FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

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PEC ISRAEL ECONOMIC CORP

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SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 1994

OR

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

For the transition period from ____________ to ____________

Commission file number 2-1271

PEC Israel Economic Corporation
(Exact name of registrant as specified in its charter)

Maine	13-114-3528
(State or other jurisdiction of incorporation or organization)	(I.R.S. employer identification no.)
511 Fifth Avenue, New York, N.Y.	10017
(Address of principal executive offices)	(Zip code)

Registrant's telephone number, including area code (212) 687-2400

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 .

As of May 12, 1994 there were outstanding 18,758,588 shares of Common Stock with par value of $1.00 per share.

PART I - FINANCIAL INFORMATION

PEC ISRAEL ECONOMIC CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)

	For the Three Months Ended: 3/31/94	3/31/93
Revenues:		
Interest and dividends	$ 705,955	$ 814,382

Equity in net income of Affiliated Companies	4,970,107	7,035,252
Net gain on issuance of shares by Affiliated Companies	6,415,178	7,778,505
Revenues of General Engineers Limited	3,317,116	2,529,816
Net gain on sales of investments	329,844	453,384
Change in market value of marketable securities	(1,240,491)	-
Other	(312,536)	(126,315)
	14,185,173	18,485,024
Expenses:		
General and administrative	834,612	1,014,991
Cost of sales and expenses of General Engineers Limited	3,301,705	2,607,602
	4,136,317	3,622,593
Income before income taxes and cumulative effect of accounting changes	10,048,856	14,862,431
Income taxes	257,858	1,598,849
Income before cumulative effect of accounting changes	9,790,998	13,263,582
Cumulative effect of changes in accounting for:		
Marketable securities	2,472,879	-
Income taxes	-	(1,173,713)
Net Income	$12,263,877	$12,089,869
Earnings per common share before cumulative effect of changes in accounting	$ .52	$ .70
Cumulative effect on earning per share for changes in accounting for:		
Marketable securities	.13	-
Income taxes	-	(.06)
Earnings per common share	$ .65	$ .64
Number of shares outstanding	18,758,588	18,758,588
Dividend per share	None	None

See notes to consolidated financial statements.

PEC ISRAEL ECONOMIC CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(Unaudited)

	March 31, 1994	December 31, 1993
Assets		
Cash and cash equivalents	$ 36,815,539	$ 42,665,957
Investments	316,667,494	292,484,875
Assets of General Engineers Limited	8,609,350	8,722,142
Other assets	3,966,915	4,000,416
Total assets	$366,059,298	$347,873,390

Liabilities and Shareholders' Equity

Liabilities:		
Liabilities of General Engineers Limited	$ 5,331,006	$ 5,484,976
Deferred income taxes	32,384,986	30,214,359
Other liabilities	4,922,649	4,937,184
Total liabilities	42,638,641	40,636,519
Shareholders' equity:		
Common stock, $1.00 par value	31,952,180	18,758,588
Additional paid-in capital	99,265,679	99,257,071
Retained earnings	213,063,149	200,799,272
Unrealized gain on marketable securities	3,011,617	-
Cumulative translation adjustment	(10,678,376)	(11,578,060)
	336,614,249	307,236,871
Treasury stock	(13,193,592)	-
Total shareholders' equity	323,420,657	307,236,871
Total liabilities and shareholders' equity	$366,059,298	$347,873,390

See notes to consolidated financial statements.

<TABLE><CAPTION>

PEC ISRAEL ECONOMIC CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY
FOR THE THREE MONTHS ENDED MARCH 31, 1994

<S>	Common Stock <C>	Paid-in Capital <C>	Retained Earnings <C>	Unrealized Gain on Marketable Securities <C>	Cumulative Translation Adjustment <C>	Treasury Stock <C>	Total <C>
Balance, January 1, 1994	$18,758,588	$99,257,071	$200,799,272	$ ---	$(11,578,060)	$ ---	$307,236,871
Adoption of SFAS 115 for available-for-sale marketable securities, net of tax				3,790,603			3,790,603
Issuance of 13,193,592 new common shares in exchange for 13,193,592 common shares	13,193,592					(13,193,592)	---
Change in market value for available-for-sale marketable securities, net of tax				(778,986)			(778,986)
Paid-in capital of Affiliated Companies		8,608					8,608
Change in cumulative translation adjustment					899,684		899,684
Net income			12,263,877				12,263,877
Balance, March 31, 1994	$31,952,180	$99,265,679	$213,063,149	$3,011,617	$(10,678,376)	$(13,193,592)	$323,420,657

</TABLE>

See notes to consolidated financial statements.

