options and all warrants expired on January 31, 1999.

5. On April 14, 1999, the Company sold its 46% equity interest in Moriah Hotels Ltd. ("Moriah") to Koor Tourism Enterprises Ltd. and Sheraton International Ltd. for \$29.6 million. Prior to the sale, on April 12, 1999, the Company received a dividend from Moriah in the amount of \$7.9 million. As a result of the aforementioned transaction, the Company recorded a gain on sale in the amount of approximately \$13.5 million (\$8.8 million, net of income taxes) in the June 30, 1999 consolidated financial statements.

6. On July 6, 1999, the Company completed a transaction with Bank Hapoalim B.M. ("BHP") and two wholly-owned subsidiaries of BHP, which provided for the following:

(a) The Company acquired from BHP all of its holdings in Ampal - 5,874,281 shares of Class A Stock, 3,350 shares of 4% Preferred Stock and 122,536 shares of 6 1/2% Preferred Stock for \$31.3 million.

(b) The Company sold to BHP's subsidiary seven real estate properties totaling 53,000 sq. ft., currently leased to and occupied by BHP, for \$14.7 million.

(c) Ampal's subsidiary renewed the lease agreement with BHP with respect to a 4,400 sq. ft. branch in Bnei Brak, Israel for ten years at an annual rental income of \$346,000.

As a result of the above transaction, Ampal's outstanding shares consist of 18,278,812 shares of Class A Stock, 164,130 shares of 4% Preferred Stock and 786,116 shares of 6 1/2% Preferred Stock, based on shares outstanding on July 30, 1999. Rebar Financial Corporation and the public hold 11,083,712 and 7,195,100 shares of Class A Stock, representing 60.6% and 39.4% of Ampal's outstanding Class A Stock, respectively.

Ampal will record a net gain of approximately \$6 million on the sale of the aforementioned real estate properties in its September 30, 1999 consolidated financial statements.

# AMPAL-AMERICAN ISRAEL CORPORATION AND SUBSIDIARIES

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

### Results of Operations

Six months ended June 30, 1999 compared to six months ended June 30, 1998:

Consolidated net income increased to \$20.3 million for the six-month period ended June 30, 1999, from \$1.1 million for the same period in 1998. The increase in net income is primarily attributable to greater realized and unrealized gains on investments and the increase in equity in earnings of affiliates.

In the six months ended June 30, 1999, Ampal-American Israel Corporation ("Ampal") and its subsidiaries (the "Company") recorded \$15.6 million of gains on sale of investments, which are primarily attributable to the sale of its investment in Moriah Hotels Ltd ("Moriah"). On April 14, 1999, the Company sold its 46% equity interest in Moriah to Koor Tourism Enterprises Ltd. and Sheraton International Ltd. for \$29.6 million. Prior to the sale, on April 12, 1999, the Company received a dividend from Moriah in the amount of \$7.9 million. As a result of the aforementioned transaction, the Company recorded a gain on sale in the amount of approximately \$13.5 million (\$8.8 million, net of income taxes) in the June 30, 1999 consolidated financial statements. In addition, the Company recorded a \$1.2 million gain on sale of its investment in Fundtech Ltd. ("Fundtech"). In the six months ended June 30, 1998, the Company recorded \$1.3 million of gains on sale of investments, which are attributable to its investments in Mercury Interactive Corporation, Shikun U'Fituach le-Israel Ltd., and Fundtech.

The Company recorded \$11 million of unrealized gains on investments which are classified as trading securities in the six-month period ended June 30, 1999, as compared to \$.1 million in the same period in 1998. The unrealized gains recorded in 1999 are primarily attributable to the Company's investments in the shares of Bank Leumi Le'Israel B.M. ("Leumi") (pretax gain of \$6.4 million) and Fundtech (pretax gain of \$2.6 million). At June 30, 1999 and December 31, 1998, the aggregate fair value of trading securities amounted to approximately \$44.3 million and \$26.3 million, respectively.

Equity in earnings of affiliates increased to \$11 million for the six months ended June 30, 1999, from \$5.3 million for the same period in 1998. The increase is primarily attributable to the increased earnings of Ophir Holdings Ltd. ("Ophir"), the Company's 42.5%-owned affiliate, which is a holding company with interests in high technology and real estate companies. Ophir reported significantly higher earnings in 1999 primarily due to the gain realized on the sale of its holdings in Platinum Technology International Inc. in May 1999.

