AMPAL-AMERICAN ISRAEL CORP
Form 10-K
March 30, 2012

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2011

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 (State or Other Jurisdiction of Incorporation or Organization)	13-0435685 (I.R.S. Employer Identification No.)
555 Madison Avenue New York, NY, USA (Address of Principal Executive Offices)	10022 (Zip Code)

Registrant’s telephone number, including area code (866) 447-8636
Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on which Registered
Class A Stock, par value $1.00 per share	The NASDAQ Capital Market

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes o No x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes o No x

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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes x No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer o Accelerated filer o Non-accelerated filer o Smaller reporting company x

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).

Yes o No x

The aggregate market value of the registrant's voting stock held by non–affiliates of the registrant on June 30, 2011, the last business day of the registrant's most recently completed second fiscal quarter was $19,923,613 based upon the closing market price of such stock on that date. As of March 20, 2012, the number of shares outstanding of the registrant's Class A Stock, its only authorized and outstanding common stock, is 56,133,764.

AMPAL-AMERICAN ISRAEL CORPORATION AND SUBSIDIARIES

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ANNUAL REPORT ON FORM 10-K
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2011
OF AMPAL-AMERICAN ISRAEL CORPORATION

PART I

ITEM 1. BUSINESS

INTRODUCTION

As used in this annual report on Form 10-K (this “Report”), the term “Ampal” or “registrant” refers to Ampal-American Israel Corporation. The terms “Company,” "we" or "us" refer to Ampal and its consolidated subsidiaries. The term "NIS" refers to New Israeli Shekels.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Report (including but not limited to factors discussed in the “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” as well as those discussed elsewhere in this Report) 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 Report, the words “anticipate,” “believe,” “estimate,” “expect,” “intend,” “plan,” and similar expressions, as they relate to the Company or the management 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 Egypt, and in the global business and economic conditions in the different sectors and markets where the Company’s portfolio companies operate. These risks and uncertainties include, but are not limited to, those described in “Item 1A - Risk Factors” and elsewhere in this Report and those described from time to time in our future reports filed with the Securities and Exchange Commission ("SEC").

SHOULD ANY OF THOSE RISKS OR UNCERTAINTIES MATERIALIZE, OR SHOULD UNDERLYING ASSUMPTIONS PROVE INCORRECT, ACTUAL RESULTS OR OUTCOMES MAY VARY FROM THOSE DESCRIBED THEREIN 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 REPORT AND OTHER REPORTS FILED WITH THE SEC. THE COMPANY ASSUMES NO OBLIGATION TO UPDATE OR REVISE FORWARD-LOOKING STATEMENTS.

Overview

Ampal is a New York corporation founded in 1942.

The Company primarily acquires interests in businesses located in the State of Israel or that are Israel-related. Ampal’s investment focus is principally on companies or ventures where Ampal can exercise significant influence, on its own or with investment partners, and use its management experience to enhance those investments. In determining whether to acquire an interest in a specific company, Ampal considers quality of management, potential return on investment, growth potential, projected cash flow, investment size and financing, and reputable investment partners.

The Company's strategy is to invest opportunistically in undervalued assets with an emphasis in the following fields: Energy, Chemicals, Real Estate, Project Development and Leisure-Time. We believe that past experience, current opportunities and a deep understanding of the above-referenced sectors both domestically in Israel and internationally could result in the Company bringing high returns to its shareholders. The Company emphasizes investments which have long-term growth potential over investments which yield short-term returns.

The Company provides its investee companies with ongoing support through its involvement in the investees' strategic decisions and introduction to the financial community, investment bankers and other potential investors both in and outside of Israel.

