ISRAMCO INC
Form 10-Q
August 09, 2011

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

Check One

x Quarterly report under Section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period ended June 30, 2011

or

o Transition report under Section 13 or 15(d) of the Securities Exchange Act of 1934

Commission File Number 0-12500

ISRAMCO, INC
(Exact Name of registrant as Specified in its Charter)

Delaware (State or other Jurisdiction of Incorporation or Organization)	13-3145265 I.R.S. Employer Number

2425 West Loop South, Suite 810, HOUSTON, TX 77027
(Address of Principal Executive Offices)

713-621-5946
(Registrant's Telephone Number, Including Area Code)

Indicate by check whether the registrant: (1) 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 definition of “large accelerated filer”, “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer o Accelerated filer x Non-accelerated filer o (Do not check if a smaller reporting company) Smaller reporting company o

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 registrant’s Common Stock as August 9, 2011 was 2,717,691.

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Forward Looking Statements

CERTAIN STATEMENTS MADE IN THIS QUARTERLY REPORT ON FORM 10-Q ARE “FORWARD-LOOKING STATEMENTS” WITHIN THE MEANING OF THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995. FORWARD-LOOKING STATEMENTS CAN BE IDENTIFIED BY TERMINOLOGY SUCH AS “MAY”, “WILL”, “SHOULD”, “EXPECTS”, “INTENDS”, “ANTICIPATES”, “BELIE “ESTIMATES”, “PREDICTS”, OR “CONTINUE” OR THE NEGATIVE OF THESE TERMS OR OTHER COMPARABLE TERMINOLOGY AND INCLUDE, WITHOUT LIMITATION, STATEMENTS BELOW REGARDING EXPLORATION AND DRILLING PLANS, FUTURE GENERAL AND ADMINISTRATIVE EXPENSES, FUTURE GROWTH, FUTURE EXPLORATION, FUTURE GEOPHYSICAL AND GEOLOGICAL DATA, GENERATION OF ADDITIONAL PROPERTIES, RESERVES, NEW PROSPECTS AND DRILLING LOCATIONS, FUTURE CAPITAL EXPENDITURES, SUFFICIENCY OF WORKING CAPITAL, ABILITY TO RAISE ADDITIONAL CAPITAL, PROJECTED CASH FLOWS FROM OPERATIONS, OUTCOME OF ANY LEGAL PROCEEDINGS, DRILLING PLANS, THE NUMBER, TIMING OR RESULTS OF ANY WELLS, INTERPRETATION AND RESULTS OF SEISMIC SURVEYS OR SEISMIC DATA, FUTURE PRODUCTION OR RESERVES, LEASE OPTIONS OR RIGHTS, PARTICIPATION OF OPERATING PARTNERS, CONTINUED RECEIPT OF ROYALTIES, AND ANY OTHER STATEMENTS REGARDING FUTURE OPERATIONS, FINANCIAL RESULTS, OPPORTUNITIES, GROWTH, BUSINESS PLANS AND STRATEGY. BECAUSE FORWARD-LOOKING STATEMENTS INVOLVE RISKS AND UNCERTAINTIES, THERE ARE IMPORTANT FACTORS THAT COULD CAUSE ACTUAL RESULTS TO DIFFER MATERIALLY FROM THOSE EXPRESSED OR IMPLIED BY THESE FORWARD-LOOKING STATEMENTS. ALTHOUGH THE COMPANY BELIEVES THAT EXPECTATIONS REFLECTED IN THE FORWARD-LOOKING STATEMENTS ARE REASONABLE, IT CANNOT GUARANTEE FUTURE RESULTS, PERFORMANCE OR ACHIEVEMENTS. MOREOVER, NEITHER THE COMPANY NOR ANY OTHER PERSON ASSUMES RESPONSIBILITY FOR THE ACCURACY AND COMPLETENESS OF THESE FORWARD-LOOKING STATEMENTS. THE COMPANY IS UNDER NO DUTY TO UPDATE ANY FORWARD-LOOKING STATEMENTS AFTER THE DATE OF THIS REPORT TO CONFORM SUCH STATEMENTS TO ACTUAL RESULTS.

