AMPAL-AMERICAN ISRAEL CORP
Form 10-Q
November 13, 2012

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2012

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 of Organization)	13-0435685 (I.R.S. Employer) Identification Number
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
Former Name, Former Address and Former Fiscal Year, If Changed Since Last Report.

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

Yes x No o

Indicate by check mark whether the registrant 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 (§232.405 of this chapter) 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 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 (Do not check if a smaller reporting company)	Smaller reporting company x

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

Yes o No x

The number of shares outstanding of the issuer’s Class A Stock, par value $1.00 per share, its only authorized common stock, is 2,806,688 (as of November 6, 2012).

AMPAL-AMERICAN ISRAEL CORPORATION (DEBTOR-IN-POSSESSION) AND SUBSIDIARIES

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ITEM 1. FINANCIAL STATEMENTS
AMPAL-AMERICAN ISRAEL CORPORATION (DEBTOR-IN-POSSESSION) AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEET

ASSETS AS OF (U.S. Dollars in thousands)	September 30, 2012 (Unaudited)	December 31, 2011
Current assets:		
Cash and cash equivalents	$ 10,128	$ 54,333
Marketable securities	56	177
Accounts receivable (Net of allowance for doubtful amounts of $2,837 and $2,510)	96,873	111,172
Deposits and notes receivable	4,765	12,682
Inventories	28,614	37,757
Other assets	16,826	28,912
Held for sale assets	24,313	--
Total current assets	181,575	245,033
Non-current assets:		
Investments	10,758	269,871
Fixed assets, less accumulated depreciation of $58,260 and $49,556	184,945	190,524
Deposits and notes receivable	37,771	32,107
Deferred taxes	13,506	22,086
Other assets	8,647	9,701
Goodwill	65,768	67,094
Intangible assets	8,467	10,193
Total Non-current assets	329,862	601,576
TOTAL ASSETS	$ 511,437	$ 846,609

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

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AMPAL-AMERICAN ISRAEL CORPORATION (DEBTOR-IN-POSSESSION) AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEET

LIABILITIES AND EQUITY (CAPITAL DEFICIENCY) AS OF (U.S. Dollars in thousands, except share amounts)	September 30, 2012 (Unaudited)	December 31, 2011
LIABILITIES		
Current liabilities:		
Notes and loans payable and current maturities of long term loans	$ 186,038	$ 211,047
Accounts payable, accrued expenses and others	75,745	91,900
Debentures	--	237,084
Held for sale liabilities	21,576	--
Total current liabilities	283,359	540,031
Long term liabilities:		
Notes and loans payable	104,471	130,327
Notes to non-related limited partners	93,691	95,922
Deferred taxes	12,123	13,702
Other long-term liabilities	15,654	16,661
Total long-term liabilities	225,939	256,612
Liabilities subject to compromise	237,758	--
Total liabilities	747,056	796,643
Redeemable noncontrolling interest	605	604
EQUITY (CAPITAL DEFICIENCY)		
Ampal's shareholders' equity:		
Class A Stock $1 par value; September 30, 2012 and December 31, 2011, 100,000,000 shares authorized; issued 3,163,866 shares; outstanding 2,806,688 shares *	3,164	3,164
Additional paid-in capital *	243,414	243,055
Accumulated deficiency	(348,755)	(127,637)
Accumulated other comprehensive loss	(12,194)	(11,781)
Treasury stock, at cost (September 30, 2012 and December 31, 2011, 357,181 shares)*	(28,763)	(28,763)
Total Ampal shareholders’ equity (capital deficiency)	(143,134)	78,038
Noncontrolling interest	(93,090)	(28,676)
Total equity (capital deficiency)	(236,224)	49,362
TOTAL LIABILITIES AND EQUITY (NET OF CAPITAL DEFICIENCY)	$ 511,437	$ 846,609

(*) Retroactively adjusted to reflect a reverse stock split (see Note 18)

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

AMPAL-AMERICAN ISRAEL CORPORATION (DEBTOR-IN-POSSESSION) AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS

NINE MONTHS ENDED SEPTEMBER 30, (U.S. Dollars in thousands, except per share amounts)	2012 (Unaudited)	2011(**) (Unaudited)
REVENUES:		
Chemical income	$ 311,104	$ 318,697
Gain on sale of fixed assets	--	59
Realized and unrealized gains on marketable securities	23	297
Translation gain	11,398	12,620
Equity in earnings of affiliates	658	268
Interest income	2,493	2,239
Leisure-time income	2,040	2,265
Gain from redemption of debt and other income	661	6,356
Total revenues	328,377	342,801
EXPENSES:		
Chemical expense - cost of goods sold	275,062	283,677
Loss on sale of fixed assets	1,681	--
Loss from impairment of investments	260,400	50,523
Interest expense	28,153	31,442
Marketing expenses	6,606	6,671
General, administrative and other	32,099	45,323
Total expenses	604,001	417,636
Loss from continuing operations before reorganization items and income taxes	(275,624)	(74,835)
Reorganization items	2,145	--
Income tax expenses	7,424	13,006
Net loss from continuing operations after tax expenses	(285,193)	(87,841)
Discontinued operations:		
Gain disposal, net of tax	--	28,891
Income (loss) from discontinued operations, net of tax	(341)	5,025
Net income from discontinued operations	(341)	33,916
Net loss	(285,534)	(53,925)
Less: Net loss attributable to noncontrolling interests	64,416	11,594
Net loss attributable to Ampal's shareholders	(221,118)	(42,331)
Basic and diluted EPS:		
Loss from continuing operations attributable to Ampal's shareholders *	(78.66)	(27.16)
Discontinued operations attributable to Ampal's shareholders *	(0.12)	12.08
	$ (78.78)	$ (15.08)
Shares used in EPS calculation (in thousands) *	2,807	2,807

(*) Retroactively adjusted to reflect a reverse stock split (see Note 18)

(**) Retroactively adjusted to exclude the discontinued operations

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

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AMPAL-AMERICAN ISRAEL CORPORATION (DEBTOR-IN-POSSESSION) AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE LOSS

NINE MONTHS ENDED SEPTEMBER 30, (U.S. Dollars in thousands)	2012 (Unaudited)	2011 (Unaudited)
Net loss	$(285,534)	$(53,925)
Other comprehensive income (loss), net of tax:		
Unrealized (realized) gain on available for sale securities	(8)	(5)
Foreign currency translation adjustments	(908)	(9,306)
Share of other comprehensive income (loss) of affiliates	505	(481)
Other comprehensive loss, net of tax	(411)	(9,792)
Comprehensive loss	(285,945)	(63,717)
Less: comprehensive loss attributable to the noncontrolling interest	(64,414)	(11,613)
Comprehensive loss attributable to the Company	$(221,531)	$(52,104)

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

AMPAL-AMERICAN ISRAEL CORPORATION (DEBTOR-IN-POSSESSION) AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS

THREE MONTHS ENDED SEPTEMBER 30, (U.S. Dollars in thousands, except per share amounts)	2012 (Unaudited)	2011(**) (Unaudited)
REVENUES:		
Chemical income	$ 100,149	$ 114,167
Realized and unrealized gains on marketable securities	37	276
Gain on sale of fixed assets	--	19
Equity in earnings of affiliates	332	89
Interest income	943	903
Translation gain	5,813	19,876
Leisure-time income	528	716
Other income	65	4,412
Total revenues	107,867	140,458
EXPENSES:		
Chemical expense - cost of goods sold	88,073	101,579
Loss on sale of fixed assets	1,720	--
Loss from impairment of investments	--	33,600
Interest expense	7,844	9,702
Marketing expenses	2,105	2,104
General, administrative and other	8,552	14,826
Total expenses	108,294	161,811
Loss from continuing operations before reorganization items and income taxes	(427)	(21,353)
Reorganization items	2,145	--
Income tax expenses (benefits)	501	(1,292)
Net loss from continuing operations	(3,073)	(20,061)
Net loss from discontinued operations	(221)	(311)
Net loss	(3,294)	(20,372)
Less: Net loss attributable to noncontrolling interests	393	138
Net loss attributable to Ampal's shareholders	(2,901)	(20,234)
Basic and diluted EPS:		
Loss from continuing operations attributable to Ampal's shareholders *	(0.95)	(7.10)
Discontinued operations attributable to Ampal's shareholders *	(0.08)	(0.11)
	$ (1.03)	$ (7.21)
Shares used in EPS calculation (in thousands) *	2,807	2,807

(*) Retroactively adjusted to reflect a reverse stock split (see Note 18)

(**) Retroactively adjusted to exclude the discontinued operations

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

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AMPAL-AMERICAN ISRAEL CORPORATION (DEBTOR-IN-POSSESSION) AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE LOSS

THREE MONTHS ENDED SEPTEMBER 30, (U.S. Dollars in thousands)	2012 (Unaudited)	2011 (Unaudited)
Net loss	$(3,294)	$(20,372)
Other comprehensive income (loss), net of tax:		
Unrealized (realized) gain on available for sale securities	--	(4)
Foreign currency translation adjustments	611	(10,803)
Share of other comprehensive income (loss) of affiliates	(98)	4
Other comprehensive income (loss), net of tax	513	(10,803)
Comprehensive loss	(2,781)	(31,175)
Less: comprehensive loss attributable to the noncontrolling interest	(362)	(227)
Comprehensive loss attributable to the Company	$(2,419)	$(30,948)

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

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AMPAL-AMERICAN ISRAEL CORPORATION (DEBTOR-IN-POSSESSION) AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

NINE MONTHS ENDED SEPTEMBER 30, (U.S. Dollars in thousands)	2012 (Unaudited)	2011(*) (Unaudited)
Cash flows from operating activities:		
Net loss for the period	$(285,534)	$(53,925)
Net loss (income) from discontinued operations	341	(33,916)
Loss from continuing operations	(285,193)	(87,841)
Adjustments to reconcile net loss for the period to net cash provided by (used in) operating activities:		
Equity in earnings of affiliates	(658)	(268)
Realized and unrealized gain on investments, net	(23)	(297)
Depreciation and amortization expense	13,511	15,152
Loss (gain) from sale of fixed assets	1,681	(59)
Impairment of investment	260,400	50,523
Non cash stock based compensation	343	479
Translation gain	(11,398)	(12,620)
Increase in other assets	6,559	11,114
Decrease (increase) in inventories	3,683	(2,986)
Increase in accounts receivable	4,154	(2,878)
Increase (decrease) in accounts payable, accrued expenses and other	8,316	(11,194)
Increase in accounts payable due to reorganization costs	470	--
Gain from repurchase of debentures	--	(4,677)
Proceeds from sale of trading securities	--	318
Investments made in trading securities	(493)	(12,687)
Net cash provided by (used in) operating activities of continuing operations	1,352	(57,921)
Cash flows from investing activities:		
Deposits, notes and loans receivable collected (received)	(143)	18,618
Purchase and improvements of fixed assets	(5,699)	(6,639)
Proceeds from sale of available-for-sale shares	503	2,198
Decrease (increase) in severance fund	977	(434)
Proceeds from sale of fixed assets	160	401
Net cash provided from (used in) investing activities of continuing operations	(4,202)	14,144

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

AMPAL-AMERICAN ISRAEL CORPORATION (DEBTOR-IN-POSSESSION) AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

NINE MONTHS ENDED SEPTEMBER 30, (U.S. Dollars in thousands)	2012 (Unaudited)	2011 (Unaudited)
Cash flows from financing activities:		
Proceeds from notes issued and loans received	$--	$7,179
Notes and loans payable repaid	(35,174)	(66,473)
Debentures repaid	(2,309)	(13,565)
Dividends paid to noncontrolling interests	--	(354)
Net cash used in financing activities of continuing operations	(37,483)	(73,213)
Effect of exchange rate changes on cash and cash equivalents	(3,559)	(6,064)
Cash flows from discontinued operations:		
Cash used in operating activities of discontinued operations	1,882	(19,474)
Cash provided by investing activities of discontinued operations	(101)	174,051
Cash used in financing activities of discontinued operations	(1,699)	(2,440)
Effect of exchange rate changes on cash and cash equivalents of discontinued operations	9	(901)
Net cash provided by discontinued operations	91	151,236
Net increase (decrease) in cash and cash equivalents	(43,801)	28,182
Cash and cash equivalents at beginning of period (in 2011 including $8,851 from discontinued operations)	54,333	41,019
Cash and cash equivalents at end of period	$10,532	$69,201
Less cash and cash equivalents of discontinued operations at end of period	404	983
Cash and cash equivalents of continuing operations at end of period	$10,128	$68,218

(*) Retroactively adjusted to exclude the discontinued operations

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

AMPAL-AMERICAN ISRAEL CORPORATION (DEBTOR-IN-POSSESSION) AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (CAPITAL DEFICIENCY)

(U.S. Dollars in thousands)

Unaudited

	Equity attributable to Ampal-American Israel Corporation shareholders							
	Class A Stock **							
	Number of shares*	Amount	Additional paid-in capital **	Accumulated deficit	Accumulated deficit	Treasury stock	Non-controlling interests	Total equity (deficit)
BALANCE AT JANUARY 1, 2012	3,164	3,164	243,055	(127,637)	(11,781)	(28,763)	(28,676)	49,362
CHANGES DURING THE NINE MONTHS ENDED SEPTEMBER 30, 2012:								
Comprehensive loss:								
Net loss for the period				(221,118)			(64,416)	(285,534)
Unrealized gain from marketable securities					(8)			(8)
Foreign currency translation adjustments					(405)		2	(403)
Total comprehensive loss								(285,945)
Share based compensation expense			359					359
BALANCE AT SEPTEMBER 30, 2012	3,164	3,164	243,414	(348,755)	(12,194)	(28,763)	(93,090)	(236,224)

* In thousands

(**) Retroactively adjusted to reflect a reverse stock split (see Note 18)

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

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AMPAL-AMERICAN ISRAEL CORPORATION (DEBTOR-IN-POSSESSION) AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (CAPITAL DEFICIENCY)

(U.S. Dollars in thousands)

Unaudited

	Equity attributable to Ampal-American Israel Corporation shareholders							
	Class A Stock **							
	Number of shares*	Amount	Additional paid-in capital **	Accumulated deficit	Accumulated other comprehensive income (loss)	Treasury stock	Non-controlling interests	Total equity
BALANCE AT JANUARY 1, 2011	3,164	3,164	243,037	(32,316)	103	(28,763)	(6,677)	178,548
CHANGES DURING THE NINE MONTHS ENDED SEPTEMBER 30, 2011:								
Comprehensive income (loss):								
Net loss for the period				(42,331)			(11,594)	(53,925)
Foreign currency translation adjustments					(9,773)		(19)	(9,792)
Total comprehensive loss								(63,717)
Dividend paid to noncontrolling interests							(354)	(354)
Share based compensation expense			479					479
BALANCE AT SEPTEMBER 30, 2011	3,164	3,164	243,516	(74,647)	(9,670)	(28,763)	(18,644)	114,956

* In thousands

(**) Retroactively adjusted to reflect a reverse stock split (see Note 18)

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

AMPAL-AMERICAN ISRAEL CORPORATION (DEBTOR-IN-POSSESSION) AND SUBSIDIARIES
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

2. The accompanying unaudited condensed consolidated financial statements of the Company have been prepared in accordance with generally accepted accounting principles ("GAAP") in the United States of America, for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and notes required by GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the interim period are not necessarily indicative of the results that may be expected for the full year. You should read these interim condensed consolidated financial statements in conjunction with the audited consolidated financial statements in the Annual Report on Form 10-K for the year ended December 31, 2011, filed with the Securities and Exchange Commission.

