

AMPAL-AMERICAN ISRAEL CORP
Form 10-K
March 15, 2005

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

FOR ANNUAL AND TRANSITION REPORTS PURSUANT TO SECTIONS 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

(Mark One)

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

For the fiscal year ended December 31, 2004

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)

13-0435685
(I.R.S. Employer
Identification No.)

111 Arlozorov Street, Tel Aviv, Israel
(Address of Principal Executive Offices)

62098
(Zip Code)

Registrant's telephone number, including area code (866) 447-8636
Securities registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to Section 12(g) of the Act:
Class A Stock, par value \$1.00 per share
4% Cumulative Convertible Preferred Stock, par value \$5.00 per share
6 1/2% Cumulative Convertible Preferred Stock, par value \$5.00 per share
(Titles of Classes)

Securities registered pursuant to Section 12(g) of the Act: Class A Stock, par value \$1.00 per share 4% Cumulative

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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

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 .

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

Yes No

The aggregate market value of the registrant's voting stock held by non-affiliates of the registrant on June 30, 2004, the last business day of the registrant's most recently completed second fiscal quarter was \$25,947,900 based upon the closing market price of such stock on that date. As of February 25, 2005, the number of shares outstanding of the registrant's Class A Stock, its only authorized and outstanding common stock is 19,942,996.

AMPAL-AMERICAN ISRAEL CORPORATION AND SUBSIDIARIES

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ANNUAL REPORT ON FORM 10-K
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2004
OF AMPAL-AMERICAN ISRAEL CORPORATION

PART I

ITEM 1. BUSINESS

As used in this report (the Report), the term Ampal or registrant refers to Ampal-American Israel Corporation. The term Company refers to Ampal and its consolidated subsidiaries. Ampal is a New York corporation founded in 1942.

For industry segment financial information and financial information about foreign and domestic operations, see Note 14 to the Company's consolidated financial statements included elsewhere in this Report. The companies described below under Telecommunication, High Technology and Capital Markets and Other Holdings are included in the Finance segment. The companies described under Real Estate are included in the Real Estate segment. The companies described under Leisure-Time are included in the Leisure-Time segment.

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. An important objective of Ampal is to seek investments in companies that operate in Israel initially and then expand abroad. 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 on the following sectors: Telecommunications, Real Estate and Project Development, Energy, Leisure Time and High Technology. We believe that past experience, current opportunities and a deep understanding of the above-referenced sectors both domestically in Israel and internationally will allow the Company to bring 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.

Listed below by industry segment are all of the substantial investee companies in which the Company had ownership interests during the fiscal year ended December 31, 2004, the principal business of each and the percentage of equity owned, directly or indirectly, by Ampal. The table below also indicates whether the investee's securities are listed on the New York Stock Exchange (NYSE), NASDAQ National Market (Nasdaq), the American Stock Exchange (AMEX) or the Tel Aviv Stock Exchange (TASE). Further information with respect to the more significant investee companies is provided after the following table. For additional information concerning the investee companies, previously provided annual reports on Forms 10-K of Ampal are incorporated by reference herein.