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ITEM 1. Financial Statements

ISRAMCO INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except share and per share amounts)
(Unaudited)

	As of June 30, 2011	As of December 31, 2010
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 1,707	$ 5,657
Accounts receivable, net	5,726	6,110
Restricted and designated cash	2,889	889
Deferred tax assets	3,144	3,368
Derivative asset	1,664	2,156
Prepaid expenses and other	415	715
Total Current Assets	15,545	18,895
Property and Equipment, at cost – successful efforts method:		
Oil and Gas properties	223,427	222,122
Other	1,319	922
Total Property and Equipment	224,746	223,044
Accumulated depreciation, depletion and amortization	(97,128)	(91,208)
Net Property and Equipment	127,618	131,836
Marketable securities, at market	20,943	16,099
Debt cost	-	70
Derivative asset	558	343
Deferred tax assets and other	4,769	4,635
Total assets	$ 169,433	$ 171,878
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	$ 8,788	$ 9,316
Bank overdraft	502	335
Current maturities of long-term debt	25,875	14,350
Derivative liability	-	1,133
Due to related party and accrued interest	36,023	9,371
Total current liabilities	71,188	34,505
Long-term debt	-	22,725
Due to related party and accrued interest	62,616	77,132
Other Long-term Liabilities:		
Asset retirement obligations	16,925	16,577
Derivative liability – non-current	-	2,402

Total other long-term liabilities		16,925		18,979
Commitments and contingencies				
Shareholders' equity:				
Common stock $0.0l par value; authorized 7,500,000 shares; issued 2,746,958 shares; outstanding 2,717,691 shares		27		27
Additional paid-in capital		23,194		23,194
Accumulated deficit		(17,154)		(14,149)
Accumulated other comprehensive income		12,801		9,629
Treasury stock, 29,267 shares at cost		(164)		(164)
Total shareholders' equity		18,704		18,537
Total liabilities and shareholders' equity	$	169,433	$	171,878

See notes to the unaudited condensed consolidated financial statements.

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ISRAMCO INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except share and per share amounts)
(Unaudited)

	Three Months Ended June 30		Six Months Ended June 30	
	2011	2010	2011	2010
Revenues				
Oil and gas sales	$ 11,571	$ 9,403	$ 22,553	$ 19,358
Office services	152	107	305	309
Other	24	17	39	25
Total revenues	11,747	9,527	22,897	19,692
Operating expenses				
Lease operating expense, transportation and taxes	6,610	5,054	11,738	9,954
Depreciation, depletion and amortization	2,923	3,542	5,920	6,712
Accretion expense	210	204	418	408
Loss from plug and abandonment	57	342	170	688
General and administrative	927	1,002	2,012	1,901
Total operating expenses	10,727	10,144	20,258	19,663
Operating income (loss)	1,020	(617)	2,639	29
Other expenses (income)				
Interest expense, net	1,950	1,955	4,103	3,917
Net (gain) loss on derivative contracts	(2,931)	(4,036)	3,158	(7,409)
Total other expenses (income)	(981)	(2,081)	7,261	(3,492)
Income (Loss) before income taxes	2,001	1,464	(4,622)	3,521
Income tax (expense) benefit	(700)	(498)	1,617	(1,198)
Net Income (loss)	$ 1,301	$ 966	$ (3,005)	$ 2,323
Earnings (loss) per share – basic:	$ 0.48	$ 0.36	$ (1.11)	$ 0.85
Earnings (loss) per share – diluted:	$ 0.48	$ 0.36	$ (1.11)	$ 0.85
Weighted average number of shares outstanding basic:	2,717,691	2,717,691	2,717,691	2,717,691
Weighted average number of shares outstanding diluted:	2,717,691	2,717,691	2,717,691	2,717,691

See notes to the unaudited condensed consolidated financial statements.