PEC ISRAEL ECONOMIC CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	For the Three Months Ended: 3/31/94	3/31/93*
Cash Flows from Operating Activities:		
Net income	$12,263,877	$12,089,869
Adjustments to reconcile net income to net cash used in operating activities:		
Equity in net income of Affiliated Companies	(4,970,107)	(7,035,252)
Cumulative effect of changes in accounting for:		
Marketable securities	(2,472,879)	-
Income taxes	-	1,173,713
Purchase of marketable securities	(9,225,997)	(7,373,023)
Proceeds from sale of marketable securities	347,167	2,313,335
Change in market value of marketable securities	1,240,491	-
Net gain on sales of investments	(329,844)	(453,384)
(Income) loss of consolidated subsidiaries	(1,361)	28,228
Loss on investment in partnerships	334,682	202,853
Amortization of premiums on receivables	50,193	17,460
Net gain on issuance of shares by Affiliated Companies	(6,415,178)	(7,778,505)
Dividends from Affiliated Companies	1,020,220	569,160
Increase in other assets	(340,320)	(171,173)
Increase in deferred income taxes	56	1,406,847
Increase in other liabilities	104,052	534,501
Write-off of deferred charges	-	110,457
Net cash used in operating activities	(8,394,948)	(4,364,914)
Cash Flows from Investing Activities:		
Collection of U.S. Government obligations	2,766,455	-
Purchase of notes and bonds receivable	(1,496,142)	(3,264,943)
Proceeds from sale of investments	2,210,884	-
Purchase of investments	(936,667)	(5,891,574)
Net cash provided by (used in) investing activities	2,544,530	(9,156,517)
Net Decrease in Cash and Cash Equivalents	(5,850,418)	(13,521,431)
Cash and Cash Equivalents, beginning of period	42,665,957	66,040,089
Cash and Cash Equivalents, end of period	$36,815,539	$52,518,658
Supplemental Disclosures of Cash Flow Information:		
Cash paid during period for income taxes	$ 134,696	$ 114,507

See notes to consolidated financial statements.
*Reclassified.

PEC ISRAEL ECONOMIC CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements
(Unaudited)

1. The December 31, 1993 balance sheet presented herein was derived from the audited December 31, 1993 consolidated financial statements of the Company and Subsidiaries.

2. These financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of

Regulation S-X. The financial statements should be read in conjunction with the audited consolidated financial statements of the Company and Subsidiaries for the year ended December 31, 1993 for a description of the significant accounting policies, which have continued without change, except as described in Note 3 below, and other footnote information.

3. Effective on January 1, 1994, the Company adopted Statement of Financial Accounting Standard No. 115 "Accounting for Certain Investments in Debt and Equity Securities" ("SFAS 115"). Under SFAS 115, marketable debt and equity securities, other than equity securities accounted for under the equity method, are reported at fair value, with unrealized gains and losses from those securities which are classified as "trading securities" included in net income and unrealized gains and losses from those securities which are classified as "available-for-sale securities" reported as a separate component of shareholders' equity. Debt securities classified as "held to maturity" are reported at amortized cost. The cumulative effect of adopting SFAS 115 as of January 1, 1994 for securities classified as "trading securities" was an increase in net income of $2,472,879, net of taxes, or $.13 per share, which increase is reported separately in the accompanying statements of income. The effect, net of taxes, of adopting SFAS 115 for securities classified as "available-for-sale securities" was an increase in shareholders' equity of $3,790,603 as of January 1, 1994 and $3,011,617 as of March 31, 1994.