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Industry Segment	Principal Business	Percentage as of December 31, 2004 ⁽¹⁾
Telecommunication		
MIRS Communications Ltd.	Wireless Communications Service Provider	25.0
Telecom Partners	Investment in Telecommunication	33.3
Real Estate		
Am-Hal Ltd	Chain of Senior Citizen Facilities	100.0
Ampal (Israel) Ltd	Holding Company and Real Estate	100.0
Bay Heart Limited	Shopping Mall Owner/Lessor	37.0
Ophir Holdings Ltd. ("Ophir Holdings")	Holding Company	42.5
Industrial Buildings Corporation Ltd. (TASE)	Industrial Real Estate	4.4 ⁽³⁾
Lysh The Coastal High-way Ltd	Commercial Real Estate	10.6 ⁽³⁾
Meimadim Investments Ltd	Commercial Real Estate	4.2 ⁽³⁾
New Horizons (1993) Ltd.	Commercial Real Estate	34.0 ⁽³⁾
Shmey-Bar Group	Commercial Real Estate	9.4 ⁽³⁾
Leisure-Time		
Coral World International Limited	Underwater Observatories and Marine Parks	50.0
Country Club Kfar Saba Limited	Country Club Facility	51.0
Hod Hasharon Sport Center (1992) Limited Partnership	Country Club Facility	50.0
High-Technology and Communications		
Babylon Ltd	Translation Software for the Internet	0.8
Clalcom Ltd.	Communications	0.7
Courses Investment in Technology Ltd.	Venture Capital Fund	3.2 ⁽³⁾
Identify Solutions Ltd.	Defect-Detecting Software	3.2
Modem Art Ltd.	Fabless Semiconductor Company	2.2
Netformx Ltd.	Network Design Tools	22.3 ⁽²⁾
Oblicore Ltd.	Service Performance Tracking Software	3.5
Ophirtech Ltd. ("Ophirtech")	Holding Company	42.5
Cerel Ceramic Technologies Ltd.	Electrophoretic Deposition	6.8 ⁽²⁾
Expand Networks Ltd.	Internet Data Compression	3.9 ⁽²⁾
Mainsoft Corporation Ltd.	UNIX Tools	0.8 ⁽²⁾
StoreAge Networking Technologies Ltd.	Data Storage Software	4.6 ⁽²⁾
Viola Networks	Computer Network Software	2.5 ⁽²⁾
PowerDsine Ltd (NASDAQ) (PDSN)	Telecommunications Components	2.0
ShellCase Ltd.	Packaging Process for Semiconductor Chips	13.6
Shiron Satellite Communications (1996) Ltd.	Satellite Modems and Fast Internet Access	7.1
Smart Link Ltd.	Software-Based Communications Products	13.5
VisionCare Ophthalmic Technologies	Advanced Optical Products	0.9
Xpert Integrated Systems Ltd.	Software and Systems Integrator Specializing in Systems Security	12.7
Capital Markets and Other Holdings		
Ampal Development (Israel) Ltd.	Holding Company	100.0
Ampal Holdings (1991) Ltd.	Holding Company	100.0
Carmel Container Systems Limited (AMEX:KML)	Packaging Materials and Carton Production	21.8
Epsilon Investment House Ltd.	Portfolio Management and Underwriting Services	20.0
Fimi Opportunity Fund, L.P.	Investment Fund	2.1
Renaissance Investment Company Ltd.	Portfolio Management and Underwriting Services	20.0

⁽¹⁾ Based upon current ownership percentage. Does not give effect to any potential dilution.

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(2) As of December 31, 2004, Ophirtech held the following percentage interests:

Cerel Ceramic Technologies Ltd.	15.9
Expand Networks Ltd.	9.3
Mainssoft Corporation Ltd.	1.9
Netformx Ltd.	6.2
StoreAge Networking Technologies Ltd.	10.9
Viola Networks	5.8

The Company's percentage interest in the above-referenced companies set forth in the chart reflects the Company's 42.5% ownership of Ophirtech plus any direct holdings.

(3) As of December 31, 2004, Ophir Holdings held the following percentage interests:

Courses Investment in Technology Ltd.	3.5
Industrial Buildings Corporation Ltd.	10.3
Lysh The Coastal High-way Ltd.	25.0
Meimadim Investments Ltd.	10.0
New Horizons (1993) Ltd.	80.0
Shmey-Bar (I.A.) 1993, Ltd., Shmey-Bar (T.H.) 1993 Ltd. and Shmey-Bar Real Estate (1993) Ltd.	22.2

The Company's percentage interest in the above-referenced companies set forth in the chart reflects the Company's 42.5% ownership of Ophir Holdings plus any direct holdings.

Significant Developments Since the Fiscal Year Ended December 31, 2004

In 2005, the Company sold all of its remaining interest in Industrial Buildings Company for \$15.5 million (\$6.9 million directly and \$8.6 million indirectly through Ophir Holdings Ltd.). The Company's share in the net gain is approximately \$3.9 million.

In March 2005, the Company sold all of its holdings in Modem Art Ltd. for approximately \$5 million. The Company expects to record a gain of approximately \$4 million.