The increase in other income in the six months ended June 30, 1999, as compared to the same period in 1998 is attributable to the dividend of \$1.2 million (\$.9 million, net of minority interest) declared by MIRS Communication Company Ltd.

The Company recorded lower interest income and higher net interest expense in the six months ended June 30, 1999, as compared to the same period in 1998, as a result of utilizing its funds for making investments in various companies.

Manufacturing revenues and expenses reflect the operations of Paradise Industries Ltd. ("Paradise"), the Company's 85.1%-owned subsidiary, which is a manufacturer and distributor of mattresses and fold-out beds in Israel. During the first half of 1999, Paradise completed a restructuring of its operations, which resulted in a reduction of its workforce and other employee-related expenses.

The decrease in the effective income tax rate in 1999 as compared to 1998 is mainly attributable to the decreased deferred tax provisions of certain Israeli subsidiaries due to the utilization of available tax benefits.

Three months ended June 30, 1999 compared to three months ended June 30, 1998:

Consolidated net income increased to \$14.8 million for the three-month period ended June 30, 1999, from a loss of \$.9 million for the same period in 1998. The increase in net income is primarily attributable to the greater realized and unrealized gains on investments and the increase in equity in earnings of affiliates.

In the quarter ended June 30, 1999, the Company recorded \$14.7 million of gains on sale of investments, \$13.5 million of which is attributable to the sale of its investment in Moriah. The Company did not record similar gains in the same period in 1998.

The Company also recorded \$2.8 million of unrealized gains on investments in the three-month period ended June 30, 1999, \$2.1 million of which is attributable to its investment in Leumi, as compared to \$.3 million of unrealized losses on investments in the same period in 1998.

Equity in earnings of affiliates increased to \$10.2 million for the three months ended June 30, 1999, from \$2.1 million for the same period in 1998. The increase is primarily attributable to the gain on sale of investment recorded by Ophir in the second quarter of 1999. (See "Discussion on Results of Operations - Six months ended June 30, 1999 compared to six months ended June 30, 1998.")

The Company recorded net interest expense in the amount of \$1.8 million in the three months ended June 30, 1999, as compared to \$1.4 million in the same period in 1998. (See "Discussion on Results of Operations - Six months ended June 30, 1999 compared to six months ended June 30, 1998.")

In the quarter ended June 30, 1999, the Company recorded \$2.5 million of losses from impairment of its investments in Unic View Ltd. (\$1 million) and M.D.F. Industries Ltd. (\$1.5 million), which continues to experience operational problems. In the same period of 1998 the Company recorded a \$.3 million loss on impairment of its investment in Geotek Communications Ltd.

The change in the effective income tax rate in 1999 as compared to 1998 is mainly attributable to the decreased deferred tax provisions of certain Israeli subsidiaries due to the reduction of available tax benefits.

Liquidity and Capital Resources

At June 30, 1999, cash and cash equivalents were \$21 million as compared with \$12 million at December 31, 1998. The increase in cash and cash equivalents is primarily attributable to the proceeds received from the sale of the Company's investment in Moriah (See "Discussion on Results of Operations - Six months ended June 30, 1999 compared to six months ended June 30, 1998"). The decrease in debentures is primarily attributable to scheduled repayments.

On June 23, 1999 the Company acquired a 3.9% interest in Blue Square-Israel Ltd. ("Blue Square") for approximately \$24 million. Blue Square owns approximately 160 supermarkets and specialty stores in Israel. In addition, the Company invested \$.5 million to acquire a 2% interest in Babylon Ltd., a developer and marketer of single click translation software for non-English speaking Internet users, \$1.8 million to acquire an additional 1.2% interest (total equity interest is 20.3%) in Granite Hacarmel Investments Ltd., and approximately \$.5 million to maintain its equity interest in NetformX Ltd. (total equity interest - 21%).

## **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. This analysis presents the hypothetical loss in earnings, cash flows and fair values of the financial instruments which are held by the Company at June 30, 1999, and are sensitive to the above market risks.

### **Interest Rate Risks**

At June 30, 1999, the Company had financial assets totalling \$43.5 million and financial liabilities totalling \$140.3 million, respectively. For fixed rate financial instruments, interest rate changes affect the fair market value but do not impact earnings or cash flows. Conversely, for variable rate financial instruments, interest rate changes generally do not affect the fair market value but do impact future earnings and cash flows, assuming other factors held constant.