Reference should be made to the Company's consolidated financial statements for the year ended December 31, 2011 for a description of the critical accounting policies. Also, reference should be made to the notes to the Company's December 31, 2011 consolidated financial statements for additional information regarding the Company's consolidated financial condition, results of operations and cash flows.

3. Bankruptcy Proceedings

Bankruptcy Proceedings

On August 29, 2012 (the "Petition Date"), Ampal filed a voluntary petition for relief (the "Filing") under Chapter 11 of Title 11 of the United States Code (the "Bankruptcy Code") in the United States Bankruptcy Court for the Southern District of New York (the "Court"), Case No. 12-13689. Ampal continues to operate its business as a "debtor-in-possession" under the jurisdiction of the Court and in accordance with applicable provisions of the Bankruptcy Code and the orders of the Court. As a result of the Filing, an "automatic stay" was imposed, prohibiting the continuation or commencement of any actions against Ampal and its assets, wherever located.

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 Ampal does not reach agreement with its creditors, obtain additional financing or otherwise raise capital through the sale of assets or otherwise, or restructure its obligations under Chapter 11 of the Bankruptcy Code.

The Company's ability to continue as a going concern is contingent upon its ability to obtain the Court's approval of a reorganization plan and its ability to successfully implement such plan, among other things. As a result of the Chapter 11 case, the realization of assets and the satisfaction of liabilities are subject to uncertainty. As a debtor-in-possession under Chapter 11, Ampal may sell or otherwise dispose of or liquidate assets or settle liabilities, subject to the approval of the Court or as otherwise permitted in the ordinary course of business, for amounts other than those reflected in the accompanying consolidated financial statements. Further, the plan of reorganization could materially change the amounts and classifications of assets and liabilities reported in the historical consolidated financial statements. The accompanying consolidated financial statements do not include any adjustments related to the recoverability and classification of assets or the amounts and classification of liabilities or any other adjustments that might be necessary should we be unable to continue as a going concern or as a consequence of the Chapter 11 case.

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. There is no assurance that the Filing will allow the Company to continue as a going concern in the future.

Operation and Implication of the Chapter 11 Case

Under Section 362 of the Bankruptcy Code, the filing of a bankruptcy petition automatically stays most actions against a debtor, including most actions to collect indebtedness incurred prior to the petition date or to exercise control over property of the debtor. Accordingly, creditors are stayed from taking any actions as a result of such defaults. Substantially all pre-petition liabilities are subject to settlement under a plan of reorganization. Further, a confirmed plan of reorganization or other arrangement may materially change the amounts and classifications in a debtor's historical consolidated financial statements.

Ampal is paying, and intends to continue paying, claims arising after the Petition Date in the ordinary course of business. Ampal has retained, subject to Court approval, legal and financial professionals to advise on the Chapter 11 case and certain other professionals to provide services and advice in the ordinary course of business. From time to time, Ampal may seek Court approval to retain additional professionals.

The U.S. Trustee for the Southern District of New York (the “U.S. Trustee”) has appointed an official committee of unsecured creditors (the “UCC”). The UCC and its legal representatives have a right to be heard on all matters that come before the Court on all matters affecting Ampal. There can be no assurance that the UCC will support Ampal’s position on matters to be presented to the Court in the future or on any plan of reorganization, once proposed. Disagreements between Ampal and the UCC could protract the Chapter 11 case, negatively affect the Company’s ability to operate and delay Ampal’s emergence from the Chapter 11 case.

The Company has incurred and expects to continue to incur significant costs associated with its reorganization and the Chapter 11 case. The amount of these expenses is expected to significantly affect its financial position and results of operations, but the Company cannot accurately predict the effect the Chapter 11 case will have on its business at this time.

Plan of Reorganization

For Ampal to successfully emerge from the Chapter 11 case, it must obtain the Court’s approval of a plan of reorganization, which will enable Ampal to emerge from the Chapter 11 case as a reorganized company. In connection with the plan of reorganization, the Company may also obtain a new credit facility. Ampal’s ability to obtain such financing is uncertain. The Company’s ability to obtain such approval and financing will depend on, among other things, the timing and outcome of various ongoing matters in the Chapter 11 case. A plan of reorganization determines the rights and satisfaction of claims of various creditors and security holders, and is subject to the ultimate outcome of negotiations and Court decisions ongoing through the date on which the plan of reorganization is confirmed.

Although Ampal has not yet filed a plan of reorganization or a related disclosure statement with the Court, Ampal intends to propose a plan.

Financial Reporting in Reorganization

As a result of the Chapter 11 case, the Company has adopted the provisions of reorganization accounting, which does not change the application of GAAP with respect to the preparation of its financial statements. However, this guidance does require that financial statements, for periods including and subsequent to a Chapter 11 filing, distinguish between transactions and events that are directly associated with the reorganization proceedings and the ongoing operations of the business, as well as additional disclosures. Effective August 29, 2012, expenses, gains and losses directly associated with the reorganization proceedings are reported as reorganization items, net in the accompanying consolidated statements of operations. In addition, liabilities subject to compromise in the Chapter 11 case are distinguished from post-petition liabilities in the accompanying consolidated balance sheet as of September 30, 2012. Where there is uncertainty about whether a secured claim is undersecured or will be impaired under the plan, the Company has classified the entire amount of the claim as a liability subject to compromise. Such liabilities are reported at amounts expected to be allowed, even if they settle for lesser amounts. These claims remain subject to future adjustments, which may result from: negotiations; actions of the Court; disputed claims; rejection of executory contracts and unexpired leases; the determination as to the value of any collateral securing claims; proofs of claim; or other events.

Liabilities Subject to Compromise

As described above, certain claims against the Company in existence prior to the Chapter 11 case (“pre-petition liabilities”) may be subject to compromise or other treatment under the plan of reorganization and are reflected as liabilities subject to compromise in the accompanying consolidated balance sheet. These amounts reflect our current estimates of pre-petition liabilities that are subject to restructuring in the Chapter 11 case. A summary of liabilities subject to compromise as of September 30, 2012 is presented in the following table (in thousands):

Debt subject to compromise:		
Debentures		225,026
Loans payable		3,500
Accounts payable, accrued expenses and others		9,232
Liabilities subject to compromise	$	237,758

The Company ceased to record interest expense, linkage and translation costs in connection with the unsecured liabilities in the Chapter 11 case. The expenses that would have been recorded absent the limits on unsecured liabilities while in bankruptcy are $11,245 thousand.

Reorganization Items

Reorganization items, net include expenses, gains and losses directly related to the Company's reorganization proceedings. Reorganization items for the nine months ended September 30, 2012 in the amount of $2.1 million are amortization of issuance costs of unsecured debt and professional fees.

Pre-Petition Claims

On August 29, 2012, Ampal filed statements and schedules with the Court setting forth the assets and liabilities of Ampal as of the Petition Date. The statements and schedules are available at http://dm.epiq11.com/AMP/Project. The Court will set a deadline by which all creditors and equity security holders must file proofs of claims or interests (the "Proof of Claim") in the Chapter 11 case (the "Bar Date"). In accordance with the Bar Date, Ampal will mail notices of the Bar Date, Proof of Claim forms and instructions for filing such forms to all known creditors, including, without limitation, current and former employees, vendors and other parties with whom Ampal has previously conducted business, and all record holders of equity securities of Ampal. Recipients disagreeing with the amount of their claim as stated by Ampal in its schedules, or creditors whose claims have been noted as disputed, contingent or unliquidated may file a Proof of Claim. Discrepancies with the Court and differences between amounts recorded by Ampal and claims filed by creditors will be evaluated and resolved as a part of the Chapter 11 case. Absent agreement by the parties, the Court will ultimately determine liability and amounts of any disputed claims.

The resolution of such claims could result in a material adjustment to Ampal's financial statements. Additionally, a confirmed plan of reorganization could also materially change the amounts and classifications reported in the consolidated financial statements, which do not give effect to any adjustments to the carrying value of assets or amounts of liabilities that might be necessary as a consequence of confirmation of a plan of reorganization.

Debtors Financial Statements

The financial statements included below represent the condensed combined financial statements of Ampal (the "Debtor") only. These statements reflect the results of operations, financial position and cash flows of the Debtor, including certain amounts and activities between the Debtor and non-Debtor subsidiaries, which are eliminated in the consolidated financial statements.

AMPAL-AMERICAN ISRAEL CORPORATION (DEBTOR-IN-POSSESSION)
CONDENSED BALANCE SHEET

ASSETS AS OF (U.S. Dollars in thousands)		September 30, 2012
Current assets:		
Cash and cash equivalents	$	1,025
Deposits and notes receivable		282,214
Other assets		3,412
Total current assets		286,651
Non-current assets:		
Fixed assets, less accumulated depreciation		10
Deposits and notes receivable		14,180
Deferred taxes		3,033
Total Non-current assets		17,223

TOTAL ASSETS	$	303,874

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LIABILITIES NET OF CAPITAL DEFICIENCY AS OF (U.S. Dollars in thousands, except share amounts)		September 30, 2012
LIABILITIES		
Current liabilities:		
Notes and loans payable and current maturities of long term loans	$	36,816
Total current liabilities		36,816
Long term liabilities:		
Investments		172,283
Other long-term liabilities		151
Total long-term liabilities		172,434
Liabilities subject to compromise		237,758
Total liabilities		447,008
Total capital deficiency		(143,134)
	$	303,874

AMPAL-AMERICAN ISRAEL CORPORATION (DEBTOR-IN-POSSESSION)
CONDENSED STATEMENT OF OPERATIONS

(U.S. Dollars in thousands, except per share amounts)		From August, 29 to September 30, 2012
REVENUES:		
Interest income	$	17
Translation gain		8,089
Total revenues		8,106
EXPENSES:		
Interest expense		179
General, administrative and other		133
Total expenses		312
Income from continuing operations before reorganization items and losses of subsidiaries		7,749
Reorganization items		2,145
Net Income before losses of subsidiaries		5,649
Losses of subsidiaries		(1,827)
Net Income		3,822

AMPAL-AMERICAN ISRAEL CORPORATION (DEBTOR-IN-POSSESSION)
CONDENSED STATEMENT OF CASH FLOWS

From August, 29
to September 30,

		2012
(U.S. Dollars in thousands, except per share amounts)		
Cash flows from operating activities:		
Net Income for the period	$	3,822
Adjustments to reconcile net loss for the period to net cash used in operating activities:		
Equity in losses of subsidiaries		1,827
Depreciation and amortization expense		1,680
Non cash stock based compensation		39
Translation gain		(8,089)
Increase in other assets		268
Net cash used in operating activities		(453)
Net decrease in cash and cash equivalents		(453)
Cash and cash equivalents at beginning of period		1,478
Cash and cash equivalents at end of period	$	1,025

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4. East Mediterranean Gas Company

As of September 30, 2012, the Company's financial statements reflect a 16.8% interest in shares of East Mediterranean Gas Co. S.A.E., an Egyptian joint stock company ("EMG"), with 8.2% held directly and 8.6% 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).

Since February 2011 and during 2012, there was a series of explosions along the Egyptian gas pipeline owned and operated by GASCO (the Egyptian gas transport company) due to alleged terror attacks that Egypt and its state entities failed to prevent. Neither EMG's site nor EMG's pipeline were damaged in the attacks.

After the alleged terror attacks, the supply of gas to EMG, and therefore to EMG's Israeli clients, was interrupted several times, and gas was not supplied for 89 days from January 1, 2012 to April 22, 2012.

On April 22, 2012, the Company announced that it had been advised by EMG that Egyptian General Petroleum Corporation ("EGPC") and the Egyptian Natural Gas Holding Company ("EGAS") notified EMG that they were terminating the Gas Supply and Purchase Agreement (the "Source GSPA") between the parties. EMG considers the termination attempt unlawful and in bad faith, and consequently demanded its withdrawal. EGPC and EGAS declined to withdraw their termination notice. EMG informed EGPC and EGAS that their attempt to terminate was wrongful and, both in isolation and in combination with their other conduct, constituted repudiation of the Source GSPA, permitting EMG to exercise its right to terminate the Source GSPA at common law.