Telecommunications

MIRS COMMUNICATIONS LTD. ("MIRS")

MIRS is a wireless communications service provider and represents the largest investment in Ampal's history. Ampal beneficially owns a 25% interest in MIRS. Ampal purchased its interest in MIRS from Motorola Israel for \$110 million. Ampal currently holds its interest in MIRS through a limited partnership, of which Ampal owns a 75.1% interest and acts as general partner. MIRS is currently owned one-third by the limited partnership and two-thirds by Motorola Israel. MIRS operates a fully integrated wireless voice and data communication services, digital and analog public-shared two-way radio systems. The wireless communication network is based on iDEN(TM) integrated wireless communication technology, a unique radio technology developed by Motorola, and provides an integrated service platform of cellular, two-way radio push to talk (PTT) and wireless data services. These services are targeted primarily to commercial customers.

The main goal of MIRS is to provide cellular service to the commercial, governmental, public and private sectors according to quality standards set by Motorola, in order to give a full and satisfying solution to all wireless communications needs. MIRS had over 300,000 subscribers mainly in the commercial, governmental, municipal, security and military sectors.

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In 2004, the Israeli Ministry of Communications (MOC) issued two substantial decisions which might eventually impact MIRS. In July, 2004, the MOC granted a PTT license to local wireless service providers. Previously, MIRS was the only licensed provider of PTT services in Israel. In November the MOC decided to reduce connectivity charges charged by telecommunications providers in accordance with a pre-determined reduction plan to be completed in 2008.

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As of December 31, 2004, the Company has taken a \$30 million impairment charge on its investment in MIRS. This charge is discussed in greater detail in Item 7 below.

In May 2004, Ampal filed a claim in the Tel Aviv District Court against Motorola Communications Israel Ltd., Motorola Israel Ltd., MIRS Communications Ltd. and certain MIRS directors appointed by Motorola. For a discussion of these claims, please see "Legal Proceedings" set forth below.

TELECOM PARTNERS ("TP")

In February 2004, the company invested EUR 4.9 million (approximately US\$5.8 million) in Telecom Partners, a newly formed entity that will serve as a platform for investments in the telecommunication industry predominantly outside of Israel. Ampal holds 33.3% of TP which currently holds investments in two European telecom service providers: PSINet Europe B.V. and Grapes Communications N.V./S.A. During the third quarter of 2004, PSINet Europe sold all its assets to certain other telecommunications providers. Following the sale, a portion of the proceeds was distributed to TP, of which Ampal received \$7.1 million and recorded a gain of \$2.5 million in connection with this transaction. The remaining carrying value of Ampal's investment in TP is \$1.2 million.

Real Estate

In Israel, most land is owned by the Israeli government. In this Report, reference to ownership of land means either direct ownership of land or a long-term lease from the Israeli Government, which in most respects is regarded in Israel as the functional equivalent of ownership. It is the Israeli government's policy to renew its long-term leases (which usually have a term of 49 years) upon their expiration.

AM-HAL LTD. ("AM-HAL")

Am-Hal is a wholly-owned subsidiary of the Company, which develops and operates luxury retirement centers for senior citizens.

In March 1992, the first center was opened in Rishon LeZion, a city located approximately 10 miles south of Tel-Aviv. This center, of about 120,000 square feet, includes 149 self-contained apartments, a 74-bed nursing care ward, a 21-bed assisted-living ward, a swimming pool, a health care center and other recreational facilities. The nursing care ward is leased to a non-affiliated health care provider until 2006.

In June 2000, the second center was opened in Hod Hasharon, a city located approximately 7 miles north of Tel Aviv. This center, which is approximately 250,000 square feet, includes 235 self-contained apartments, a 33-bed nursing care ward and a 22-bed assisted-living ward.

INDUSTRIAL BUILDINGS LTD. ("INDUSTRIAL BUILDINGS")

Industrial Buildings (TASE), Israel's largest owner/lessor of industrial property is engaged principally in the development and construction of buildings in Israel for industrial and commercial use and in project management. Industrial Buildings carries out infrastructure development projects for industrial and residential purposes, principally for a number of government agencies and authorities. Industrial Buildings hires and coordinates the work of contractors, planners and suppliers of various engineering services.

Ampal's ownership interest in Industrial Buildings is held through its interest in Ophir Holdings. As of December 31, 2004, Ophir Holdings' owned a 10.3% interest in Industrial Buildings.