At June 30, 1999, the Company had fixed rate financial assets of \$23.3 million and variable rate financial assets of \$20.2 million. Holding other variables constant, a ten percent increase in interest rates would decrease the unrealized fair value of the fixed financial assets by approximately \$.3 million.

At June 30, 1999, the Company had fixed rate debt of \$42.1 million and variable rate debt of \$98.2 million. A ten percent decrease in interest rates would increase the unrealized fair value of the fixed rate debt by approximately \$.6 million.

The net decrease in earnings for the next year resulting from a ten percent interest rate increase would be approximately \$.4 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. In March 1999, and May 1999, the Company entered into foreign exchange forward purchase contracts for \$10 million and \$5 million, respectively, to partially hedge this exposure. Holding other variables constant, if there were a ten percent adverse change in foreign currency exchange rates, the Company's earnings would decrease by \$1.8 million and cumulative translation loss (reflected in the Company's accumulated other comprehensive loss) would increase by \$.5 million.

### **Equity Price Risk**

The Company's investments at June 30, 1999, included marketable securities which are recorded at fair value of \$44.3 million, including net unrealized gains of \$8.4 million. Those securities have exposure to price risk. The estimated potential loss in fair value resulting from a hypothetical 10% decrease in prices quoted by stock exchanges is approximately \$4.4 million.

### **Year 2000 Compliance**

The Company has completed the process of identifying, evaluating and implementing changes to computer programs necessary to address the year 2000 issue which is the result of computer programs having been written using two digits instead of four to define a year. This issue affects computer systems that have date sensitive programs that may recognize a date using "00" as 1900 rather than 2000. Systems that do not properly recognize such information could generate erroneous data or cause a system to fail, resulting in business interruption. The Company presently expects that with modifications to existing systems and software and converting to new software, the year 2000 issue will not pose an operational problem and does not believe the cost of converting all internal systems to be year 2000 compliant will be material to its financial condition or results of operations. Costs related to the year 2000 issue are being expensed as incurred. The Company expects to complete all of its year 2000 modifications by the end of 1999.

The year 2000 issue is expected to affect the systems of various entities with which the Company interacts. However, there can be no assurance that the systems of other companies on which the Company's systems rely will be timely converted, or that a failure by another company's systems to be year 2000 compliant would not have a material adverse effect on the Company.

### **Subsequent Events**

On July 6, 1999, the Company completed a transaction with Bank Hapoalim B.M. ("BHP") and two wholly-owned subsidiaries of BHP (the "Hapoalim Transaction"), which provided for the following:

- (a) The Company acquired from BHP all of its holdings in Ampal - 5,874,281 shares of Class A Stock, 3,350 shares of 4% Preferred Stock and 122,536 shares of 6 1/2% Preferred Stock for \$31.3 million.
- (b) The Company sold to BHP's subsidiary seven real estate properties totaling 53,000 sq. ft., currently leased to and occupied by BHP, for \$14.7 million.
- (c) Ampal's subsidiary renewed the lease agreement with BHP with respect to a 4,400 sq. ft. branch in Bnei Brak, Israel for ten years at an annual rental income of \$346,000.

As a result of the above transaction, Ampal's outstanding shares consist of 18,278,812 shares of Class A Stock, 164,130 shares of 4% Preferred Stock and 786,116 shares of 6 1/2% Preferred Stock, based on shares outstanding on July 30, 1999. Rebar Financial Corporation and the public held 11,083,712 and 7,195,100 shares of Class A Stock, representing 60.6% and 39.4% of Ampal's outstanding Class A Stock, respectively.

Ampal will record a net gain of approximately \$6 million on the sale of the aforementioned real estate properties in the September 30, 1999 consolidated financial statements.

PART II - OTHER INFORMATION

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

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

**Item 3. Defaults upon Senior Securities - None.**

**Item 4. Submission of Matters to a Vote of Security Holders - On June**

29, 1999, Ampal's shareholders held their annual meeting (the "Annual Meeting"). At such meeting, the shareholders elected the following individuals as directors by the following vote:

WITHHELD	FOR	AUTHORITY
Michael Arnon	18,453,048	30,060
Benzion Benbassat	18,452,948	30,160
Yaacov Elinav	18,453,048	30,060
Kenneth L. Henderson	18,452,648	30,400
Hillel Peled	18,453,048	30,460
Shimon Ravid	18,453,048	30,060
Daniel Steinmetz	18,453,048	30,060
Raz Steinmetz	18,453,048	30,060
Eliyahu Vagner	18,453,348	29,760
Avi A. Vigder	18,453,248	29,860

Also at the Annual Meeting, the shareholders approved the Hapoalim Transaction (See "Subsequent Events") (11,203,389 for; 22,602 against; 7,257,117 abstain).