On May 2, 2012, the Company announced that it had filed a request for arbitration against the Arab Republic of Egypt, in connection with the Company's investment in EMG for the breach of the bilateral investment treaty ("BIT") between Egypt and the United States. Other EMG investors, including Ampal affiliates and co-investors in EMG, also requested arbitration under Egypt's BITs with the United States, Poland and Germany. In the treaty arbitrations, the EMG investors claim that Egypt breached its international obligations under the applicable investment treaties by failing to provide fair and equitable treatment and full protection and security to their investments, impairing their investments through unreasonable and discriminatory measures, failing to observe the Egyptian State's obligations toward their investments, and expropriating their investments. Through the arbitrations, the investors seek, among other relief, significant monetary compensation for damages caused by Egypt's treaty violations. In accordance with the BIT between Egypt and the United States, Ampal's request for arbitration was submitted to the World Bank's International Centre for Settlement of Investment Disputes ("ICSID").

Several others US entities and a German citizen who invested in EMG have also filed requests for arbitration pursuant to the ICSID convention. On August 21, 2012 the parties to the ICSID arbitration nominated their party-appointed arbitrator, and on October 16, 2012 the co-arbitrators appointed the President of the arbitration tribunal.

Mr. Yosef A. Maiman – a Polish national – and three Ampal-affiliated entities that he controls submitted a request for arbitration under Egypt's BIT with Poland pursuant to the Arbitration Rules of the United Nations Commission on International Trade Law ("UNCITRAL"). During September 2012, the parties to the UNICTRAL arbitration nominated their party-appointed arbitrator, and are currently awaiting the nomination of the President of the arbitration tribunal, to be appointed by the Permanent Court of Arbitration.

Ampal has also been advised by EMG of the following legal proceedings involving EMG:

EMG filed a Request for Arbitration against EGPC and EGAS (collectively, "EGPC/EGAS") on October 6, 2011 at the International Court of Arbitration of the International Chamber of Commerce ("ICC"). EGPC is an Egyptian State authority and EGAS is an Egyptian state-owned entity. They are responsible for the development and transportation of

Egypt’s hydrocarbon resources. EMG and EGPC/EGAS entered into the Source GSPA on June 13, 2005. Through its Request for Arbitration, EMG has sought, in part, to enforce its rights to quantities of natural gas provided for in the Source GSPA and a Tripartite Agreement entered into by EMG, IEC and EGPC/EGAS (which EMG and EGPC/EGAS signed on June 13 2005 and which IEC signed on August 28, 2005) (the "Tripartite Agreement") and to secure compensation for EGPC/EGAS’s failure to supply contractual quantities.

Although the delivery shortfalls date back to EGPC/EGAS’s earliest deliveries under the Source GSPA, EGPC/EGAS subjected EMG to increasingly severe shortages (and at times to total stoppages) since February 2011. EGPC/EGAS have attempted to avoid liability for the shortages and stoppages by claiming that they are excused from their contractual obligations under the force majeure provisions of the Source GSPA. EMG has asked that a tribunal affirm EGPC/EGAS’s inability to invoke force majeure, and therefore to affirm EGPC/EGAS’s liability to EMG.

EMG has named the Israel Electric Corporation, Ltd. ("IEC") as an additional respondent. IEC is an Israeli state-owned electricity producer that entered into a Gas Sale and Purchase Agreement with EMG on August 8, 2005 (the "On-Sale Agreement"). Under the On-Sale Agreement, EMG promised to supply, and IEC promised to purchase, quantities of natural gas sold to EMG under the Source GSPA; those quantities were in turn guaranteed by EGPC/EGAS through the Tripartite Agreement. Therefore, EGPC/EGAS guaranteed that it would provide contractual quantities of gas to EMG (for sale to IEC) under both the Source GSPA and the Tripartite Agreement. Because the contractual guarantees under these two agreements are coextensive, EMG filed for declaratory relief stating that EGPC/EGAS, and not EMG, are liable to IEC for supply deficiencies. An initial procedural conference for the above arbitration was held on April 24, 2012, and the next meeting took place on May 31, 2012. The parties have exchanged pleadings regarding the ICC tribunal's jurisdiction over the dispute, and the jurisdictional issues have now been joined with the merits phase of the arbitration. The total amount of the claim has not yet been quantified and the Company cannot currently estimate the range of potential compensation.

On September 21, 2011, EMG filed a Request for Arbitration against IEC as a sole respondent. In that arbitration, EMG seeks declaratory relief that IEC is not entitled to claim shortfall penalties from EMG as a result of EGPC/EGAS's breaches of the Source GSPA and the Tripartite Agreement. EMG also seeks a declaration that it may seek out additional customers, and renew contracts with existing customers, without breaching the On-Sale Agreement. The total amount of the claim has not yet been quantified and the Company cannot currently estimate the range of possible compensation.

On May 5, 2012, EGPC/EGAS filed a Notice of Arbitration against EMG at the Cairo Regional Centre for International Commercial Arbitration for alleged breaches by EMG of its obligations under the Source GSPA. EGAS/EGPC seek, among other things, declaratory relief, monetary damages of not less than approximately $182 million and injunctive relief ordering EMG to desist from pursuing the abovementioned arbitration filed by EMG against EGPC/EGAS at the ICC.

The Company evaluates the carrying value amount of its interest in EMG annually in connection with the preparation of its financial statements. In light of the developments in Egypt during 2011, the Company obtained updated quarterly interim valuations from an independent third-party valuation firm. These periodic independent valuations obtained by the Company to assist in its preparation of financial statements customarily indicate a range of values depending on underlying assumptions. The valuations were based on the discounted cash flow (DCF) method. Due to the uncertainties, the valuation firm used a range of possible scenarios, including different assumptions regarding the profitability and discount rates of EMG.

At December 31, 2011, the valuation range determined by the independent valuation firm was between $1,584 million and $1,856 million and the amount on which the carrying amount of Ampal's investment in EMG after impairment was based on a value of $1,550 million.

Due to the purported termination of the Source GSPA and the uncertainties in Egypt, management decided to write-off the entire amount of the investment in EMG. The Company recorded in the quarter ended March 31, 2012 charges of $260.4 million in connection with its investment in EMG. The Company did not record future compensation from the arbitrations as an asset.

5. Debentures Restructuring

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 of the principal payments due on the Debentures for 24 months.

Prior to the Filing, the Company had negotiated with committees of Holders to discuss various proposals made by the Company for the implementation of postponement of payments due on the Debentures. All such proposals and term sheets presented by the Company are no longer valid, mainly since, subsequent to the Filing, all negotiations are conducted under the jurisdiction of the Court and in accordance with applicable provisions of the Bankruptcy Code and the orders of the Court. As part of the Chapter 11 case, the Company is negotiating with the UCC, which includes representatives for the Holders, to restructure all of Ampal’s debt.

6.Recently Adopted and Recently Issued Accounting Pronouncements

Accounting Standards Update (“ASU”) 2012-2

In July 2012, Financial Accounting Standard Board ("FASB") issued Accounting Standards Update No. 2012-2 ("ASU 2012-2") which amended the guidance for the testing of indefinite-lived intangible assets for impairment, similar to the goodwill amendment issued in September 2011. These amendments provide an entity the option to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not (more than 50%) that the fair value of an indefinite-lived intangible asset is less than its carrying amount. Such qualitative factors may include the following: macroeconomic conditions; industry and market considerations; cost factors; overall financial performance; and other relevant entity-specific events. If an entity elects to perform a qualitative assessment and determines that an impairment is more likely than not, the entity is then required to perform the existing two-step quantitative impairment test, otherwise no further analysis is required. An entity also may elect not to perform the qualitative assessment and, instead, proceed directly to the two-step quantitative impairment test. The amendments are effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012. Early adoption is permitted.

ASU 2011-12 – update to ASU 2011-05

In December 2011, the FASB issued ASU No. 2011-12 ("ASU 2011-12") which amended the comprehensive income presentation guidance. The adjustments in ASU 2011-12 supersede changes to those paragraphs in Update No. 2011-05 ("ASU 2011-05") that pertain to how, when and where reclassification adjustments are presented. Entities should continue to report reclassifications out of accumulated other comprehensive income consistent with the presentation requirements in effect before ASU 2011-05. The amendments are effective for public entities for annual and interim reporting periods beginning after December 15, 2011. The Company adopted this amendment on January 1, 2012.

ASU 2011-11

In December 2011, the FASB issued ASU No. 2011-11 ("ASU 2011-11") which amended the disclosure information requirements regarding offsetting (netting) assets and liabilities. The amendment enhances disclosures regarding financial instruments and derivative instruments that are either (1) offset in accordance with GAAP or (2) subject to an enforceable master netting arrangement. This information will enable users of an entity's financial statements to evaluate the effect or potential effect of netting arrangements on an entity's financial position, including the effect or potential effect of rights of setoff associated with certain financial instruments and derivative instruments. The amendments in ASU 2011-11 are effective for annual and interim reporting periods beginning after January 1, 2013. According to ASU 2011-11 the entity should provide the disclosures required by those amendments retrospectively for all comparative periods presented. The Company does not expect ASU 2011-11, which relates to disclosure matters only, to have an impact on the Company's consolidated financial position, results of operations or cash flows.

ASU 2011-08

In September 2011, the FASB issued ASU No. 2011-08 ("ASU 2011-08") which amended the guidance for goodwill impairment testing. The amendment provides entities testing goodwill for impairment the option of performing a qualitative assessment before calculating the fair value of the reporting unit. If, on the basis of qualitative factors, it is not more likely than not that the fair value of the reporting unit is less than the carrying amount, further testing of goodwill for impairment would not be required. The amendment also removes the carry forward option of the reporting unit fair value from one year to the next. The amendment is effective for annual and interim goodwill impairment tests performed in fiscal years beginning after December 15, 2011. Early adoption is permitted.

ASU 2011-05

In June 2011, the FASB issued ASU No. 2011-05 ("ASU 2011-05") which amended the comprehensive income presentation guidance. The amendment requires entities to report components of comprehensive income in either a continuous statement of comprehensive income or two separate but consecutive statements. The guidance is effective for interim and annual periods beginning after December 15, 2011.

ASU 2011-04

In May 2011, the FASB issued ASU No. 2011-04 ("ASU 2011-04") for Fair Value Measurements and Disclosures (Topic 820). The amendment clarifies the existing guidance and adds new disclosure requirements. The guidance is effective for interim and annual periods beginning after December 15, 2011. The guidance did not have a material impact on the financial statements.

7. Gadot Chemical Tankers and Terminals Ltd. ("Gadot")

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'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 New Israeli Shekel ("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 sea port and Agency Services for 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.

Ampal funded the Gadot acquisition with a combination of available cash and the proceeds of the credit facility, dated November 29, 2007 (the "Credit Facilities"), between Merhav-Ampal Group Ltd. (formerly Merhav-Ampal Energy Ltd.), an Israeli corporation and wholly owned subsidiary of Ampal ("MAG"), and Israel Discount Bank Ltd. ("IDB"), for approximately $87.4 million (as of September 30, 2012, the outstanding debt under the Credit Facilities amounts to $58.9 million). The Company has certain financial and other covenants in the Credit Facilities. The Company determined that in connection with the preparation of its March 31, 2012 financial statements it would not meet certain required covenants and due to the Company's other debts (mainly, to its debenture holders), in accordance with the terms of the Credit Facility, IDB may decide to accelerate the Credit Facility and set it to immediate prepayment. As of September 30, 2012, the Company continues to be in breach of such covenants. The outstanding balance is classified as a current liability. The bank has not requested early repayment of the loans.

8. Sugarcane Ethanol Production Project

On December 31, 2009, Ampal signed an option exercise agreement (the "Exercise Agreement") with Merhav (M.N.F.) Ltd. ("Merhav") pursuant to which it exercised, subject to certain conditions, an option (the "Option") to convert Ampal's existing loan to Merhav (consisting of $20 million of principal plus accrued interest) (the "Loan") into a 25% equity interest in the sugarcane ethanol production project in Colombia (the "Project") being developed by Merhav. The Loan is evidenced by an Amended and Restated Promissory Note, dated December 25, 2008 (the "Note"), issued by Merhav in favor of Ampal, and is secured by Merhav's pledge of its shares of Class A Stock of Ampal, pursuant to that certain Pledge Agreement, dated December 24, 2007, between Merhav and Ampal (the "Pledge Agreement"). Merhav's obligations under the Note are guaranteed by Mr. Yosef A. Maiman pursuant to a personal guaranty, dated as of December 25, 2008 (the "Guaranty"). The Option is evidenced by an Option Agreement, dated December 25, 2007, between Merhav and Ampal, as amended on December 25, 2008 (the "Option Agreement"). The Loan, Option and related transactions are summarized in the Company's previously filed annual and periodic reports. On December 31, 2010, all the rights and obligations of Ampal in the Project were assigned to MAG.