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Ophir Holdings' interest in Industrial Buildings is subject to foreclosure in the event of a default by any of the investors under the bank credit agreements entered into in connection with the original acquisition of Industrial Buildings from the Government of Israel in 1993. Any amounts distributed as a dividend by Industrial Buildings are required to be applied first to pay then-due borrowings. For a discussion of the sale of the shares of Industrial Buildings in 2005, please see "Significant Developments Since the Fiscal Year Ended December 31, 2004" above.

AMPAL HOLDINGS (1991) LTD. ("AMPAL HOLDINGS")

In 2004, as part of the Company's reorganization of certain of its wholly owned subsidiaries, Ampal Holdings purchased most of the high-tech investee companies from Ampal Industries (Israel) Ltd.

AMPAL (ISRAEL) LTD. ("AMPAL ISRAEL")

In 2004, as part of the Company's reorganization of certain of its wholly owned subsidiaries, Ampal Israel purchased various investee companies from Ampal Industries (Israel) Ltd.

OPHIR HOLDINGS LTD. ("OPHIR HOLDINGS")

Ophir Holdings is a holding company that owns interests in real estate companies and is owned 42.5% by the Company. The Company and Polar Investments Ltd., which owns 57.5% of Ophir Holdings, are parties to a shareholders' agreement regarding joint voting, directorships and rights of first refusal with respect to Ophir Holdings.

Ophir Holdings owns two acres of land in an industrial park in Netanya, Israel together with an unrelated party. These parties entered into a joint venture agreement regarding the site on which they developed a 326,000 square foot building (including parking) for both industrial and commercial use. Ophir Holdings has a 70% interest in the property and joint venture. Ophir Holdings' lease revenues from the building were \$1.6 in 2004 and 2003.

Ophir Holdings owns a 22.2% interest in the Shmey-Bar group of companies ("Shmey-Bar"). Shmey-Bar acquired 2.3 million square feet of real estate properties from Hamashbir Hamerkazi, Ltd. ("Hamashbir Hamerkazi") for \$27.7 million. In the same transaction, Shmey-Bar received an option to acquire, for \$26.3 million, an additional 700,000 square feet of real estate properties from Hamashbir Hamerkazi. These properties are situated in various locations in Israel. Ophir Holdings' interest in Shmey-Bar was acquired with an investment of \$1.4 million accompanied by a \$6.2 million shareholder's loan.

Ophir Holdings' owns a 25% equity interest in Lysh The Coastal High-way Ltd. ("Lysh"). Lysh has a 50% holding in Beit Herut-Lysh Development Company Ltd. ("BHL"), which is constructing a 180,000 square foot commercial project for rental near Moshav Beit Herut on land owned by the Israeli Land Authority. The project, consisting of approximately 100,000 square feet, has been completed at a construction cost of \$18 million, including the cost of the land. Ophir Holdings' owns a 25% direct interest in BHL (its share in the project being 12.5%).

Ophir Holdings has also undertaken to provide guarantees in an amount equivalent to 25% of the construction costs. As of December 31, 2004, BHL had taken out bank loans of approximately \$14.1 million, by drawing on a credit line extended by a financial institution in connection with the project.

Ophir Holdings owns a 10% interest in a joint venture which had agreed to purchase 4.4 million square feet of land near Haifa for approximately \$15 million, on which the parties intend to develop a commercial real estate project for rent. Ophir Holdings has obligated itself to invest up to \$1.5 million in the first stage of this project and its share of development costs is estimated to be as much as \$17 million.

BAY HEART LIMITED ("BAY HEART")

Bay Heart was established in 1987 to develop and lease a shopping mall (the "Mall") in the Haifa Bay area. Haifa is the third largest city in Israel. The Mall, which opened in May 1991, is a three-story facility with approximately 280,000 square feet of rentable space. The Mall is located at the intersection of two major roads and provides a large mix of retail and entertainment facilities including seven movie theaters. The total cost of the Mall was approximately \$53 million, which was financed principally with debt instruments. A train station on the west side of the Mall was completed in September 2001. A transportation complex, in conjunction with a subsidiary of Egged Bus Corporation, was opened in January 2002. The Company owns 37% of Bay Heart. Bay Heart has refinanced the loan relating to the Mall, which loan has a fifteen years term. Bay Heart received an additional approval for NIS. 18.5 million for renovating the Mall which will start in the second quarter of 2005. The Company has agreed to guarantee a portion of the new loan in an amount equal to NIS 6.8 million.