**Item 5. Other Information - After the conclusion of the Annual Meeting,**

Ampal's Board of Directors elected the following individuals to serve as officers for the upcoming year:

Chairman of the Board:	Daniel Steinmetz
President and Chief Executive Officer:	Raz Steinmetz
Vice President - Finance and Treasurer:	Shlomo Meichor
Vice President - Accounting and Controller:	Alla Kanter
Vice President - Legal and Secretary:	Eli S. Goldberg
Vice President-Business Development	Shlomo Shalev
Assistant Secretary: Starita	Gennifer A.
Assistant Controller:	Harold Aronowitz

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

(a) Exhibits:

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

**Exhibit 27 - Financial Data Schedule.**

(b) Reports on Form 8-K. A Current Report on Form 8-K was filed by the Registrant on July 6, 1999, which described an Item 2 Event, the closing

provided for in the agreement dated May 11, 1999 (filed as Exhibit 10 to Form 10-Q for the quarter ended March 31, 1999), among Ampal-American Israel Corporation and its subsidiaries and Bank Hapoalim B.M. and its two wholly-owned subsidiaries.

**AMPAL-AMERICAN ISRAEL CORPORATION AND SUBSIDIARIES**

**SIGNATURES**

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

**AMPAL-AMERICAN ISRAEL CORPORATION**

*By:/s/ Raz Steinmetz*

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

*By:/s/ Shlomo Meichor*

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

*By:/s/ Alla Kanter*

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

Dated: August 12, 1999

AMPAL-AMERICAN ISRAEL CORPORATION AND SUBSIDIARIES

Exhibit Index

Exhibit No.	Description	
11	Schedule Setting Forth Computation of Earnings Per Share of Class A Stock.....	Page 20
27	Financial Data Schedule.....	*

\* This exhibit was included in the copy of this report filed with the Securities and Exchange Commission and is available upon request from Ampal.

**Exhibit 11**

**AMPAL-AMERICAN ISRAEL CORPORATION AND SUBSIDIARIES**

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

SIX MONTHS ENDED JUNE 30,	1999	1998
(Amounts in thousands, except per share data)	----- (Unaudited)	----- (Unaudited)
Weighted average number of shares outstanding:		
4% Preferred .....	171	178
6-1/2% Preferred .....	919	955
Class A .....	24,105	23,859
	=====	=====
 BASIC EPS		
Net Income .....	\$20,303	\$ 1,087
	=====	=====
 Earnings per Class A share .....	\$ .84	\$ .05
	=====	=====
 Weighted average number of Class A shares outstanding .....	24,105	23,859
 DILUTED EPS		
Net Income .....	\$20,303	\$
953(1)	=====	=====
 Earnings per Class A share .....	\$ .73	\$ .03
	=====	=====
 Weighted average number of Class A shares outstanding assuming conversion of preferred stock into Class A shares .....	27,716	27,616

(1) Includes decrease in net income of \$134 due to dilution in equity in earnings of affiliate.

**ARTICLE 5**

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED JUNE 30, 1999.

MULTIPLIER: 1,000

PERIOD TYPE	6 MOS
FISCAL YEAR END	DEC 31 1999
PERIOD START	JAN 01 1999
PERIOD END	JUN 30 1999
CASH	21,032
SECURITIES	261,289
RECEIVABLES	23,466
ALLOWANCES	0
INVENTORY	0
CURRENT ASSETS	16,544
PP&E	43,096
DEPRECIATION	9,808
TOTAL ASSETS	355,619
CURRENT LIABILITIES	38,040
BONDS	140,321
PREFERRED MANDATORY	0
PREFERRED	5,419
COMMON	24,733
OTHER SE	147,106
TOTAL LIABILITY ANDEQUITY	355,619
SALES	3,414
TOTAL REVENUES	48,259
CGS	0
TOTAL COSTS	4,097
OTHER EXPENSES	7,493
LOSS PROVISION	0
INTEREST EXPENSE	4,690
INCOME PRETAX	31,979
INCOME TAX	11,676
INCOME CONTINUING	20,303
DISCONTINUED	0
EXTRAORDINARY	0
CHANGES	0
NET INCOME	20,303
EPS BASIC	.84
EPS DILUTED	.73

# End of Filing