Significant Developments

EMG

The Company holds a 16.8% interest (8.2% of which is held directly and 8.6% of which is held through Merhav Ampal Energy Holdings, LP, an Israeli limited partnership (of which Ampal owns 50% and which is being consolidated due to effective control granted through the partnership's agreement)), as indicated on the Company's financial statements, in East Mediterranean Gas Company, S.A.E., an Egyptian joint stock company ("EMG"). Since the alleged terror attack of March 5, 2012 on GASCO's pipeline, gas to EMG and its Israeli clients has not been supplied. Since February 5, 2011, there were several explosions, due to alleged terror attacks, along the Egyptian gas pipeline owned and operated by GASCO (the Egyptian gas transport company and EMG's gas supplier). In addition to the attacks on the GASCO facilities, on July 30, 2011, in the wake of violent incidents in El-Arish, Egypt, there was an attempt to damage EMG's site near El-Arish. The security forces on site returned fire, prevented any penetration of the EMG site and repelled the attack. Neither EMG's site nor EMG's pipeline were damaged in any of the attacks. Due to the alleged terror attacks, from February 5, 2011 to March 28, 2012, the supply of gas to EMG, and therefore to EMG's Israeli clients, was interrupted several times. During the calendar year 2011, no gas was supplied for an aggregate of 225 days, and during 2012, gas was not supplied for an aggregate of 64 days between January 1, 2012 and March 28, 2012.

Our investment in EMG had a carrying amount of $361.3 million as of December 31, 2010. It was written down to its fair value of $260.4 million, resulting in a loss of $100.9 million, which was included in loss for the year ended December 31, 2011. The carrying value of EMG is based, among other things, on nonpublic information.

Restructuring of Certain Indebtedness

On December 19, 2011, the Company announced that due to the current political and security situation in Egypt, including the repeated interruptions of the gas supply to EMG, the Company requested that the Trustees of its Series A, Series B and Series C Debentures, which are listed on the Tel Aviv Stock Exchange (the "Debentures"), convene a meeting of the holders of the Debentures (the "Holders") on January 1, 2012 to appoint a Holders' committee to discuss a proposal to postpone the principal payments due on the Debentures for 24 months.

On January 1, 2012, the Company held a meeting with the Holders where the Company proposed to restructure (the "Proposal") the Debentures to postpone all principal payments due thereunder for the next two years, while continuing to make the interest payments as scheduled. Under the Proposal, the principal amount of the Debentures would not be reduced, and after the two-year period the principal payment schedule for the Debentures would return to the original terms. The Company requested that the Holders appoint a delegation (a committee of representatives) of Holders to discuss the Proposal.

On January 18, 2012, the Company announced that two separate Holders' committees had been formed: one to represent the Series A and Series C Debenture holders and the other to represent the Series B Debenture holders (the "B Holders").

On January 22, 2012, the Company announced that its Board of Directors decided to postpone making the principal payments currently coming due on the Debentures, but to continue making interest payments as scheduled. In accordance with the decision, on January 31, 2012, the Company made an interest payment on the Series B

Debentures (the “Series B Debentures”) to the B Holders on the scheduled payment date, and the Company did not request the return of the Company's funds held by the trustee for the B Holders.

On February 20, 2012, a meeting of the B Holders was held at the request of the B Holders' trustee and on March 6, 2012, the B Holders voted (the "Series B Resolution") to accelerate and set to immediate repayment the entire outstanding amounts under the Series B Debentures. The Series B Resolution provided that the acceleration would be effective two weeks after March 6, 2012, unless an additional two-week extension was granted by the committee, formed by the B Holders (the "Series B Committee") to represent the B Holders. Such extension was granted on March 20, 2012. Additional postponements of the effective date of the acceleration of the Series B Debentures are possible subject to the approval of the majority of the B Holders. As of March 12, 2012, due to the acceleration, the total amount outstanding (including interest) under the Series B Debentures (excluding the Series B Debentures held by the Company) is NIS 527,024,735 (approximately $138.4 million).

Additionally, the B Holders voted to authorize the commencement of legal actions and other measures, at the discretion of Clal Finance Trusts 2007 Ltd., the trustee for the B Holders, and/or at the recommendation of the Series B Committee, to collect the principal payment which was due on January 31, 2012 and which the Company did not make. The B Holders also voted to empower the Series B Committee to continue negotiations with the Company to settle payments to the B Holders and/or to restructure the Series B Debentures, to protect the rights of the B Holders and to receive all required information from the Company regarding its financial status and its ability to meet its obligations.

On March 5, 2012, the Company announced that its Board of Directors decided that the Company intended to make an interest payment which was due to be paid to the Series C Debenture holders on March 7, 2012 (the "Series C Interest Payment"), if the Series B Resolution was not approved. The Board further decided that if the Series B Resolution was approved (as it was approved on March 6, 2012, as described above), the Series C Interest Payment would be postponed until it was clear to the Company whether the Series B Resolution to accelerate the Company's entire debt owed to the B Holders and set it to immediate payment would be enforced.