Leisure-Time

CORAL WORLD INTERNATIONAL LIMITED ("CORAL WORLD")

Coral World, which is 50%-owned by the Company, owns and controls three marine parks in Eilat (Israel), Perth (Australia) and Maui (Hawaii).

Coral World's Eilat marine park is located next to the coral reefs and visitors to this park view marine life in its natural coral habitat through a unique underwater observatory. Coral World's marine parks in Perth and Maui allow visitors to walk through a transparent acrylic tube on the bottom of a man-made aquarium surrounded by marine life. In addition to admission charges, Coral World derives significant revenue from its food and beverage facilities and retail outlets.

Coral World's parks hosted approximately 1,004,000 visitors during 2004. Coral World has approximately 220 full-time equivalent positions as of December 31, 2004.

Coral World has entered into a joint development project for a new marine park in Palma de Majorca. Coral World has also entered into a joint venture called 'Vista Historica', which participated in a tender for the development of a multimedia attraction near the ancient city of Pompeii and which is in the process of developing a new 'Vista Historica' attraction in the city of Firenze.

COUNTRY CLUB KFAR SABA LIMITED ("KFAR SABA")

Kfar Saba operates a country club facility (the "Club") in Kfar Saba, a town north of Tel Aviv. Kfar Saba holds a long-term lease to the real estate property on which the Club is situated. The Club's facilities include swimming pools, tennis courts and a clubhouse. The Club currently is seeking to obtain building permits for an additional 30,000 square feet of commercial development on the Club grounds.

The Club, which has a capacity of 2,000 member families, had approximately 1,900 member families for the 2004 season. The Company owns 51% of Kfar Saba.

HOD HASHARON SPORT CENTER (1992) LIMITED PARTNERSHIP ("HOD HASHARON")

Hod Hasharon operates a country club facility (the "H.H. Club") in Hod Hasharon, a town north of Tel Aviv. The H.H. Club, which opened in July 1994 and has a capacity of 1,600 member families, has operated at capacity for the past three years. In 2004, the H.H. Club repaid owner's loans of \$0.2 million to each of the partners. As of December 31, 2004, the Company holds a 50% direct interest in Hod Hasharon.

High Technology

IDENTIFY SOLUTIONS LTD. ("IDENTIFY")

Identify (formally Mutek Ltd.), develops and markets the AppSight solution suite based on Identify's Black Box technology that captures, communicates and identifies the root cause of failures in applications. AppSight is used throughout the application life cycle to increase application reliability and availability and reduce application deployment and support costs.

As of December 31, 2004, the Company had invested \$3.7 million in Identify, and had written off \$3.1 million of its investment. As of December 31, 2004, the Company holds a 3.2% equity interest in Identify.

MODEM ART LTD. ("MODEM-ART")

Modem-Art Ltd. is a privately held fabless semi-conductor company specializing in developing system-on-a-chip solutions for wideband and broadband communications systems focusing on baseband processes for 3G terminals/headsets.

As of December 31, 2004, the Company had invested \$2.0 million in Modem-Art and had written off \$1.0 million of its investment. As of December 31, 2004, the Company holds a 2.2% equity interest in Modem-Art. For a discussion on the sale of the investment in Modem Art please see "Significant Developments Since the Fiscal Year ended December 31, 2004" above.

NETFORMX, LTD. ("NETFORMX")

Netformx develops and markets the award winning CANE(R) family of network design, analysis and simulation tools. Netformx's strategy is to help its customers design and maintain sophisticated computer networks. Using CANE, network and system integrators and network managers design, simulate and analyze efficient, reliable networks quickly and easily. CANE is designed to resolve network chaos and manage the accelerating pace of network change while reducing network equipment, consulting and staff costs.

As of December 31, 2004, the Company had a 22.3% equity interest in Netformx, directly and indirectly through Ophir Holdings. As of December 31, 2004, the Company had invested \$5.4 million and had written off \$5.2 million of its investment in Netformx.