Pursuant to the Exercise Agreement, the conversion of the Loan into a 25% equity interest in the Project will take the form of the issuance to MAG of 25% of all of the issued and outstanding equity interests in Merhav Renewable Energies Limited, a Cyprus corporation and subsidiary of Merhav ("Merhav Energies"). The purchase price for the 25% equity stake in Merhav Energies, to be paid at closing, is the outstanding balance of the Note on December 31, 2009, or approximately $22.3 million. The closing of the purchase of the 25% equity stake and the conversion of the Loan is subject to, among other things, (i) the initial disbursement of (or other evidence of) long-term debt financing for the Project obtained from Banco do Brasil or any other unaffiliated third party lender (the date such financing is obtained, the “Qualified Financing Date”), (ii) the payment in full of all outstanding amounts due and payable under the Note, and (iii) the delivery at closing of the Shareholders’ Agreement (as defined below) by Merhav and MAG, setting forth certain agreements relating to the governance of Merhav Energies. At closing, the Note and the Guaranty shall be cancelled and the pledge of Merhav’s shares of Class A Stock under the Pledge Agreement shall be released. The closing was to occur on the Qualified Financing Date or as soon as practicable thereafter, but no later than December 31, 2010 (the "Termination Date"). Since the Qualified Financing Date did not occur prior to December 31, 2010, on December 31, 2010, the parties amended the Exercise Agreement such that the Termination Date and the maturity date of the Note was extended to December 31, 2011. Additionally, on December 31, 2010, all the rights and obligations of Ampal in the Project were assigned to MAG. Since the Qualified Financing Date was not likely occur prior to December 31, 2011, on November 12, 2011, the Special Committee of the Board of Directors of Ampal approved the amendment of the Exercise Agreement such that the Termination Date and the maturity date of the Note would be extended to December 31, 2012 and on December 8, 2011, the parties signed such amendment.

The Exercise Agreement contains other customary closing conditions, as well as customary representations and warranties.

Additionally, Merhav and Ampal have agreed that, under certain circumstances, each will arrange for loans to Merhav Energies from time to time through third parties, directly or indirectly, for up to $15 million.

As stated above, as a condition to closing MAG's purchase of a 25% equity stake in Merhav Energies, Merhav, MAG and Merhav Energies will enter into a Shareholders' Agreement (the "Shareholders' Agreement") to provide for, among other things, (i) restrictions on the transfer of shares of Merhav Energies, (ii) a right of first refusal on transfers of shares of Merhav Energies, (iii) tag-along and drag-along rights on the transfer of shares of Merhav Energies, (iv) preemptive rights on the issuance of new shares of capital stock (or other equity interest) by Merhav Energies, subject to the anti-dilution rights of MAG, and (v) the right of MAG to designate 25% of the directors of Merhav Energies. In addition to preemptive rights under the Shareholders' Agreement, MAG has been granted anti-dilution protection, which may result in the issuance of additional shares of Merhav Energies to MAG, in the event that, prior to end of the 180-day period following the commencement of the Project's operations, Merhav sells, or Merhav Energies issues, shares of Merhav Energies at a per share price that is less than the per share price paid by MAG under the Exercise Agreement.

Merhav is a multinational corporation with interests in a range of sectors, including energy, infrastructure projects and agriculture. Merhav is a significant shareholder of Ampal and is wholly owned by Mr. Yosef A. Maiman, the President, CEO and a member of the controlling shareholder group of Ampal. Because of the foregoing relationship, a special committee of the Board of Directors of Ampal composed of Ampal's independent directors negotiated and approved the transaction. Houlihan Lokey Financial Advisors, Inc., which has been retained as financial advisor to the special committee, advised the special committee on this transaction.

9. Cash and cash equivalents

Cash equivalents are short-term, highly liquid investments (bank accounts and bank deposits) that have original maturity dates of three months or less and are readily convertible into cash.

10. Inventories - mainly chemicals and other materials intended for sale are valued at the lower of cost or market. Cost is determined based on the moving average basis.

11. Discontinued operations

On March 3, 2011, MAG completed its sale of all of the outstanding shares of 012 Smile Telecom Ltd., a wholly owned subsidiary of MAG ("012"), to Partner Communications Company Ltd. ("Partner"), in accordance with the Share Purchase Agreement between MAG, 012 and Partner, signed on October 13, 2010 (the "012 Sale"). As part of the 012 Sale, Partner also assumed approximately NIS 800 million (approximately $225.4 million) of the total debt of 012 Smile. Accordingly, 012 Smile has been reported as discontinued operations since December 31, 2010. The 012 Sale closed on March 3, 2011. Partner paid to Ampal approximately NIS 650 million (approximately $180 million) out of which Ampal recorded a gain of $28.9 million, net of an early repayment fee the Company paid in connection with the repayment of a loan received to finance the purchase of 012 and net of tax, from the 012 Sale. In addition the Company recorded income from discontinued operations of $5.2 million in the period ended March 31, 2011.

As of September 30, 2012, the Company decided to sell its investment in a subsidiary company in Europe and is expected to complete such sale in a period of one year. The Company recorded loss from discontinued operations of $0.3 million in the period ended September 30, 2012.

All the indirect interest expenses were recorded as a continuing operation.

Classification

We classified certain operations as discontinued using GAAP, as the associated operations and cash flows will be eliminated from our ongoing operations and we will not have any significant continuing involvement in their operations after the respective sale transactions. For all periods presented, all of the operating results for these operations were removed from continuing operations and are presented separately as discontinued operations, net of tax. The Notes to the Consolidated Financial Statements were adjusted to exclude discontinued operations unless otherwise noted.

12. Services and Management Agreements

In February 2009, Ampal and Gadot entered into a management services agreement (intercompany transaction), according to which Ampal provides Gadot with management services for an annual consideration calculated as a percentage of Gadot's profits.

On December 30, 2010, Ampal entered into a management services agreement with Merhav, according to which Merhav provides the Company and its subsidiaries with management, marketing, financial, development and other administrative services for an annual consideration which will be determined annually and shall be equal to a percentage of the direct and indirect expenses incurred by Merhav in connection with providing services to or for the benefit of Ampal. The management fee shall be determined by the Special Committee of the Board of Directors of Ampal (composed solely of independent directors) at or around the end of each fiscal year.

As stipulated above, Yosef A. Maiman, the Chairman, President and CEO of Ampal and a member of the controlling shareholder group of Ampal, is the sole owner of Merhav. Because of the foregoing relationship, a special committee of the Board of Directors composed of Ampal's independent directors negotiated and approved the transactions between Ampal and Merhav.

13. Derivatives and Other Financial Instruments

The Company is exposed to certain risks relating to its ongoing business operations, including financial, market, political, and economic risks. The following discussion provides information regarding the Company's exposure to the risks of changing commodity prices, interest rates, and foreign currency exchange rates.

The Company's derivative activities are subject to management's discretion.

The interest rate and foreign exchange contracts are held for purposes other than trading. They are used primarily to mitigate uncertainty and volatility, and in order to cover underlying exposures. On May 15, 2009, the Company entered into a swap contract to convert some of its NIS denominated debt in the amount of NIS 150 million (approximately $43.9 million) into U.S. Dollar denominated debt and to convert Israeli interest rates into LIBOR interest rates.

On April 1, 2009, the Company signed an interest rate swap contract in order to convert some of the Company's LIBOR interest rate denominated debt in the amount of $43.7 million into fixed interest rate debt, for a contractual term of 10 years.

Gadot

Gadot uses foreign currency forward contracts to mitigate fluctuations in foreign currency exchange rates due to variations in payment or receipt of currencies other than the Company's functional currency. The Company uses contracts to purchase U.S. Dollars and sell Euros, contracts to purchase Euros and sell U.S. Dollars and contracts to purchase U.S. Dollars and sell NIS.

Gadot enters into derivative financial instruments, including swaps and forward agreements. Gadot reports the fair value of the derivatives on our balance sheet. The derivatives used are not designated as a hedging instrument under Accounting Standards Codification ("ASC") No. 815. Changes in fair value are recognized in earnings in the period of change.

The following summarizes the gross fair market value of all derivative instruments and their locations in our consolidated balance sheet, and indicates which instruments are in an asset or liability position.

Asset Derivatives

		(U.S. Dollars in thousands)		
Derivative Instrument	Location	September 30, 2012	December 31, 2011	September 30, 2011
SWAP contracts	Other assets	1,828	2,059	3,414
Foreign currency exchange contracts	Other assets	--	--	6

Liability Derivatives

		(U.S. Dollars in thousands)		
Derivative Instrument Location	Location	September 30, 2012	December 31, 2011	September 30, 2011
SWAP contracts	Accounts payable, accrued expenses and others	2,273	1,668	1,930
Foreign currency exchange contracts	Accounts payable, accrued expenses and others	48	79	83

Statement of Operations

		(U.S. Dollars in thousands)	
		Nine months ended September 30,	
Derivative Instrument	Location	2012	2011
SWAP contract	Translation (loss) gain	(231)	$ (2,090)
Interest rate SWAP contract	Interest (loss) gain	(605)	$ 1,978
Foreign currency exchange contracts	Translation (loss) gain	85	$ (330)

14. Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset or paid to transfer the liability (an exit price) in an orderly transaction between market participants and also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The fair value hierarchy used by the Company within ASC No. 820 distinguishes between three levels of inputs that may be utilized when measuring fair values, including Level 1 inputs (using quoted prices in active markets for identical assets or liabilities), Level 2 inputs (using inputs other than Level 1 prices such as quoted prices for similar assets and liabilities in active markets or inputs that are observable for the asset or liability) and Level 3 inputs (unobservable inputs supported by little or no market activity based on the Company's own assumptions used to measure assets and liabilities). A financial asset's or liability's classification within the above hierarchy is determined based on the lowest level input that is significant to the fair value measurement.

The following section describes the valuation methodologies used by the Company to measure derivative contracts at fair value, including an indication of the level in the fair value hierarchy at which each instrument is generally classified. Where appropriate, the description includes details of the valuation models, the key inputs to those models, and any significant assumptions.

Derivative contracts are valued using quoted market prices and significant other observable and unobservable inputs. Such financial instruments consist of interest rate and foreign exchange contracts. The fair values for the majority of these derivative contracts are based upon current quoted market prices. These financial instruments are typically exchange-traded and are generally classified within Level 1 or Level 2 of the fair value hierarchy depending on whether the exchange is deemed to be an active market or not.

Financial assets and liabilities measured at fair value on a recurring basis as of September 30, 2012 consisted of the following (in thousands):

Fair Value Measurements as of :						
	September 30, 2012			December 31, 2011		
	Level 1	Level 2	Total	Level 1	Level 2	Total
Trading securities *	$ 56	$ -	$ 56	$ 55	$ -	$ 55
Available for sale securities *	-	-	-	122	-	122
Derivative assets **	-	1,828	1,828	-	2,059	2,059

Derivative liabilities **	-	(2,273)	(2,273)	-	(1,747)	(1,747)
Total	$ 56	$ (445)	$ (389)	$ 177	$ 312	$ 489

Marketable securities that are classified in Level 1 consist of available-for-sale and trading securities for which market prices are readily available. The fair value of derivative assets is determined based on inputs that can be derived from information available in publicly quoted markets. Unrealized gains or losses from available-for-sale securities are recorded in accumulated other comprehensive (loss) income.

* The trading securities and available-for-sale securities are mainly traded debentures.
** See Note 13.

The carrying amount of the Company's traded debentures as of September 30, 2012 is $225.0 million. The market value of such debentures, based on the closing price of those debentures on September 30, 2012 on the Tel Aviv Stock Exchange, was $32.3 million. The total carrying value of long-term loans as of September 30, 2012 was $298.3 million. The Company estimates that the fair value of the long-term loans approximates their carrying value, since substantially all of them bear non-fixed interest and there is no significant change in the credit risk of such loans. The fair value was determined based on level 2 inputs.

Investment in EMG with a carrying amount of $361.3 million was written off, resulting in a loss of $260.4 million, which was included in loss for the period ended September 30, 2012.

15. Segment information presented below, results primarily from operations in Israel.

The Chemical segment consists of Gadot which operates mainly in the distribution and marketing of liquid chemicals for raw materials used in the chemical industry.

The energy segment consists of the investment in EMG, an Egyptian joint stock company, which holds the right to supply natural gas to Israel through a pipeline from Egypt to Israel, and Global Wind Energy, Ltd., a joint venture that focuses on the new development and acquisition of controlling interests in renewable energy.

The Leisure-time segment consists of an affiliate, Country Club Kfar Saba Ltd., the Company's 51%-owned subsidiary, located in Israel.

The Finance segment consists of all other activities which are not part of any of the above segments.

	NINE MONTHS ENDED SEPTEMBER 30,		THREE MONTHS ENDED SEPTEMBER 30,	
	2012	2011	2012	2011
	(Dollars in thousands)		(Dollars in thousands)	
Revenues:				
Chemicals	$ 311,104	$ 318,697	$ 100,149	$ 114,167
Finance	14,575	21,571	6,858	25,486
Leisure-time	2,040	2,265	528	716
Equity in earnings of affiliates	658	268	332	89
Total consolidated revenues	$ 328,377	$ 342,801	$ 107,867	$ 140,458
Pre-tax Operating income (loss):				
Chemicals	$ 8,278	$ 5,390	$ 2,933	$ 2,052
Finance	(23,439)	(29,784)	(3,082)	10,097
Energy	(260,400)	(50,523)	--	(33,600)
Leisure-time	(63)	82	(278)	98
Total consolidated pretax loss	$ (275,624)	$ (74,835)	$ (427)	$ (21,353)

Total Assets	September 30, 2012	December 31, 2011
Chemicals	$ 435,112	$ 462,180
Finance	394,653	450,486
Energy	2,267	262,452
Leisure-Time	3,574	3,308
Inter-segments adjustments	(324,139)	(331,817)

Total consolidated assets	$ 511,437	$ 846,609

Revenues by Geographic Area:

	NINE MONTHS ENDED SEPTEMBER 30,		THREE MONTHS ENDED SEPTEMBER 30,	
	2012	2011	2012	2011
	(U.S. Dollars in thousands)		(U.S. Dollars in thousands)	
Israel	216,249	216,969	69,658	125,786
Europe	97,269	110,025	31,383	9,432
America	10,776	14,448	4,661	5,174
Australia	--	158	--	54
Africa	2,043	612	1,619	7
Asia	2,040	589	546	5
Total	328,377	342,801	107,867	140,458

16. The following table summarizes securities that were not included in the calculations of diluted earnings per share of Class A Stock for the periods ended September 30, 2012 and 2011 because such shares are anti-dilutive.