4. On March 24, 1994, pursuant to a plan of reorganization, PEC Holdings Limited ("PECH"), a Maine corporation and a wholly owned subsidiary of IDB Development Corporation Ltd. ("IDB Development"), which owned 13,193,592 shares of the Company's common stock, transferred those shares of the Company's common stock to the Company (which holds them as treasury shares) in exchange for an identical number of newly issued shares of common stock. Immediately after the exchange, pursuant to such plan of reorganization, PECH was dissolved and distributed to IDB Development the newly issued shares of the Company's common stock received in the exchange, resulting in the Company becoming a direct subsidiary of IDB Development. As a result of the foregoing exchange, the Company has 31,952,180 issued shares of common stock, par value $1.00 per share, of which 18,758,588 shares are outstanding and 13,193,592 shares are treasury shares. The issuance of the new shares was accounted for at par value because the transaction was among related parties and there was no change in relative ownership interests among shareholders.

5. All adjustments (recurring in nature) which are, in the opinion of management, necessary for a fair presentation of the results of the interim periods have been included. The results of the interim periods are not necessarily indicative of the results for the full year.

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

RESULTS OF OPERATIONS

Three Months Ended March 31, 1994 Compared to Three Months Ended March 31, 1993

Consolidated net income for the three months ended March 31, 1994 was $12.3 million compared to $12.1 million for the three months ended March 31, 1993. The increase in consolidated net income resulted primarily from a reduced provision for income taxes and the effect of PEC's adoption of Statement of Financial Accounting Standards No. 115 "Accounting for Certain Investments in Debt and Equity Securities" ("SFAS 115") in the first quarter of 1994 (which increased consolidated net income in the first quarter of 1994 by a cumulative effect adjustment of approximately $2.5 million, offset in part by a reduction in revenues in the first quarter of 1994 of approximately $1.2 million for changes in the market value of marketable securities). The increase in consolidated net income also resulted from the effect of PEC's adoption of Statement of Financial Accounting Standards No. 109 "Accounting for Income Taxes" ("SFAS 109") in the first quarter of 1993 (which reduced consolidated net income in the first quarter of 1993 by a cumulative effect adjustment of approximately $1.2 million). The increase attributable to these factors was partially offset by decreases in equity in net income of Affiliated Companies and in net gain on issuance of shares by Affiliated Companies.

Equity in net income of Affiliated Companies for the first quarter of 1994 was $5.0 million compared to $7.0 million for the corresponding 1993 period. The reduction in net income of Affiliated Companies for the three months ended March 31, 1994 reflects PEC's reduced net income in respect of some Affiliated Companies, principally Scitex, El-Yam, Tel-Ad, Elron and Tambour. This reduction was partially offset by PEC's increased net income in respect of certain other Affiliated Companies, particularly DIC and PEC Cable TV Ltd. (the holding company for PEC's interest in Tevel) and Super-Sol.

Net gain on issuance of shares by Affiliated Companies for the three months ended March 31, 1994 resulted principally from the exercise in February 1994 of all the then outstanding one year options to purchase ordinary shares of Tambour, which options Tambour sold in February 1993 in an initial public offering in Israel of ordinary shares and one and two year options to purchase ordinary shares. As a result of the exercise of options to purchase ordinary shares of Tambour in the first quarter of 1994, PEC realized a gain on issuance of shares by Tambour of approximately $5.9 million for the three months ended March 31, 1994 and PEC's ownership interest in Tambour was reduced from 44.9% to 41.3%. During the first quarter of 1994, PEC also realized a gain on issuance of shares by Lego of approximately $528,000 as a result of Lego's initial public offering in Israel in January 1994, which reduced PEC's ownership interest in Lego from 16.0% to 13.0%. During the first quarter of 1993, PEC realized a gain on issuance of shares by Tambour of $7.0 million as a result of Tambour's public offering and realized a gain on issuance of shares by Mul-T-Lock of $718,000 as a result of Mul-T-Lock's sale of ordinary shares in a private placement.

PEC's interest and dividend income decreased in the first quarter of 1994 compared with the corresponding period of 1993 primarily because of lower interest rates and a reduced amount of liquid assets (approximately $71.8 million at the end of the first quarter of 1994 compared to approximately $78.9 million at the end of the corresponding period of 1993). See Liquidity and Capital Resources. The amount of liquid assets was reduced principally due to the net purchase of securities of new and existing Affiliated Companies and securities of other Israeli companies.