OPHIRTECH LTD. ("OPHIRTECH")

Ophirtech, the Company's 42.5%-owned affiliate, has invested in various companies in the high -technology sector. Included among Ophirtech's investments are the following four companies:

CEREL CERAMIC TECHNOLOGIES LTD. ("CEREL")

Cerel is using its proprietary Electrophoretic Deposition ("EPD") process to develop production technology and design tools for Functional Electronic Packages.

EPD is a method for deposition of electrically charged solid particles held in a liquid suspension under the influence of an applied electric field. EPD can be used to deposit laminated and graded microstructures on shaped or patterned substrates.

As of December 31, 2004, Ophirtech had invested \$0.9 million in Cerel for a 15.9% equity interest.

EXPAND NETWORKS LTD. ("EXPAND")

Expand offers a complete framework for improving the performance of distributed enterprise applications. Expand's application, Traffic Management, combines four application-delivery technologies to improve application response times at remote branches.

As of December 31, 2004, Ophirtech had written off \$1.3 million of its \$3.2 million investment in Expand. Ophirtech's equity interest in Expand is 9.3% as of December 31, 2004.

STOREAGE NETWORKING TECHNOLOGIES LTD. ("STOREAGE")

StoreAge is an innovative developer and provider of enterprise storage management solutions that centralize and simplify storage network administration. StoreAge network-based solutions provide a uniform, SAN-wide method for provisioning storage, ensuring business continuity, enabling cost-effective disaster recovery, and centrally managing cross-platform, multi-vendor storage environments.

StoreAge offers worldwide sales, service and support, with principal offices in Irvine, CA and Nesher, Israel, and is privately held company spun-off from IIS, Intelligent Information Systems. As of December 31, 2004, Ophirtech had invested \$3.0 million in StoreAge for a 10.9% equity interest.

VIOLA NETWORKS LTD. ("VIOLA")

Viola, (formerly Omegon Networks Ltd.), develops performance assurance software solutions for real-time multi-media applications (voice, video, data) running over converged IP networks.

As of December 31, 2004, Ophirtech had invested \$3.4 million in Viola and had written off \$1.9 million of its investment. Ophirtech's equity interest in Viola is 5.8% as of December 31, 2004.

POWERDSINE LTD. ("POWERDSINE")

PowerDsine develops and sells Power over Ethernet (PoE) technology, which allows power to be transmitted over the same network cable as data.

The company first developed the PoE technology in 1998 and delivered its solutions through communications giants such as Avaya, 3Com, Nortel, Siemens and Ericsson, as well as marketing its own PowerDsine midspan solutions to PoE-enable legacy networks.

On June 10, 2004, PowerDsine completed its initial public offering on the NASDAQ (PDSN). The Company sold part of its investment in PowerDsine during 2004 and recorded a gain of approximately \$3.5 million. As of Dec. 31, 2004, the Company holds 369,664 shares of PowerDsine (2.0%).

SHELLCASE LTD. ("SHELLCASE")

ShellCase has developed a proprietary, patented wafer level chip size packaging (CSP) technology for silicon devices using a wafer-level process. Hand-held electronics, wireless communication products, image sensors for digital cameras for cellular phones and medical disposables are just part of the growing list of applications that benefit from the unique properties of ShellCases's technology. ShellCase was publicly traded on the Toronto Stock Exchange ("TSX") in 2003. In 2004, a majority of the shareholders of ShellCase approved the delisting of the company from the TSX.

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As of December 31, 2004, the Company invested \$6.4 million in ShellCase representing a 13.6% equity interest. As of December 31, 2004, the Company had written off \$6.2 million of its investment in ShellCase.

SHIRON SATELLITE COMMUNICATIONS (1996) LTD. ("SHIRON")

Shiron is engaged in the development, manufacturing and marketing of a satellite communication product known as InterSKY(TM). Shiron provides easily deployable two-way, "always-on" broadband satellite communications to corporate businesses, Internet service providers and small office/home office in places where broadband infrastructure is insufficient or does not currently exist.

As of December 31, 2004, the Company had invested \$2.1 million in Shiron and had made a \$0.2 million loan to Shiron, and had written off \$1.8 million of its investment in Shiron. As of December 31, 2004, the Company's equity interest in Shiron is 7.1%.