(Shares in thousands)	Nine Months ended September 30,		Three Months ended September 30,	
	2012	2011	2012	2011
Shares resulting from Options and Rights	180	206	180	206

17. LEGAL PROCEEDINGS:

Please see Note 3 to the Company's condensed consolidated financial statements for the description of the Filing and the Chapter 11 case.

18. Reverse Stock Split

On July 16, 2012, the Company announced that its Board of Directors approved a 1-for-20 reverse stock split (the "Split") of its Class A Stock (the "Stock"). The Split was effective as of 5:00 pm EST on July 20, 2012 and trading on a Split-adjusted basis began on July 22, 2012 on the Tel-Aviv Stock Exchange and on July 23, 2012 on the NASDAQ Capital Market. The par value of the Stock after the Split remained at $1.00 per share and the Stock continued to be traded on the NASDAQ Capital Market under the symbol "AMPL".

Upon effectiveness of the Split, every 20 shares of the Company's issued and outstanding Stock were automatically converted into one issued and outstanding share of Stock. No cash or fractional shares were issued in connection with the Split. The Company rounded up to the next whole share in lieu of issuing fractional shares that would have been issued as a result of the Split.

The Split, which was approved by the majority of the Company's shareholders at the Annual Shareholders' Meeting on May 29, 2012, reduced the outstanding number of shares of Stock from approximately 56.1 million to approximately 2.8 million. The number of authorized shares of the Stock was not affected by the Split.

The purpose of the Split was to raise the per share trading price of the Stock to regain compliance with the $1.00 per share minimum bid price requirement for continued listing of the Stock on the NASDAQ Capital Market. As previously disclosed, in order to regain compliance with the minimum bid price requirement, the Stock must have a minimum closing bid price of $1.00 per share for a minimum of 10 consecutive trading days. On August 6, 2012, the Company was notified by the NASDAQ Listing Qualifications Staff that the Company had regained compliance with the minimum bid price requirements.

19. NASDAQ Listing

The NASDAQ Listing Qualifications Staff issued (i) a delist determination letter on August 21, 2012 based upon the rejection of the Company's plan for coming into compliance with the $2,500,000 minimum stockholders' equity listing requirement and (ii) a delist determination letter on August 30, 2012 based upon the Filing, and the Company subsequently appealed the proposed delisting to the NASDAQ Listing Qualifications Hearings Panel (the "Panel"). The Company's hearing before the Panel was held on October 4, 2012. By letter dated October 19, 2012, the Company was notified that the Panel had determined to continue the listing of the Company's Class A Stock on The NASDAQ Capital Market, subject to the Company's timely satisfaction of certain milestones relating to the Company's debt restructuring efforts under the Company's Chapter 11 case and the Company's compliance with the requirements for initial listing on The NASDAQ Capital Market upon its emergence from Chapter 11 bankruptcy, ultimately, by no later than February 18, 2013

20. Subsequent events

At a meeting held on November 11, 2012, the Company met with the official committee of unsecured creditors (the "Committee") in its Chapter 11 proceeding and it advised the Committee that the Company is prepared to file and support a Plan of Reorganization on terms previously proposed by the Committee, subject to finalization of the Plan details to be supplied by the Committee and confirmation of support from the Committee and major creditors. Under the Plan, all outstanding indebtedness, including all obligations under the Company's Series A, Series B and Series C Debentures, would be cancelled and converted to equity of the Company that will represent substantially all of the equity of the Company upon its emergence from Chapter 11. The Company intends to file the Plan in the Chapter 11 proceeding by December 6, 2012, subject to receipt of necessary information from the Committee and finalization of Plan details.

The Company's statement to the Committee followed an announcement by Mr. Yosef Maiman, the Company's Chairman, Chief Executive Officer and a member of the controlling shareholder group, of his intention to transfer control of Ampal to the Company's creditors, following almost a year of negotiations with the creditors and recent motions made by the Committee in the Chapter 11 proceedings.

ITEM 2. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

AMPAL-AMERICAN ISRAEL CORPORATION (DEBTOR-IN-POSSESSION) AND SUBSIDIARIES
CRITICAL ACCOUNTING POLICIES

The preparation of Ampal-American Israel Corporation's ("Ampal", and collectively with its subsidiaries, the "Company") consolidated financial statements is in conformity with accounting principles generally accepted in the United States ("GAAP") which requires management to make estimates and assumptions in certain circumstances that affect amounts reported in the accompanying consolidated financial statements and related footnotes. Actual results may differ from these estimates. To facilitate the understanding of Ampal’s business activities, described below are certain Ampal accounting policies that are relatively more important to the portrayal of its financial condition and results of operations and that require management’s subjective judgments. Ampal bases its judgments on its experience and various other assumptions that it believes to be reasonable under the circumstances. Please refer to Note 1 to Ampal’s consolidated financial statements included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2011 for a summary of all of Ampal’s significant accounting policies.

As a result of the Chapter 11 case, the Company has adopted the provisions of reorganization accounting, which does not change the application of GAAP with respect to the preparation of our financial statements. However, this guidance does require that financial statements, for periods including and subsequent to a Chapter 11 filing, distinguish between transactions and events that are directly associated with the reorganization proceedings and the ongoing operations of the business.

Revenue Recognition

In certain circumstances, sales under short-term fixed-price production type contracts or sale of products are accounted for in accordance with Staff Accounting Bulletin No. 104 “Revenue Recognition in Financial Statements” (“SAB 104”), and recognized when all the following criteria are met: persuasive evidence of an arrangement exists, delivery has occurred, the seller’s price to the buyer is fixed or determinable, no further obligation exists and collectability is reasonably assured.

Chemical income derives from the following activities: sales of a wide range of liquid chemicals, providing maritime shipping services of chemicals by ships and providing other services which include logistics and storage services for chemicals.

Revenue from services is recognized as follows:

- Revenues arising from the provision of marine transport services proportionally over the period of the marine transport services. As to voyages uncompleted in which a loss is expected, a full provision is made in the amount of the expected loss.

- Revenues from chemical brokerage commissions are recognized when the right to receive them is created.

- Rental income is recorded over the rental period. Revenues from services provided to country club subscribers are recognized ratably over the contractual period.

- Income from other services is recognized over the period during which those services are performed.

Bankruptcy Proceedings

Bankruptcy Proceedings

On August 29, 2012 (the “Petition Date”), Ampal filed a voluntary petition for relief (the “Filing”) under Chapter 11 of Title 11 of the United States Code (the “Bankruptcy Code”) in the United States Bankruptcy Court for the Southern District of New York (the “Court”), Case No. 12-13689. Ampal continues to operate its business as a “debtor-in-possession” under the jurisdiction of the Court and in accordance with applicable provisions of the Bankruptcy Code and the orders of the Court. As a result of the Filing, an “automatic stay” was imposed, prohibiting the continuation or commencement of any actions against Ampal and its assets, wherever located.

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 Ampal does not reach agreement with its creditors, obtain additional financing or otherwise raise capital through the sale of assets or otherwise, or restructure its obligations under Chapter 11 of the Bankruptcy Code.

The Company's ability to continue as a going concern is contingent upon its ability to obtain the Court's approval of a reorganization plan and its ability to successfully implement such plan, among other things. As a result of the Chapter 11 case, the realization of assets and the satisfaction of liabilities are subject to uncertainty. As a debtor-in-possession under Chapter 11, Ampal may sell or otherwise dispose of or liquidate assets or settle liabilities, subject to the approval of the Court or as otherwise permitted in the ordinary course of business, for amounts other than those reflected in the accompanying consolidated financial statements. Further, the plan of reorganization could materially change the amounts and classifications of assets and liabilities reported in the historical consolidated financial statements. The accompanying consolidated financial statements do not include any adjustments related to the recoverability and classification of assets or the amounts and classification of liabilities or any other adjustments that might be necessary should we be unable to continue as a going concern or as a consequence of the Chapter 11 case. 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. There is no assurance that the Filing will allow the Company to continue as a going concern in the future.

Operation and Implication of the Chapter 11 Case

Under Section 362 of the Bankruptcy Code, the filing of a bankruptcy petition automatically stays most actions against a debtor, including most actions to collect indebtedness incurred prior to the petition date or to exercise control over property of the debtor. Accordingly, creditors are stayed from taking any actions as a result of such defaults. Substantially all pre-petition liabilities are subject to settlement under a plan of reorganization. Further, a confirmed plan of reorganization or other arrangement may materially change the amounts and classifications in a debtor's historical consolidated financial statements.

Ampal is paying, and intends to continue paying, claims arising after the Petition Date in the ordinary course of business. Ampal has retained, subject to Court approval, legal and financial professionals to advise on the Chapter 11 case and certain other professionals to provide services and advice in the ordinary course of business. From time to time, Ampal may seek Court approval to retain additional professionals.

The U.S. Trustee for the Southern District of New York (the "U.S. Trustee") has appointed an official committee of unsecured creditors (the "UCC"). The UCC and its legal representatives have a right to be heard on all matters that come before the Court on all matters affecting Ampal. There can be no assurance that the UCC will support Ampal's position on matters to be presented to the Court in the future or on any plan of reorganization, once proposed. Disagreements between Ampal and the UCC could protract the Chapter 11 case, negatively affect the Company's ability to operate and delay Ampal's emergence from the Chapter 11 case.

The Company has incurred and expects to continue to incur significant costs associated with its reorganization and the Chapter 11 case. The amount of these expenses is expected to significantly affect its financial position and results of operations, but the Company cannot accurately predict the effect the Chapter 11 case will have on its business at this time.

Plan of Reorganization

For Ampal to successfully emerge from the Chapter 11 case, it must obtain the Court's approval of a plan of reorganization, which will enable Ampal to emerge from the Chapter 11 case as a reorganized company. In connection with the plan of reorganization, the Company may also obtain a new credit facility. Ampal's ability to obtain such financing is uncertain. The Company's ability to obtain such approval and financing will depend on, among other things, the timing and outcome of various ongoing matters in the Chapter 11 case. A plan of reorganization determines the rights and satisfaction of claims of various creditors and security holders, and is subject to the ultimate outcome of negotiations and Court decisions ongoing through the date on which the plan of reorganization is confirmed.

Although Ampal has not yet filed a plan of reorganization or a related disclosure statement with the Court, Ampal intends to propose a plan.

Financial Reporting in Reorganization

As a result of the Chapter 11 case, the Company has adopted the provisions of reorganization accounting, which does not change the application of GAAP with respect to the preparation of its financial statements. However, this guidance does require that financial statements, for periods including and subsequent to a Chapter 11 filing, distinguish between transactions and events that are directly associated with the reorganization proceedings and the ongoing operations of the business, as well as additional disclosures. Effective August 29, 2012, expenses, gains and losses directly associated with the reorganization proceedings are reported as reorganization items, net in the accompanying consolidated statements of operations. In addition, liabilities subject to compromise in the Chapter 11 case are distinguished from fully secured liabilities not expected to be compromised and from post-petition liabilities in the accompanying consolidated balance sheet as of September 30, 2012. Where there is uncertainty about whether a secured claim is undersecured or will be impaired under the plan, the Company has classified the entire amount of the claim as a liability subject to compromise. Such liabilities are reported at amounts expected to be allowed, even if they settle for lesser amounts. These claims remain subject to future adjustments, which may result from: negotiations; actions of the Court; disputed claims; rejection of executory contracts and unexpired leases; the determination as to the value of any collateral securing claims; proofs of claim; or other events.

Investment in East Mediterranean Gas Company, S.A.E. (“EMG”) and other cost basis investments

The Company accounts for its 16.8% equity interest (includes 8.6% held by the Joint Venture) in EMG and a number of other investments on the basis of the cost method. EMG, which is one of the Company’s most significant holdings as of December 31, 2011, was acquired by Ampal and by a joint venture in which Ampal is a party in a series of transactions from Merhav (M.N.F.) Ltd. (“Merhav”), which is an entity controlled by one of the members of the Company’s controlling shareholder group. As a result, the transactions were accounted for as transfers of assets between entities under common control, which resulted in Merhav transferring the investment in EMG at carrying value. Due to the nature of Merhav’s operations, this entity would be treated as an investment company under U.S. GAAP, and as such, the carrying value of the investment in EMG would equal fair value. As a result, the 16.8% investment in EMG was transferred at carrying value, which equals fair value.

The Company evaluates the carrying value amount of its interest in EMG annually in connection with the preparation of its financial statements. In light of the developments in Egypt during 2011, the Company obtained updated quarterly interim valuations from an independent third-party valuation firm. These periodic independent valuations obtained by the Company to assist in its preparation of financial statements customarily indicate a range of values depending on underlying assumptions. The valuations were based on the discounted cash flow (DCF) method. Due to uncertainties, the valuation firm used a range of possible scenarios, including different assumptions regarding the profitability and discount rates of EMG.

At December 31, 2011, the valuation range determined by the independent valuation firm was between $1,584 million and $1,856 million and the amount on which the carrying amount of Ampal's investment in EMG after impairment was based on a value of $1,550 million.

Due to the purported termination of the Source GSPA and the uncertainties in Egypt, management decided to write-off the entire amount of the investment in EMG. The Company recorded in the quarter ended March 31, 2012 charges of $260.4 million in connection with its investment in EMG. The Company did not record future compensation from the arbitrations as an asset.