On March 26, 2012, the Company announced that the Series C Interest Payment will be paid on March 29, 2012 by transferring funds that are deposited with the trustee for the Series C debenture holders, in favor of the Series C debenture holders, and in accordance with the resolution of the Series C debenture holders of March 22, 2012.

A meeting of the Series A and Series C Debenture holders is scheduled to be held on April 3, 2012, at the request of the Series A and Series C Debenture holders' trustees. On the agenda is a resolution to accelerate and set to immediate repayment the entire outstanding amounts under the Series A and Series C Debentures.

Presently, the Company does not have sufficient cash and other resources to service its debt and finance its ongoing operations. This fact raises substantial doubts as to the Company's ability to continue as a going concern if the Company does not reach agreement with the debenture holders, obtain additional financing or otherwise raise capital through the sale of assets or otherwise. The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern and do not include any adjustments that might result from the outcome of this uncertainty. Management is in the process of negotiations with the Holders' committees to restructure the debt to its Series A, Series B and Series C Debenture Holders, but there is no assurance that the negotiations will succeed.

Investee Companies by Industry Segment

Listed below by industry segment are all of the substantial investee companies in which Ampal had ownership interests as of December 31, 2011, the principal business of each and the percentage of equity owned, directly or indirectly, by Ampal. Further information with respect to our significant investee companies is provided below the following table. For industry segment financial information and financial information about foreign and domestic operations, see Note 18 to Ampal's consolidated financial statements included in this Report on Form 10-K for the fiscal year ended December 31, 2011.

Industry Segment	Principal Business	Percentage as of December 31, 2011
Chemicals		
Gadot Chemical Tankers and Terminals Ltd.	Chemical Sales, Storage, Shipping, Transport and Distribution	100.0
Energy		
East Mediterranean Gas Company	Natural Gas Provider & Pipeline Owner	12.5(1)
Global Wind Energy	Renewable Energy	50.0
Real Estate		
Bay Heart Ltd.	Shopping Mall Owner/Lessor	37.0

Leisure-Time		
Country Club Kfar Saba Ltd.	Country Club Facility	51.0
Finance		
Ampal Energy Ltd.	Holding Company	100.0
Merhav Ampal Group Ltd.	Holding Company	100.0
Ampal (Israel) Ltd.	Holding Company	100.0
Ampal Holdings (1991) Ltd.	Holding Company	100.0

(1) 8.2% of which is held directly and 4.3% of which is held through Merhav Ampal Energy Holdings, LP, an Israeli limited partnership, which is a joint venture between Ampal, the Israel Infrastructure Fund and other institutional investors.

Chemicals

Gadot

General

Gadot Chemical Tankers and Terminals Ltd. (“Gadot”), a wholly owned subsidiary of Ampal (99.99% on a fully diluted basis), was founded in 1958 as a privately held Israeli company with operations in distribution and marketing of liquid chemicals for raw materials used for industrial purposes. Since then, Gadot has expanded into a group of companies, which currently forms Israel’s leading chemical distribution organization. Through its subsidiaries, Gadot ships, stores, and distributes liquid chemicals, oils, and a large variety of materials to countries across the globe, with an emphasis on Israel and Western Europe. In our description of Gadot’s business operations, the term “Gadot” refers to Gadot and its consolidated subsidiaries. Gadot listed its shares for trade on the Tel Aviv Stock Exchange ("TASE") in 2003 and was delisted from trade on October 16, 2008, following Ampal's successful tender offers to purchase Gadot's shares not already owned by Ampal.

Gadot’s business is influenced by certain economic factors, which include (i) global changes in demand for chemicals used as raw materials for industrial purposes, (ii) price fluctuations of chemicals and raw materials, (iii) price fluctuations of shipping costs, ship leases and ship fuel, (iv) general global financial stability, and (v) currency fluctuations between the NIS and other currencies, primarily the U.S. dollar.