SMART LINK LTD. ("SMART LINK")

Smart Link is a developer and supplier of software-based communications products that provide internet access and communication to the residential markets. Its proprietary technology enables customers to replace traditional hardware-based communications products with high-quality, user friendly software-based solutions that are less costly. Products include software and chips that are easily integrated into personal computers and information appliances. As of December 31, 2004, the Company had invested \$2.9 million in Smart Link, constituting a 13.5% equity interest in Smart Link.

XPERT INTEGRATED SYSTEMS LTD. ("XPERT")

Xpert is an international developer and provider of business continuity, security and infrastructure solutions. Xpert has over 400 customers from leading financial, telecommunications, industry, technology and governmental organizations. Xpert, whose headquarters are in Israel, has additional offices in Madrid and Barcelona.

As of December 31, 2004, the Company had invested \$2.75 million in Xpert and written off \$1.8 million of its investment. As of December 31, 2004, the Company's equity interest in Xpert was 12.7%.

Capital Markets And Other Holdings

AMPAL DEVELOPMENT (ISRAEL) LTD. ("AMPAL DEVELOPMENT")

Ampal Development, a wholly owned subsidiary of the Company, issued debentures which are publicly traded on the TASE. An aggregate of approximately \$2.0 million of these debentures were outstanding as of December 31, 2004. On March 1, 2005, Ampal Development paid off all of its outstanding and remaining debentures which were publicly traded on the TASE. An aggregate of approximately \$2.0 million of these debentures were outstanding as of December 31, 2004.

CARMEL CONTAINERS SYSTEMS LIMITED ("CARMEL")

Carmel (KML) is one of the leading Israeli companies in designing, manufacturing and marketing carton boards and packaging products. Carmel and its subsidiaries manufacture a varied line of products, including corrugated shipping containers, moisture-resistant packaging, consumer packaging, triple-wall packaging and wooden pallets and boxes. On November 30, 2004, Carmel filed an application with the Securities and Exchange Commission to withdraw its ordinary shares from listing on the AMEX and also filed to terminate registration of the shares under the Securities Exchange Act of 1934, as amended. Ampal has objected to the delisting and deregistration of Carmel's ordinary shares, neither of which has been effectuated as of the date hereof. If Carmel is successful in this process, there will no longer be a public market for the ordinary shares held by Ampal. The Company's equity interest in Carmel is 21.75%. As of December 31, 2004, the Company accounts for this investment pursuant to the equity method as \$2.6 million (which includes impairment in an amount of \$3 million).

EPSILON INVESTMENT HOUSE LTD. ("EPSILON") AND RENAISSANCE INVESTMENT COMPANY LTD. ("RENAISSANCE")

The Company had invested \$1.5 million for 20% of Epsilon and its affiliate, Renaissance. Epsilon is a financial services firm which provides portfolio management services and Renaissance provides underwriting services in Israel through its subsidiaries.

EMPLOYEES

On March 31, 2004, the Company closed its New York office located at 555 Madison Ave, New York, New York. Other than the executives officers listed in Item 11 below, Ampal has no other employees. As of December 31, 2004, Ampal (Israel) Ltd. had 16 employees, Am-Hal Ltd. (a wholly owned subsidiary of Ampal) had 175 employees and Country Club Kfar Saba Ltd. (owned 51% by the Company) had 112 employees.

Relations between the Company and its employees are satisfactory.

CONDITIONS IN ISRAEL

Most of the companies in which Ampal directly or indirectly invests conduct their principal operations in Israel and are directly affected by the economic, political, military, social and demographic conditions there. A state of hostility, varying as to degree and intensity, exists between Israel and the Arab countries and the Palestinian Authority (the "PA"). Israel signed a peace agreement with Egypt in 1979 and with Jordan in 1994. Since 1993, several agreements have been signed between Israel and Palestinian representatives regarding conditions in the West Bank and Gaza. While negotiations have taken place between Israel, its Arab neighbors and the PA to end the state of hostility in the region, it is not possible to predict the outcome of these negotiations and their eventual effect on Ampal and its investee companies. Political developments in Israel notably the election of Palestinian President Abu Mazen (a/k/a Mahmoud Abbas) and the improved relations between Israel and Palestine have had positive effects on the economic environment in Israel. However, a return to the volatile security situation of the recent past may negatively impact the value of Ampal and its investee companies. See "Economic and Financial Developments" below for further discussion of the possible impact of this situation on the Company.