Recently Adopted and Recently Issued Accounting Pronouncements

Accounting Standards Update (“ASU”) 2012-2

In July 2012, Financial Accounting Standard Board ("FASB") issued Accounting Standards Update No. 2012-2 ("ASU 2012-2") which amended the guidance for the testing of indefinite-lived intangible assets for impairment, similar to the goodwill amendment issued in September 2011. These amendments provide an entity the option to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not (more than 50%) that the fair value of an indefinite-lived intangible asset is less than its carrying amount. Such qualitative factors may include the following: macroeconomic conditions; industry and market considerations; cost factors; overall financial performance; and other relevant entity-specific events. If an entity elects to perform a qualitative assessment and determines that an impairment is more likely than not, the entity is then required to perform the existing two-step quantitative impairment test, otherwise no further analysis is required. An entity also may elect not to perform the qualitative assessment and, instead, proceed directly to the two-step quantitative impairment test. The amendments are effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012. Early adoption is permitted.

ASU 2011-12 – update to ASU 2011-05

In December 2011, the FASB issued ASU No. 2011-12 ("ASU 2011-12") which amended the comprehensive income presentation guidance. The adjustments in ASU 2011-12 supersede changes to those paragraphs in Update No. 2011-05 ("ASU 2011-05") that pertain to how, when and where reclassification adjustments are presented. Entities should continue to report reclassifications out of accumulated other comprehensive income consistent with the presentation requirements in effect before ASU 2011-05. The amendments are effective for public entities for annual and interim reporting periods beginning after December 15, 2011. The Company adopted this amendment on January 1, 2012.

ASU 2011-11

In December 2011, the FASB issued ASU No. 2011-11 ("ASU 2011-11") which amended the disclosure information requirements regarding offsetting (netting) assets and liabilities. The amendment enhances disclosures regarding financial instruments and derivative instruments that are either (1) offset in accordance with GAAP or (2) subject to an enforceable master netting arrangement. This information will enable users of an entity's financial statements to evaluate the effect or potential effect of netting arrangements on an entity's financial position, including the effect or potential effect of rights of setoff associated with certain financial instruments and derivative instruments. The amendments in ASU 2011-11 are effective for annual and interim reporting periods beginning after January 1, 2013. According to ASU 2011-11 the entity should provide the disclosures required by those amendments retrospectively for all comparative periods presented. The Company does not expect ASU 2011-11, which relates to disclosure matters only, to have an impact on the Company's consolidated financial position, results of operations or cash flows.

ASU 2011-08

In September 2011, the FASB issued ASU No. 2011-08 ("ASU 2011-08") which amended the guidance for goodwill impairment testing. The amendment provides entities testing goodwill for impairment the option of performing a qualitative assessment before calculating the fair value of the reporting unit. If, on the basis of qualitative factors, it is not more likely than not that the fair value of the reporting unit is less than the carrying amount, further testing of goodwill for impairment would not be required. The amendment also removes the carry forward option of the reporting unit fair value from one year to the next. The amendment is effective for annual and interim goodwill impairment tests performed in fiscal years beginning after December 15, 2011. Early adoption is permitted.

ASU 2011-05

In June 2011, the FASB issued ASU No. 2011-05 ("ASU 2011-05") which amended the comprehensive income presentation guidance. The amendment requires entities to report components of comprehensive income in either a continuous statement of comprehensive income or two separate but consecutive statements. The guidance is effective for interim and annual periods beginning after December 15, 2011.

ASU 2011-04

In May 2011, the FASB issued ASU No. 2011-04 ("ASU 2011-04") for Fair Value Measurements and Disclosures (Topic 820). The amendment clarifies the existing guidance and adds new disclosure requirements. The guidance is effective for interim and annual periods beginning after December 15, 2011. The guidance did not have a material impact on the financial statements.

Results of Operations

Nine months ended September 30, 2012 compared to nine months ended September 30, 2011

The Company recorded a consolidated net loss of $221.1 million for the nine months ended September 30, 2012, compared to a net loss of $42.3 million for the corresponding period in 2011. The loss in the period ended September 30, 2012 is primarily attributable to the impairment of the investment in EMG in the amount of $260.4 million (including noncontrolling interest), as compared to a $50.5 million loss in the corresponding period in 2011.

Due to the purported termination of the Source GSPA and the uncertainties in Egypt, management decided to write-off the entire amount of the investment in EMG. The Company recorded in the nine months ended September 30, 2012 charges of $260.4 million in connection with its investment in EMG. The Company did not record future compensation from the arbitrations as an asset.

The Company’s management believes, based on advice of its legal counsel, that there is a reasonable chance of recovering significant monetary compensation for damages through the above described arbitrations. Future compensation from the arbitrations, if any, was not included in the Company's financial statements.

In the nine months ended September 30, 2012, the Company recorded $6.6 million of marketing and sales expense, as compared to a $6.7 million marketing and sales expense in the corresponding period in 2011. These expenses are attributable to Gadot and composed mainly of salary and commission expenses.

In the nine months ended September 30, 2012, the Company recorded $33.8 million of general, administrative and other expense, as compared to $45.3 million in the corresponding period in 2011. The decrease resulted mainly from the decrease in payments of annual management fees and a reduction in general and administrative expenses.

In the nine months ended September 30, 2012, the Company recorded $64.4 million of net loss attributable to noncontrolling interests, as compared to $11.6 million of net loss attributable to noncontrolling interests in the corresponding period in 2011. The loss is mainly attributable to the impairment of the investment in EMG.

In the nine months ended September 30, 2012, the Company recorded a $26.5 million interest expense, as compared to a $31.4 million interest expense for the corresponding period in 2011. The interest expense relates to the financing the Company obtained in order to purchase Gadot, the Company's debentures, the Company's notes payable and the interest expense resulting from the swap agreements.

In the nine months ended September 30, 2012, the Company recorded a $11.4 million translation gain, as compared to a $12.6 million translation gain for the corresponding period in 2011. The monetary value of denominated NIS balances reported on our balance sheet changes with currency exchange rates resulting in the translation gain or loss. The translation gain is related to a change in the valuation of the New Israeli Shekel (“NIS”) as compared to the U.S. Dollar, which decreased 2.3% in the nine months ended September 30, 2012, as compared to a decrease of 4.6% for the corresponding period in 2011.

The Company recorded a minor net gain of $0.7 million in Equity in gains of affiliates for the nine months ended September 30, 2012, as compared to a $0.3 million for the corresponding period in 2011.

Results of operations analyzed by segments for the nine months ended September 30:

	2012	2011
	(U.S. Dollars in thousands)	
Revenues:		
Chemicals	$ 311,104	$ 318,697
Finance	14,575	21,571
Leisure-time	2,040	2,265
Equity in earnings of affiliates	658	268
Total	$ 328,377	$ 342,801

The Chemicals income relates solely to Gadot and was derived from the following activities: sales of a wide range of liquid chemicals, providing maritime shipping services of chemicals by ships and providing other services, which include logistics and storage services for chemicals. The overall demand for chemical products, especially commodity chemicals, is highly dependent on general economic conditions.

In the nine months ended September 30, 2012, the Company recorded $328.4 million in revenue which was comprised of $311.1 million in the Chemicals segment, $14.6 million in the Finance segment, $2.0 million in the Leisure-time segment and $0.7 million Equity in earnings of affiliates, as compared to $342.8 million for the same period in 2011, which was comprised of $318.7 million in the Chemicals segment, $21.6 million in the Finance segment, $2.3 million in the Leisure-time segment and $0.3 million Equity in earnings of affiliates. The decrease in Chemicals revenue is attributable to economic downturn in Europe and in Israel sales quantities decreased and the effect of the devaluation of the Euro and NIS exchange rate versus the U.S. Dollar exchange rate in the period. The demand for chemical carriers shows moderate growth during the nine months ended September 30, 2012.

	2012	2011
	(U.S. Dollars in thousands)	
Expenses:		
Chemicals	$ 302,826	$ 313,307
Finance	38,672	51,623
Energy	260,400	50,523
Leisure-time	2,103	2,183
Total	$ 604,001	$ 417,636

In the nine months ended September 30, 2012, the Company recorded $604.0 million in expenses which was comprised of $302.8 million of expenses in the Chemicals segment, $38.7 million of expenses in the Finance segment, $260.4 million of expenses in the Energy segment and $2.1 million of expenses in the Leisure-time segment, as compared to $417.6 million in expenses for the same period in 2011, which was comprised of $313.3 million in the Chemicals segment, $51.6 million in the Finance segment and $2.2 million in the Leisure-time segment.

Three months ended September 30, 2012 compared to three months ended September 30, 2011

The Company recorded a consolidated net loss of $2.9 million for the three months ended September 30, 2012, compared to a net loss of $20.4 million for the corresponding period in 2011. The decrease in net loss resulted mainly from impairment of the investment in EMG in the amount of $33.6 million (including noncontrolling interest) offset by translation gain of $19.9 million in the corresponding period in 2011, as compared to translation income of $5.8 million in the three months ended September 30, 2012.

In the three months ended September 30, 2012, the Company recorded $2.1 million of marketing and sales expense, as compared to a $2.1 million marketing and sales expense in the corresponding period in 2011. These expenses are attributable to Gadot and composed mainly of salary and commission expenses.

In the three months ended September 30, 2012, the Company recorded $10.2 million of general, administrative and other expense, as compared to $14.8 million in the corresponding period in 2011. The decrease resulted mainly from the decrease in payments of annual management fees and a reduction in general and administrative expenses.

In the three months ended September 30, 2012, the Company recorded $0.4 million of net loss attributable to noncontrolling interests, as compared to $0.1 million of net loss attributable to noncontrolling interests in the corresponding period in 2011.

In the three months ended September 30, 2012, the Company recorded a $6.2 million interest expense, as compared to a $9.7 million interest expense for the corresponding period in 2011. The interest expense relates to the financing the Company obtained in order to purchase Gadot, the Company's debentures, the Company's notes payable and the interest expense resulting from the swap agreements.

In the three months ended September 30, 2012, the Company recorded a $5.8 million translation gain, as compared to a $19.9 million translation gain for the corresponding period in 2011. The monetary value of denominated NIS balances reported on our balance sheet changes with currency exchange rates resulting in the translation gain or loss. The translation loss is related to a change in the valuation of the NIS as compared to the U.S. Dollar, which increased 0.3% in the three months ended September 30, 2012, as compared to a decrease of 8.7% for the corresponding period in 2011.

The Company recorded a minor net gain of $0.3 million in Equity in gains of affiliates for the three months ended September 30, 2012, as compared to $0.1 million in the corresponding period in 2011.

Results of operations analyzed by segments for the three months ended September 30:

	2012	2011
	(U.S. Dollars in thousands)	
Revenues:		
Chemicals	$ 100,149	$ 114,167
Finance	6,858	25,486
Leisure-time	528	716
Equity in earnings of affiliates	332	89
Total	$ 107,867	$ 140,458

The Chemicals income relates solely to Gadot and was derived from the following activities: sales of a wide range of liquid chemicals, providing maritime shipping services of chemicals by ships and providing other services, which include logistics and storage services for chemicals. The overall demand for chemical products, especially commodity chemicals, is highly dependent on general economic conditions. In the past quarter, the price of crude oil slightly decreased, accordingly the prices of commodity chemicals also decreased. In the past quarter the average freight prices slightly increased.

In the three months ended September 30, 2012, the Company recorded $107.9 million in revenue, which was comprised of $100.1 million in the Chemicals segment, $6.9 million in the Finance segment, $0.5 million in the Leisure-time segment and $0.3 million Equity in earnings of affiliates, as compared to $140.4 million for the same period in 2011, which was comprised of $114.2 million in the Chemicals segment, $25.5 million in the Finance segment, $0.7 million in the Leisure-time segment and $0.01 million Equity in earnings of affiliates. The decrease in Chemicals revenue is primarily attributable to decrease in sales quantities and a moderate commodity price decrease. The demand for chemical carriers shows moderate growth during the three months ended September 30, 2012.

		2012		2011
		(U.S. Dollars in thousands)		
Expenses:				
Chemicals	$	97,216	$	112,115
Finance		10,272		15,478
Energy		--		33,600
Leisure-time		806		618
Total	$	108,294	$	161,811

In the three months ended September 30, 2012, the Company recorded $108.3 million in expenses, which was comprised of $97.2 million of expenses in the Chemicals segment, $10.3 million of expenses in the Finance segment and $0.8 million of expenses in the Leisure-time segment, as compared to $161.8 million in expenses for the same period in 2011, which was comprised of $112.1 million in the Chemicals segment, $15.5 million in the Finance segment and $0.6 million in the Leisure-time segment.

Income taxes

In the nine-month period ended September 30, 2012, the Company reported a tax expense of $7.4 million as compared to approximately $13.0 million of tax expense in the corresponding period in 2011. The tax expense which was recorded in 2012 was attributable mainly to an increase in the valuation allowance in the amount of $6.3 million, which was recorded due to the assumptions of the Company's management of the Company's ability to utilize its carryforward tax losses by way of disposition of assets. The Company intends to apply a tax planning strategy of selling all or a portion of its investments in order to utilize the net deferred income taxes that are attributable to foreign tax credits and loss carry forwards arising in the U.S., due to unrealized gain from its investments.

Liquidity and Capital Resources

Cash Flows

On September 30, 2012, cash, cash equivalents and marketable securities were $10.2 million, as compared with $54.5 million at December 31, 2011.

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. As part of the Chapter 11 case, the Company is negotiating with the UCC, which includes representatives for the holders of the Company's Series A, Series B and Series C debentures, to restructure all of Ampal's debt.

Cash flows from operating activities

Net cash provided by operating activities totaled approximately $1.4 million for the nine months ended September 30, 2012, compared to approximately $57.9 million used in operating activities for the corresponding period in 2011. The decrease in cash used in operating activities is primarily attributable to the reduction of expenses and the increase in accounts payables and inventory.