Gadot’s operations are divided into three main service sectors:

- Importing, marketing and sale of chemicals and other raw materials in Israel and Europe;
- Shipping, primarily between the European ports of the Atlantic Ocean and the Mediterranean seaport and agency services for several shipping companies and docked ships; and
- Logistical services in Israel and Europe.

These service sectors are synergistic and complimentary, so that Gadot provides its customers with a full range of services, from acquiring chemicals based on a customer’s needs, logistical handling including shipping and transport, offloading, storage and delivery. Members of the Gadot group of companies also provide services for other members of the group, strengthening the group as a whole.

Gadot’s revenues for 2011 totaled approximately $541 million compared to approximately $497 million in 2010. The 9% increase in revenues is mainly the result of the following factors:

- Signs of growth in the markets, especially in Israel, led to an increase in sold quantities;
- Gadot's sale prices increased as a result of a general increase in commodity prices and newly negotiated contracts; and
- Gadot's acquisition of two companies: Merhav Agro Ltd. and ADPO Ghent N.V. contributed to the revenues.

Importing, Marketing and Sale of Chemicals and Other Raw Materials

Gadot imports, markets and sells chemicals and other raw materials, primarily liquid chemicals which are imported in tanker ships and via other methods. These chemicals and other materials are used as raw materials in the medical, cosmetics, paint, plastic, electronics, agriculture, food and other industries. Other activities of Gadot in this sector include:

- sale and marketing of oils and other liquid products which are used as food additives in soft drinks, meat and poultry;
- operating a sales agency in Israel representing well-known manufacturers, selling a wide range of products, including chemicals, active medicinal agents, electronic components, rubber, polymers, minerals and materials for the textile and paint industry;
- sale and marketing of plant protection products, plant growth regulators and seeds;
- sale and marketing of fine chemical agents used in research laboratories and biochemical industries and marketing of laboratory equipment; and
- sale and marketing of inorganic chemicals.

The chemicals that Gadot handles are in many cases poisonous or hazardous and require Gadot to obtain permits for handling poisonous materials. Special permits are also obtained from environmental authorities, fire safety authorities and other governmental bodies for handling hazardous or flammable substances. Gadot conducts inspections and quality assurance testing and provides its employees with training and equipment necessary for working with hazardous and poisonous substances. Gadot has qualified for and received the ISO-9001:2000 quality standard for its quality assurance in chemical and liquid matter transport and distribution, as well as the ISO 14001:2004 quality standard for its environmental management system.

Gadot generally provides its services to its long-term customers in Israel and in the Benelux area, consisting mainly of large industrial factories that use chemicals and other materials as raw materials in their manufacturing processes. These customers are spread over a wide variety of industries which reduces the risk of a downturn in any one type of industry having a significant effect on the revenues of Gadot. Gadot is not dependent on any single customer in this service sector. Nevertheless, the loss of any long-term customer may materially affect the short-term or even mid-term revenues and net profits of Gadot.

Sales, marketing and distribution are conducted by sales teams consisting of Gadot employees, who are constantly in touch with existing customers and who also actively seek out new markets and customers. Sales are made by purchase orders which subsequently are supplied from the existing stock of Gadot. A relatively small percent of sales is made via backlog orders.

The chemical market is very competitive and Gadot has many competitors in Israel, Europe and other countries. Gadot's competitors include sales agents of large chemical manufacturers, small importers and factories that import materials themselves for their own use. There is ample competition in marketing chemicals packaged in barrels and jugs or in ISO-tanks (special containers used to transport liquid matter), since these do not require investment in special storage facilities, which makes it easier for competitors to enter the market.

Gadot's main advantages over its competition in the chemical market are due to:

- its ability to provide full door-to-door logistical services to its customers, from purchase, shipping and storage, to land transport to the customer's factory;

- its ability to purchase and maintain surplus in large quantities of different chemicals ready for sale in a variety of packaging types and sizes;

- ownership of the only chemical fluids terminal in Israel, capable of providing storage and transport;

- decades of experience in the field;

- stable, long-term relationships with existing customers;

- the quality of products supplied by it and the reputation and goodwill of its suppliers; and

- professional support provided by suppliers and by Gadot for its products.

Gadot's main disadvantages in the chemical market are (i) the market consists of highly sophisticated customers that are very knowledgeable of p