All male adult citizens and permanent residents of Israel under the age of 48 are obligated, unless exempt, to perform military reserve duty annually. Additionally, all these individuals are subject to being called to active duty at any time under emergency circumstances. Some of the officers and employees of Ampal's investee companies are currently obligated to perform annual reserve duty. While these companies have operated effectively under these requirements since they began operations, Ampal cannot assess the full impact of these requirements on their workforce or business if conditions should change. In addition, Ampal cannot predict the effect on its business in a state of emergency in which large numbers of individuals are called up for active duty.

Economic and Financial Developments

In 2004, unemployment in Israel averaged 10.4%. The rate of unemployment in 2003 averaged 10.7% as compared to 10.4% in 2002. Management believes that the decrease resulted mainly from the improvement in the industrial and high tech sectors and the Israeli government's employment initiatives.

The change in consumer price index in 2004 was 1.2% compared to -1.9 % in 2003.

CERTAIN UNITED STATES AND ISRAELI REGULATORY MATTERS

SEC Exemptive Order

In 1947, the SEC granted Ampal an exemption from the Investment Company Act of 1940, as amended (the "1940 Act"), pursuant to an Exemptive Order. The Exemptive Order was granted based upon the nature of Ampal's operations, the purposes for which it was organized, which have not changed, and the interest of purchasers of Ampal's securities in the economic development of Israel. There can be no assurance that the SEC will not reexamine the Exemptive Order and revoke, suspend or modify it. A revocation, suspension or material modification of the Exemptive Order could materially and adversely affect the Company unless Ampal were able to obtain other appropriate exemptive relief. In the event that Ampal becomes subject to the provisions of the 1940 Act, it could be required, among other matters, to make changes, which might be material, to its management, capital structure and methods of operation, including its dealings with principal shareholders and their related companies.

TAX INFORMATION

Ampal (to the extent that it has income derived in Israel) and Ampal's Israeli subsidiaries are subject to taxes imposed under the Israeli Income Tax Ordinance. For 2004, Israeli companies were taxed on their income at a rate of 35%. Until December 31, 2003, a corporate tax rate of 36% was applied. In July 2004, an Amendment to the Income Tax Ordinance was published, which determined, inter alia, that the rate of corporate tax will be gradually reduced from 36% to 30%, in the following manner: the rate for 2004 will be 35%, in 2005 - 34%, in 2006 - 32%, and in 2007 and thereafter - 30%.

On July 24, 2002, the Israeli Parliament enacted legislation ("tax reform legislation") approving a tax reform bill based on a ministerial committee report published in June 2002. This legislation, which introduces fundamental changes in certain areas, generally became effective on January 1, 2003, although alterations in certain taxation areas will be introduced over a number of years and certain provisions will come into effect on other specified dates.

The tax reform legislation focused, inter alia, on a transition from a primarily territorial based tax system to a personal based tax system of Israeli tax residents (which mainly applies on the Company's Israeli subsidiaries). Consequently, Israeli tax residents are taxed, as of January 1, 2003, on their worldwide income;

A tax treaty between Israel and the United States became effective on January 1, 1995 (the Treaty). The Treaty has not substantially affected the tax position of the Company in either the United States or in Israel.

Ampal generated income from interest and dividends resulting from its investments in Israel. Under Israeli law, Ampal has been required to file tax returns, with the Israeli tax authorities with respect to such income. Under Israeli domestic law Ampal, as a non-resident, is generally subject to withholding tax at a rate of 25% on dividends it receives from Israeli companies. This rate may be reduced to either 15% or 12.5%, (under Israeli law and/or the provisions of the Treaty), depending on the ownership percentage in the investee company, and on the type of income generated by such investee company, from which the dividend is distributed (by contrast, dividends received by one Israeli company from another Israeli company are generally exempt from Israeli corporate tax, unless (i) they arise from income generated from sources outside of Israel, in which case they are subject to tax at a rate of 25%; or (ii) they are paid out of the profits of an approved enterprise to either residents or non-residents, in which case tax is withheld at a rate of 15%).

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Pursuant to an arrangement with the Israeli tax authorities, Ampal's income from Israeli sources has been taxed based on princ