Cash flows from investing activities

Net cash used in investing activities totaled approximately $4.2 million for the nine months ended September 30, 2012, compared to approximately $14.1 million provided from investing activities for the corresponding period in 2011.

Cash flows from financing activities

Net cash used in financing activities was approximately $37.5 million for the nine months ended September 30, 2012, compared to approximately $73.2 million of net cash used in financing activities for the corresponding period in 2011. The change in cash used in financing activities is primarily attributable to the notes payable repaid due to the sale of 012's shares in the nine months ended September 30, 2011.

Investments

EMG

As of September 30, 2012, the Company’s financial statements reflect a 16.8% interest in shares of EMG, with 8.2% held directly and 8.6% 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).

From January through April 2012, there were three explosions along the Egyptian gas pipeline owned and operated by GASCO (the Egyptian gas transport company) due to alleged terror attacks that Egypt and its state entities failed to prevent. Neither EMG's site nor EMG's pipeline were damaged in the attacks.

After the alleged terror attacks, the supply of gas to EMG, and therefore to EMG’s Israeli clients, was interrupted several times, and gas was not supplied for 89 days from January 1, 2012 to April 22, 2012.

On April 22, 2012, the Company announced that it had been advised by EMG that Egyptian General Petroleum Corporation (“EGPC”) and the Egyptian Natural Gas Holding Company (“EGAS”) notified EMG that they were terminating the Gas Supply and Purchase Agreement (the “Source GSPA”) between the parties. EMG considers the termination attempt unlawful and in bad faith, and consequently demanded its withdrawal. EGPC and EGAS declined to withdraw their termination notice. EMG informed EGPC and EGAS that their attempt to terminate was wrongful and, both in isolation and in combination with its other conduct, constituted repudiation of the Source GSPA, permitting EMG to exercise its right to terminate the Source GSPA at common law.

On May 2, 2012, the Company announced that it had filed a request for arbitration against the Arab Republic of Egypt, in connection with the Company's investment in EMG for the breach of the bilateral investment treaty ("BIT") between Egypt and the United States. Other EMG investors, including Ampal affiliates and co-investors in EMG, also requested arbitration under Egypt's BITs with the United States, Poland and Germany. In the treaty arbitrations, the EMG investors claim that Egypt breached its international obligations under the applicable investment treaties by failing to provide fair and equitable treatment and full protection and security to their investments, impairing their investments through unreasonable and discriminatory measures, failing to observe the Egyptian State's obligations toward their investments, and expropriating their investments. Through the arbitrations, the investors seek, among other relief, significant monetary compensation for damages caused by Egypt's treaty violations. In accordance with the BIT between Egypt and the United States, Ampal's request for arbitration was submitted to the World Bank's International Centre for Settlement of Investment Disputes ("ICSID").

Several others US entities and a German citizen who invested in EMG have also filed requests for arbitration pursuant to the ICSID convention. On August 21, 2012 the parties to the ICSID arbitration nominated their party-appointed arbitrator, and on October 16, 2012 the co-arbitrators appointed the President of the arbitration tribunal.

Mr. Yosef A. Maiman – a Polish national – and three Ampal-affiliated entities that he controls submitted a request for arbitration under Egypt's BIT with Poland pursuant to the Arbitration Rules of the United Nations Commission on International Trade Law ("UNCITRAL"). During September 2012, the parties to the UNICTRAL arbitration nominated their party-appointed arbitrator, and are currently awaiting the nomination of the President of the arbitration tribunal, to be appointed by the Permanent Court of Arbitration.

Ampal has also been advised by EMG of the following legal proceedings involving EMG:

EMG filed a Request for Arbitration against EGPC and EGAS (collectively, "EGPC/EGAS") on October 6, 2011 at the International Court of Arbitration of the International Chamber of Commerce ("ICC"). EGPC is an Egyptian State authority and EGAS is an Egyptian state-owned entity. They are responsible for the development and transportation of Egypt's hydrocarbon resources. EMG and EGPC/EGAS entered into the Source GSPA on June 13, 2005. Through its Request for Arbitration, EMG has sought, in part, to enforce its rights to quantities of natural gas provided for in the Source GSPA and a Tripartite Agreement entered into by EMG, IEC and EGPC/EGAS (which EMG and EGPC/EGAS signed on June 13 2005 and which IEC signed on August 28, 2005) (the "Tripartite Agreement"), and to secure compensation for EGPC/EGAS's failure to supply contractual quantities.

Although the delivery shortfalls date back to EGPC/EGAS's earliest deliveries under the Source GSPA, EGPC/EGAS have subjected EMG to increasingly severe shortages (and at times to total stoppages) since February 2011. EGPC/EGAS have attempted to avoid liability for the shortages and stoppages by claiming that they are excused from their contractual obligations under the force majeure provisions of the Source GSPA. EMG has asked that a tribunal affirm EGPC/EGAS's inability to invoke force majeure, and therefore to affirm EGPC/EGAS's liability to EMG.

EMG has named the Israel Electric Corporation, Ltd. ("IEC") as an additional respondent. IEC is an Israeli state-owned electricity producer that entered into a Gas Sale and Purchase Agreement with EMG on August 8, 2005 (the "On-Sale Agreement"). Under the On-Sale Agreement, EMG promised to supply, and IEC promised to purchase, quantities of natural gas sold to EMG under the Source GSPA; those quantities were in turn guaranteed by EGPC/EGAS through the Tripartite Agreement. Therefore, EGPC/EGAS guaranteed that it would provide contractual quantities of gas to EMG (for sale to IEC) under both the Source GSPA and the Tripartite Agreement. Because the contractual guarantees under these two agreements are coextensive, EMG filed for declaratory relief declaring that EGPC/EGAS, and not EMG, are liable to IEC for supply deficiencies. An initial procedural conference call for the above arbitration was held on April 24, 2012, and the next meeting took place on May 31, 2012. The parties have exchanged pleadings regarding the ICC tribunal's jurisdiction over the dispute, and the jurisdictional issues have now been joined with the merits phase of the arbitration The total amount of the claim has not yet been quantified and the Company cannot currently estimate the range of possible compensation.

On September 21, 2011, EMG filed a Request for Arbitration against IEC as a sole respondent. In that arbitration, EMG seeks declaratory relief that IEC is not entitled to claim shortfall penalties from EMG as a result of EGPC/EGAS's breaches of the Source GSPA and the Tripartite Agreement. EMG also seeks a declaration that it may seek out additional customers, and renew contracts with existing customers, without breaching the On-Sale Agreement. The total amount of the claim has not yet been quantified and the Company cannot currently estimate the range of possible compensation.

On May 5, 2012, EGPC/EGAS filed a Notice of Arbitration against EMG at the Cairo Regional Centre for International Commercial Arbitration for alleged breaches by EMG of its obligations under the Source GSPA. EGAS/EGPC seek, among other things, declaratory relief, monetary damages of not less than approximately $182 million and injunctive relief ordering EMG to desist from pursuing the abovementioned arbitration filed by EMG against EGPC/EGAS at the ICC.

The Company's management believes, based on advice of its legal counsel, that there is a reasonable chance of recovering significant monetary compensation for damages through the above described arbitrations. Future compensation from the arbitrations, if any, was not included in the Company's financial statements.

The Company evaluates the carrying value amount of its interest in EMG annually in connection with the preparation of its financial statements. In light of the developments in Egypt during 2011, the Company obtained updated quarterly interim valuations from an independent third-party valuation firm. These periodic independent valuations obtained by the Company to assist in its preparation of financial statements customarily indicate a range of values depending on underlying assumptions. The valuations were based on the discounted cash flow (DCF) method. Due to uncertainties, the valuation firm used a range of possible scenarios, including different assumptions regarding the profitability and discount rates of EMG.

At December 31, 2011, the valuation range determined by the independent valuation firm was between $1,584 million and $1,856 million and the amount on which the carrying amount of Ampal's investment in EMG after impairment was based on a value of $1,550 million.

Due to the purported termination of the Source GSPA and the uncertainties in Egypt, management decided to write-off the entire amount of the investment in EMG. The Company recorded in the quarter ended March 31, 2012 charges of $260.4 million in connection with its investment in EMG. The Company did not record future compensation from the arbitrations as an asset.

GWE

In the nine months ended September 30, 2012, the Company made additional investments in the amount of a $1.0 million loan to Global Wind Energy Ltd.

Debt

Notes issued to institutional investors in Israel, the convertible note issued to Merhav M.N.F Ltd. ("Merhav") and other loans payable pursuant to bank borrowings are either in U.S. Dollars, linked to the Consumer Price Index (the "CPI") in Israel or in unlinked NIS, with interest rates varying depending upon their linkage provisions and mature between 2011-2019.

The Company finances its general operations and other financial commitments through bank loans from Bank Hapoalim, Union Bank of Israel Ltd. ("UBI") and Israel Discount Bank Ltd. ("IDB").

Debentures

	Series A Debentures	Series B Debentures	Series C Debentures
	par value in NIS in thousands	par value in NIS in thousands	par value in NIS in thousands
Date of issuance	November 20, 2006	April 29, 2008	September 13, 2010
Linkage	Israeli CPI	Israeli CPI	Israeli CPI
Interest	5.75%	6.60%	6.95% + 1%(*)
Maturity date	November 2015	January 2016	September 2019
Issuance	250,000	577,823	170,000
Purchased	30,733	115,431	7,084
Paid (net)	43,853		

Balance as of September 30, 2012	175,414	462,392	162,916
	U.S. Dollars in thousands	U.S. Dollars in thousands	U.S. Dollars in thousands
Balance as of September 30, 2012	51,388	131,258	42,379
Deposits held by trusties	--	5,010	9,404

(*) See description below.

On September 13, 2010, Ampal completed a public offering in Israel of NIS 170.0 million (approximately $45.0 million) aggregate principal amount of its Series C debentures, due in 2019. The debentures are linked to the CPI and carry an annual interest rate of 6.95%. The Series C debentures rank pari passu with Ampal's unsecured indebtedness. The debentures will be repaid in six equal annual installments commencing on September 7, 2014, and the interest will be paid semi-annually. As of September 30, 2012, the outstanding debt under the debentures amounts to $43.6 million. Ampal deposited an amount equal to $12.5 million with Ziv Haft Trust Company Ltd. in accordance with a trust agreement dated August 31, 2010, to secure the first four years worth of payments of interest on the debentures. As of September 30, 2012, the outstanding amount of the deposit was $9.4 million. The debt offering was made solely to certain non-U.S. institutional investors in accordance with Regulation S under the U.S. Securities Act of 1933, as amended. The debentures have not been and will not be registered under the U.S. securities laws, or any state securities laws, and may not be offered or sold in the United States or to United States persons without registration unless an exemption from such registration is available.

On March 15, 2012, Midroog (an affiliate of Moody's Investors Service) ("Midroog") downgraded Ampal's Series A, Series B and Series C Debentures' (the "Debentures") ratings by three notches, to Caa3 from B3 with a negative outlook.

On April 30, 2012, Midroog downgraded the Debentures’ ratings by three notches, to C from Caa3.

Due to the downgrading of the ratings of Ampal's Series C Debentures and according to the terms of the Series C debentures, the Series C debenture holders are entitled to additional 1% interest payments.

The annual interest on Ampal's Series C Debentures for the upcoming periods will be 7.95%; and

The semi-annual interest on Ampal's Series C Debentures for the upcoming periods will be 3.975%.

On April 27, 2011 and May 8, 2011, Ampal announced that Ampal’s Board of Directors approved a repurchase program of the Debentures that are traded on the Tel Aviv Stock Exchange (“TASE”). Under the program, Ampal is authorized to repurchase the Debentures in a total amount not in excess of the NIS equivalent of $30 million. The repurchases may be made in transactions in TASE or outside TASE, in block trades or otherwise. During the year ended December 31, 2011, the Company repurchased 10,619,296 Series A Debentures, 38,778,155 Series B Debentures and 7,084,437 Series C Debentures for an aggregate amount of $12.1 million. The Company recorded a gain of $5.8 million due to the repurchase of the debentures.

The program was suspended at the Board of Directors' discretion at the beginning of 2012.

Debentures Restructuring

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 of the principal payments due on the Debentures for 24 months.

Prior to the Filing, the Company had negotiated with committees of Holders to discuss various proposals made by the Company for the implementation of postponement of payments due on the Debentures. All such proposals and term sheets presented by the Company are no longer valid, mainly since, subsequent to the Filing, all negotiations are conducted under the jurisdiction of the Court and in accordance with applicable provisions of the Bankruptcy Code and the orders of the Court. As part of the Chapter 11 case, the Company is negotiating with the UCC, which includes representatives for the Holders, to restructure all of Ampal’s debt.