The net gain on sales of investments for the three months ended March 31, 1994 of $329,844 resulted from PEC's sale of a small portion of the shares of Maxima and its sale of marketable securities of U.S. companies while its net gain on sales of investments for the corresponding period of 1993 of $453,384 resulted from PEC's sale of marketable securities of U.S. companies. PEC's other income for the first quarter of 1994 reflects principally a greater loss with respect to PEC's interest in a limited partnership compared with the corresponding period of 1993.

General and administrative expenses for the three months ended March 31, 1994 declined compared with the three months ended March 31, 1993 due in part to the write-off in the first quarter of 1993 of approximately $110,000 of deferred American Stock Exchange listing fees for PEC's common stock.

PEC does not provide deferred income taxes with respect to undistributed earnings of, and gains on issuances of shares by, Majority-Owned Affiliated Companies. The reduced provision for income taxes in the first quarter of 1994 compared to the corresponding quarter of 1993 is primarily attributable to an increase in the proportion of income from undistributed earnings of, and gains on issuances of shares by, Majority-Owned Affiliated Companies in the first quarter of 1994 compared to the corresponding quarter of 1993.

As discussed in Note 3 to the financial statements for the three months ended March 31, 1994, effective on January 1, 1994, PEC adopted SFAS 115, which requires PEC to report debt and equity securities, other than equity securities accounted under the equity method, at fair value with

unrealized gains and losses from those securities which are classified as "trading securities" included in net income and unrealized gains and losses from those securities which are classified as "available-for-sale securities" reported as a separate component of shareholders' equity. The cumulative effect of adopting SFAS 115 for securities classified as "trading securities" was to increase PEC's consolidated net income for the first quarter of 1994 by approximately $2.5 million, net of taxes. This increase was partially offset by a decrease of approximately $1.2 million in the market value of "trading securities" in the first quarter of 1994.

Effective January 1, 1993, PEC adopted SFAS 109 which required PEC to change from the deferred method to the liability method for financial accounting and reporting for income taxes. The cumulative effect of PEC's adoption of SFAS 109 was to decrease PEC's consolidated net income for the first quarter of 1993 by approximately $1.2 million.

SHAREHOLDERS' EQUITY

As discussed above and in Note 3 to the financial statements for the three months ended March 31, 1994, PEC adopted SFAS 115 effective on January 1, 1994. The effect of adopting SFAS for securities classified as "available-for-sale securities" was to increase shareholders' equity, net of taxes, by approximately $3.8 million as of January 1, 1994 and by approximately $3.0 million as of March 31, 1994.

LIQUIDITY AND CAPITAL RESOURCES

As of March 31, 1994, PEC's liquid assets (consisting of cash, short-term bank deposits, marketable securities of U.S. companies and marketable bonds and notes) totaled approximately $71.8 million.

For the three months ended March 31, 1994, PEC received cash dividends and interest totaling $1.7 million (including $1 million of cash dividends received from Affiliated Companies) which substantially exceeded PEC's general and administrative expenses. During the first quarter of 1994, PEC received a total of $5.4 million of additional funds of which $2.6 million was generated from the sale of securities and $2.8 million was generated from the collection of U.S. Government obligations. During the same period, PEC purchased securities of several Affiliated Companies for approximately $937,000, purchased marketable securities of U.S. companies for approximately $9.2 million and purchased capital notes of an Affiliated Company for approximately $1.5 million.

PART II - OTHER INFORMATION

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

At a Special Meeting of Shareholders held on March 22, 1994, the shareholders approved an amendment to the Articles of Incorporation, as amended, to increase the authorized common stock from 30,000,000 shares to 40,000,000 shares. Proxies for the meeting were solicited pursuant to Regulation 14A of the Securities Exchange Act of 1934, as amended. A total of 17,769,581 shares of common stock were voted in favor of the amendment, 32,921 shares of common stock were voted against the amendment and 16,759 shares of common stock abstained.

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.

PEC ISRAEL ECONOMIC CORPORATION
(Registrant)

/S/ James I. Edelson

James I. Edelson
Executive Vice President

/S/ William Gold

William Gold
Treasurer, Principal Financial
Officer and Principal Accounting
Officer

Date: May 13, 1994