

MEMORANDUM

To: Robert A. McDowell

From: Branch 3

Re: Report of conference with Maurice Boukstein and Stanley Goldenberg, counsel for Ampal-American Israel Corporation, and L.M. Greene, J.B. Morris and Harold Sweetwood of the staff on November 2, 1954.

File No.: 812-400-3

The staff advised counsel that it was doubtful as to whether changed circumstances did not warrant the institution of proceedings to terminate the exemption from all the provisions of the Act granted to Ampal by the Commission in 1947. The staff pointed out that at that time the company's assets totaled only \$1,500,000 as compared to \$26,000,000 today; and that the number of Ampal's security holders had increased substantially since 1947. In response to Boukstein's inquiry as to why the question was being raised at this time, the staff pointed out that the Commission's order in 1947 had reserved the right to review the exemption in the event of changed circumstances; and that Ampal's pending registration of \$10,000,000 of debentures raised the question whether the greater size of the company now had such an impact upon public investor interest as to warrant a revocation of the exemption order.

Boukstein proceeded to present his arguments for continuance of the exemption. He pointed out that there has been no change in the purposes, voting control, or in the type of investor who is approached by the company; that the method of operations

remains substantially unchanged; and that the only change that has occurred is the size of the company.

Boukstein discussed the origin, objectives and operations of the company in support of his argument that Ampal's exemption should continue because the company is not the type contemplated for regulation under the Act. He said that the company was organized in the early 1940s by leaders of the Zionist movement in the United States to serve as a vehicle for financing that organization's objectives in Palestine. The objective of the Zionist movement then was the establishment of a homeland for Jewish immigrants; at the present time its objective is the development of Israel so as to enable it to accommodate immigrants. The domestic support for organizing Ampal was procured through the efforts of Abraham Dickenstein, who had been sent to the United States by a labor organization in Palestine. Dickenstein, who had worked for a Palestine bank controlled by this labor organization, was and is, the moving spirit in the company, and it has been due to his efforts that the company has grown and been successful.

Boukstein stated that the broad objective of Ampal is to aid the economic development of Israel so that the nation's economy can support more immigrants. The company has, therefore, sought to promote the development of natural resources, agriculture and industry. In pursuing this purpose the company has not, generally speaking, invested in small private ventures or sought profit opportunities dependent on growth. For the most part Ampal has made loans to the Israel Government and to organizations of a public or semi-public nature pursuant to an understanding that the borrowers use the funds in specified ventures calculated to broaden the economy. For a short time Ampal did invest a small portion of its assets in equity securities of small

individual enterprises. However, Boukstein said that Ampal has discontinued that practice, and that this function has been transferred to Israel Industrial & Mineral Development Corporation, which was organized by Ampal's sponsors and is a registered investment company.

As to the public interest, Boukstein conceded that while the number of investors had increased substantially, the investor interest is still confined, as originally, to persons who are not interested principally in profit. He contended that while investors in Ampal do not treat their investments as charitable contributions, neither do they view such investments as a medium for capital gain or for earning a return commensurate with the risk involved. Boukstein pointed out that Ampal's debentures, the only securities which have been sold since 1947, were priced to yield between 4% and 5%, and that any investor seeking adequate return could find more conservative investments which furnished a higher yield.

Boukstein stated that Ampal's debentures were sold to persons recommended by members of the various Zionist organizations in the larger cities; that sales were made at luncheons, dinners and other social affairs arranged for the purpose; that no registered brokers or security dealers were involved; that the company employed only three salesmen; that the debentures were sold in a manner similar to the solicitation of charitable funds; that the costs of selling the debentures were less than the average cost of raising charitable subscriptions and that he felt certain that no debentures were held except by Zionist supporters.

With respect to the size of Ampal and its impact on the public interest, Boukstein pointed out that a large portion of the company's outstanding securities are debt

obligations held by banks. The publicly held preferred stock and debentures amount to \$3,500,000 and \$11,300,000, respectively. As to the effect of the proposed sale of \$10,000,000 of debentures, Boukstein expressed the view that such sale would just about saturate the market for those securities. He also expressed the belief that the bulk of any debentures which should be sold would be purchased by present security holders and, consequently, that any increase in the number of investors would not be commensurate with the increase in company debt.

Boukstein stated that no one connected with the company had made any personal profits in the company; and that neither Dickenstein nor any other officers or directors received any remuneration from affiliated organizations; that Dickenstein's salary is relatively small (about \$16,000); that no dividends had ever been paid on the common stock whatever and that there was little, if any, expectation of capital gain.

When questioned about the debt-heavy structure of the company, Boukstein said that such a structure was necessary to give the company the advantage of interest deductions for tax purposes. He said the company could not continue in existence without such deductions, because its revenue was derived from fixed interest obligations at rates which would not support Ampal's outstanding securities if the company's taxes were computed without benefit of interest deductions. Furthermore, if the company lost the benefit of deduction of interest for tax purposes, it would be required to increase its interest rates on loans to the detriment of the Israel economy which Ampal seeks to aid.

Boukstein claimed that revocation of the exemption would also force the company out of business because it would be impossible to carry out its functions while registered under the Act, particularly due to the requirements of Sections 17(a), 21(b) and

18(a)(2)(A), 18(a)(2)(C). He said that the company could not meet the capital requirements of Section 18, and that Section 21(b) would prohibit transactions designed to place funds at the disposal of Ampal's parent (the Workers' Bank). The operation of Section 17(a), he said would involve expenditure of time and expenses which Ampal could not afford.

Boukstein and Goldenberg were advised that the staff would consider the matter. Boukstein urged that we permit the registration statement to become effective promptly and pointed out that the sale of debentures was a seasonal matter between October and April.

H.S.