Loans

a. Ampal funded Gadot's three-stage acquisition with a combination of available cash and the proceeds of the credit facility, as amended from time to time (the "Credit Facility"), between Merhav-Ampal Group Ltd. (formerly Merhav-Ampal Energy Ltd.), an Israeli corporation and wholly owned subsidiary of Ampal ("MAG"), and Israel Discount Bank Ltd. ("IDB"), for approximately $87.4 million. The Credit Facility is divided into two equal loans of approximately $43.7 million. The first loan is a revolving loan that has no principal payments and may be repaid in full or in part on December 31 of each year until 2019, when a single balloon payment will become due. The second loan also matures in 2019, has no principal payments for the first one and a half years, and shall thereafter be paid in equal installments over the remaining 9.5 years of the term. As of September 30, 2012, the outstanding debt under the loans amounts to $58.9 million. Interest on both loans accrues at a floating rate currently equal to

LIBOR plus 3% and is payable on a current basis. Ampal has guaranteed all the obligations of MAG under the Credit Facility and Ampal's interest in Gadot has also been pledged to IDB as a security for the Credit Facility. Yosef Maiman has agreed with IDB to maintain ownership of a certain amount of the Company's Class A Stock. The Credit Facility contains customary affirmative and negative covenants for credit facilities of this type. The Company has certain financial and other covenants in the Credit Facility. The Company determined that in connection with the preparation of its September 30, 2012 financial statements it would not meet certain required covenants and due to the Company's other debts (mainly, to its debenture holders), in accordance with the terms of the Credit Facility, IDB may decide to accelerate the Credit Facility and set it to immediate prepayment. The outstanding balance is classified as a current liability. Following Ampal's voluntary petition for relief (the "Filing") under Chapter 11 of Title 11 of the United States Code (the "Bankruptcy Code") in the United States Bankruptcy Court for the Southern District of New York (the "Court"), Case No. 12-13689 on August 29, 2012, MAG has been informed by IDB that a sum of approximately 67,745,000 New Israeli Shekels (equivalent to approximately $16.7 Million) held by MAG in an IDB bank account was set off by IDB on August 30, 2012. IDB asserts in its notice that the set off is in accordance with a certain irrevocable written undertaking provided by MAG to IDB on December 31, 2007 (the "Undertaking"), to which the Company is a guarantor. IDB claims that the Filing constitutes a breach of the Undertaking, which would allow IDB to set off all monies held by MAG at IDB, and would also allow IDB to accelerate MAG's entire indebtedness under the Facility and to set it to immediate repayment. IDB has not set the entire debt to immediate repayment, but noted that it retains any right it may have to do so, and also reserves its rights to do so in the future. Therefore, the outstanding balance is classified as a short term obligation.

b. As of September 30, 2012, the Company has a $1.2 million loan with Union Bank of Israel that bears interest at the rate of LIBOR plus 2% to be repaid in one remaining annual installment on April 2, 2013. The loan agreement contains financial and other covenants. The Company determined that in connection with the preparation of its September 30, 2012 financial statements that it would not meet the covenants, and that therefore, Union Bank of Israel may decide to accelerate the loan and set it to immediate prepayment. The outstanding balance is classified as a current liability. The bank has not requested early repayment of the loans.

c. As of September 30, 2012, the Company has $93.7 million in notes from institutional investors who own 50% of Merhav Ampal Energy Holdings, LP. The notes are not linked to the CPI, bear no interest and are repayable upon agreement by both parties.

d. The Company has a long-term loan from Bank Hapoalim in the aggregate amount of $3.5 million. The loan matures in 2018 and shall be paid in seven equal annual installments. As of September 30, 2012, the outstanding debt under the loan amounts to $3.5 million. Interest accrues at a floating rate equal to LIBOR plus 3.5% and is payable on a quarterly basis. Due to the above mentioned filing the outstanding balance is classified as a liability subject to compromise.

e. As of September 30, 2012, Gadot has short-term loans, including current maturities, payable in the amount of $134.8 million and long-term loans payable in the amount of $104.5 million. The various short term-loans payable are either unlinked or linked to the U.S. Dollar or Euro and bear interest at annual rates between 1.6% to 5.7%. The various long-term loans payable are either unlinked or linked to the CPI or linked to the U.S. Dollar or Euro and bear interest at annual rates between 0.3% to 11.4%.

Our significant contractual obligations as of September 30, 2012 are summarized in the following table (in thousands):

Contractual Obligations	Total	Less than 1 year	1 – 3 years	3-5 years	More than 5 years
Short-Term Debt:					
Gadot - working capital	$ 85,811	$ 85,811			
Gadot - current maturities	$ 39,529	$ 39,529			
Ampal - revolving credit line	$ 107	$ 107			
Ampal - current maturities	$ 60,591	$ 60,591			
Long-Term Debt:					
Ampal	$ 93,691				$ 93,691
Gadot	104,471		$ 26,094	$ 24,360	54,017
Total Debt	$ 384,200	$ 186,038	$ 26,094	$ 24,360	$ 147,708

As of September 30, 2012, the Company had issued guarantees on certain outstanding loans to its investees and suppliers in the aggregate principal amount of $37.7 million, as follows:

1. The Company provided a $8.2 million guarantee on indebtedness incurred by Bay Heart.

2. $29.5 million guarantees of Gadot for suppliers.

Off-Balance Sheet Arrangements

Other than the foreign currency contracts specified below, the Company has no off-balance sheet arrangements.

FOREIGN CURRENCY CONTRACTS

The Company's derivative financial instruments consist of foreign currency forward exchange contracts to purchase or sell U.S. dollars. These contracts are utilized by the Company, from time to time, to manage risk exposure to movements in foreign exchange rates. None of these contracts have been designated as hedging instruments. These contracts are recognized as assets or liabilities on the balance sheet at their fair value, which is the estimated amount at which they could be settled, based on market prices or dealer quotes, where available, or based on pricing models. Changes in fair value are recognized currently in earnings.

As of September 30, 2012, the Company had open foreign currency forward exchange contracts to purchase Euros and sell U.S. Dollars in the amount of $1.4 million.

FORWARD LOOKING STATEMENTS

This Quarterly Report (including but not limited to factors discussed above, in the "Management's Discussion and Analysis of Financial Condition and Results of Operations," as well as those discussed elsewhere in this Quarterly Report on Form 10-Q) includes forward-looking statements (within the meaning of Section 27A of the Securities Act of 1993, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended) and information relating to the Company that are based on the beliefs of management of the Company as well as assumptions made by and information currently available to the management of the Company. When used in this Quarterly Report, the words "anticipate," "believe," "estimate," "expect," "intend," "plan," and similar expressions, as they relate to the Company o management of the Company, identify forward-looking statements. Such statements reflect the current views of the Company with respect to future events or future financial performance of the Company, the outcome of which is subject to certain risks and other factors which could cause actual results to differ materially from those anticipated by the forward-looking statements, including among others, the economic and political conditions in Israel and the Middle East and the global business and economic conditions in the different sectors and markets where the Company's portfolio companies operate.

Should any of those risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results or outcomes may vary from those described herein as anticipated, believed, estimated, expected, intended or planned. These risks and uncertainties may include, but are not limited to, those described in this report, in Part II, Item 1A. Risk Factors and elsewhere in our Annual Report on Form 10-K for the year ended December 31, 2011, and those described from time to time in our future reports filed with the Securities and Exchange Commission. The Company assumes no obligation to update or revise any forward-looking statements.

ITEM 4. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

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

Changes in Internal Control Over Financial Reporting

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

Part II – OTHER INFORMATION

Item 1. Legal Proceedings:

On August 29, 2012, the Company filed a voluntary petition for relief (the "Filing") under Chapter 11 of Title 11 of the United States Code (the "Bankruptcy Code") in the United States Bankruptcy Court for the Southern District of New York (the "Court"), Case No. 12-13689. Please see "Part I, Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations" for further information regarding the Filing.

On May 3, 2012, the Company announced that it had filed a request for arbitration against the Arab Republic of Egypt, in connection with the Company's investment in EMG for the breach of the BIT between Egypt and the United States. Other EMG investors, including Ampal affiliates and co-investors in EMG, also requested arbitration under Egypt's BITs with the United States, Poland and Germany. In the treaty arbitrations, the EMG investors claim that Egypt breached its international obligations under the applicable investment treaties by failing to provide fair and equitable treatment and full protection and security to their investments, impairing their investments through unreasonable and discriminatory measures, failing to observe the Egyptian State's obligations toward their investments, and expropriating their investments. Through the arbitrations, the investors seek, among other relief, significant monetary compensation for damages caused by Egypt's treaty violations. In accordance with the BIT between Egypt and the United States, Ampal's request for arbitration was submitted to the World Bank's International Centre for Settlement of Investment Disputes ("ICSID"). Several other US entities and a German citizen who invested in EMG have also filed requests for arbitration pursuant to the ICSID convention. Mr. Yosef A. Maiman – a Polish national – and three Ampal-affiliated entities that he controls submitted a request for arbitration under Egypt's BIT with Poland pursuant to the Arbitration Rules of the United Nations Commission on International Trade Law (UNCITRAL).

The Company's management believes, based on advice of its legal counsel, that there is a reasonable chance of recovering significant monetary compensation for damages through the above - described arbitrations. Future compensation from the arbitrations, if any, was not included in the Company's financial statements.

Item 1A. RISK FACTORS

In addition to the other information set forth in this report, you should carefully consider the factors discussed in Part I, "Item 1A. Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2011, which could materially affect our business, financial condition or future results. The risks described in our Annual Report on Form 10-K are not the only risks facing our Company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results.

While not required for smaller reporting companies, we include the following risk factors in addition to the ones previously provided:

Failure to execute our turnaround strategy could adversely affect our Company's liquidity, financial condition and results of operations.

We are currently operating our business as a debtor-in-possession in Chapter 11. The continuation of our Company as a going concern is contingent upon, among other things, our Company's ability (i) to develop a plan of reorganization and obtain confirmation of that plan under the Bankruptcy Code; (ii) to reduce debt and other liabilities through the bankruptcy process; (iii) to subsequently generate sufficient cash flow from operations; and (iv) to obtain financing sources, if necessary, to meet our future obligations. The uncertainty regarding these matters raises substantial doubt about our ability to continue as a going concern.

As a result of the Chapter 11 case, our historical financial information may not be indicative of our future financial performance.

Our capital structure may be significantly altered through the Chapter 11 process. Under fresh-start reporting rules that may apply to the Company upon the effective date of a plan of reorganization, our assets and liabilities would be adjusted to fair values and our accumulated deficit would be restated to zero. Accordingly, if fresh-start reporting rules apply, our financial condition and results of operations following our emergence from the bankruptcy would not be comparable to the financial condition and results of operations reflected in our historical financial statements. In connection with the Chapter 11 case and the development of a plan of reorganization, it is also possible that additional restructuring and related charges may be identified and recorded in future periods. Such charges could be material to our consolidated financial position and results of operations in any given period.

Operating during the Chapter 11 case may restrict our ability to pursue our strategic and operational initiatives.

As a result of the Chapter 11 case, transactions outside the ordinary course of business are subject to the prior approval of the Bankruptcy Court, which may limit our ability to respond in a timely manner to certain events or take advantage of certain opportunities. Additionally, if part of our reorganization plan involves obtaining DIP financing, then the terms of any DIP Credit Agreement limit our ability to undertake certain business initiatives. These limitations include, among other things, our ability to:

- incur indebtedness;
- incur or create liens;
- dispose of assets;
- prepay certain indebtedness and make other restricted payments; and
- modify the terms of certain indebtedness and certain material contracts.

The Chapter 11 case may have an adverse effect on our business and results of operations.

The requirements of the Chapter 11 case have consumed and will continue to consume a substantial portion of our corporate management's time and attention and leave them with less time to devote to the business. This diversion of attention may materially and adversely affect the development of our business strategy, and, as a result, on our financial condition and results of operations, particularly if the Chapter 11 case is protracted.

Furthermore, we have incurred and will continue to incur during the pendency of the Chapter 11 case substantial costs for professional fees and other expenses associated with the administration of the Chapter 11 case.

If we are unable to implement a plan of reorganization, we may not be able to restructure our Company's debts and continue as a going concern.

Our plan of reorganization has not yet been formulated or submitted to the Court. In order to successfully emerge from Chapter 11 bankruptcy protection, we must develop and obtain Court and creditor approval of our plan of reorganization. This process requires us to meet statutory requirements with respect to adequacy of disclosure with respect to a plan, soliciting and obtaining creditor acceptance of a plan, and fulfilling other statutory conditions for plan confirmation. We may not receive the requisite acceptances to confirm a plan. Even if the requisite acceptances of a plan are received, the Court may not confirm it. As a result, there is no guarantee that we will successfully reorganize and continue as a going concern.

Trading in our Class A Stock during the pendency of the Chapter 11 case is highly speculative and poses substantial risks. Our Class A Stock may be cancelled and holders of such Class A Stock may not receive any distribution with respect to, or be able to recover any portion of, their investments.

Although we cannot say for certain whether holders of our Class A Stock will be eligible to receive any distributions on account of those holdings under a plan of reorganization or, if applicable, in a liquidation, it is exceedingly likely that these equity interests will be cancelled and extinguished in connection with confirmation of a plan of reorganization by the Court and the holders thereof would not be entitled to receive, and would not receive or retain, any property or interest in property on account of such equity interests. In the event of cancellation of these equity interests, amounts invested by such holders in our outstanding equity securities will not be recoverable. As a result, our currently outstanding Class A Stock would have no value. Trading prices for our Class A Stock may bear little or no relationship to the actual recovery, if any, by the holders thereof in the Chapter 11 case. Accordingly, we urge extreme caution with respect to existing and future investments in our Class A Stock.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

None.

Item 3. Defaults upon Senior Securities

None.

Item 4. Mine Safety Disclosures

None.

Item 5. Other Information.

None.

Item 6. Exhibits.

(a)Exhibits:

3.1 Unofficial Composite Copy of Certificate of Incorporation

11.1 Schedule Setting Forth Computation of Earnings Per Share of Class A Stock.

31.1 Certification of Yosef A. Maiman pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31.2 Certification of Irit Eluz pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32.1 Certification of Yosef A. Maiman and Irit Eluz pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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/ Yosef A. Maiman
Yosef A. Maiman
Chairman of the Board
President & Chief Executive Officer
(Principal Executive Officer)

By: /s/ Irit Eluz
Irit Eluz
CFO and Senior Vice President,
Finance and Treasurer
(Principal Financial Officer)

By: /s/ Nir Bernstein
Nir Bernstein
Vice President - Accounting and Controller
(Principal Accounting Officer)

Date: November 13, 2012

AMPAL-AMERICAN ISRAEL CORPORATION AND SUBSIDIARIES

Exhibit Index

Exhibit No.	Description
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32.1	Certification of Yosef A. Maiman and Irit Eluz pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.