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ISRAMCO INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)
(Unaudited)

	Six Months Ended June 30 2011	2010
Cash Flows From Operating Activities:		
Net income (loss)	$ (3,005)	$ 2,323
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation, depletion, amortization and impairment	5,920	6,712
Accretion expense	418	408
Changes in deferred taxes	(1,617)	1,198
Net unrealized gain on derivative contracts	(3,224)	(4,355)
Amortization of debt cost	126	126
Changes in components of working capital and other assets and liabilities		
Accounts receivable	384	1,873
Prepaid expenses and other current assets	244	(87)
Due to related party	2,089	(716)
Accounts payable and accrued liabilities	(643)	(2,022)
Net cash provided by operating activities	692	5,460
Cash flows from investing activities:		
Addition to property and equipment, net	(1,655)	(1,896)
Restricted cash and deposit, net	(2,000)	(18)
Net cash used in investing activities	(3,655)	(1,914)
Cash flows from financing activities:		
Repayment on loans – related parties, net	(954)	-
Proceeds on loans – related parties, net	11,000	-
Repayment of long-term debt	(11,200)	(3,375)
Borrowings of short - term debt, net	167	846
Net cash used in financing activities	(987)	(2,529)
Net increase (decrease) in cash and cash equivalents	(3,950)	1,017
Cash and cash equivalents at beginning of period	5,657	2,907
Cash and cash equivalents at end of period	$ 1,707	$ 3,924

See notes to the unaudited condensed consolidated financial statements.

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Isramco Inc.
Notes to Condensed Consolidated Financial Statements
(Unaudited)

Note 1 - Financial Statement Presentation

As used in these financial statements, the terms “Company” and “Isramco” refer to Isramco, Inc. and its subsidiaries, Jay Petroleum, L.L.C. (“Jay Petroleum”), Jay Management Company L.L.C. (“Jay Management”), IsramTec Inc. (“IsramTec”), Isramco Resources LLC, Isramco Energy LLC and Field Trucking and Services, LLC (”FTS”).

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the SEC instructions to Form 10-Q. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of only normal recurring adjustments) considered necessary for a fair presentation have been included. Results for the six-month period ended June 30, 2011 are not necessarily indicative of the results that may be expected for the year ended December 31, 2011. For further information, refer to the consolidated financial statements and footnotes thereto included in Isramco’s Annual Report on Form 10-K for the fiscal year ended December 31, 2010.

Use of Estimates

The preparation of the Company’s condensed consolidated financial statements in conformity with accounting principles generally accepted in the United States requires the Company’s management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities, if any, at the date of the condensed consolidated financial statements and the reported amounts of revenues and expenses during the respective reporting periods. The Company bases its estimates and judgments on historical experience and on various other assumptions and information that are believed to be reasonable under the circumstances. Estimates and assumptions about future events and their effects cannot be perceived with certainty and, accordingly, these estimates may change as new events occur, as more experience is acquired, as additional information is obtained and as the Company’s operating environment changes. Actual results may differ from the estimates and assumptions used in the preparation of the Company’s condensed consolidated financial statements.

Consolidated interim period results are not necessarily indicative of results of operations or cash flows for the full year and accordingly, certain information normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States has been condensed or omitted. The Company has evaluated events or transactions through the date of issuance of these condensed consolidated financial statements.

Risk Management Activities

The Company follows Accounting Standards Codification (ASC) 815, Derivatives and Hedging. From time to time, the Company may hedge a portion of its forecasted oil and natural gas production. Derivative contracts entered into by the Company have consisted of transactions in which the Company hedges the variability of cash flow related to a forecasted transaction. The Company has elected to not designate any of its positions for hedge accounting. Accordingly, the Company records the net change in the mark-to-market valuation of these positions, as well as payments and receipts on settled contracts, in “Net gain on derivative contracts” on the consolidated statements of operations.

Consolidation

The condensed consolidated financial statements include the accounts of Isramco and its wholly-owned subsidiaries: Jay Petroleum, Jay Management, IsramTec, Isramco Resources LLC and Isramco Energy LLC and FTS. Inter-company balances and transactions have been eliminated in consolidation.

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Recently Issued Accounting Pronouncements

There were no new accounting pronouncements that had a significant impact on the Company's operating results or financial position.

Note 2 - Supplemental Cash Flow Information

Cash paid for interest and income taxes was as follows for the six months ended June 30 (in thousands):

	Six Months Ended June 30	
	2011	2010
Interest	$ 1,918	$ 4,648
Income taxes	-	-

Note 3 - Derivative Contracts

On March 9, 2011, pursuant to an agreement with Wells Fargo, the derivative contracts between Isramco and Wells Fargo were terminated and the Company signed new swap contracts with Macquarie Bank, N.A. for an aggregate volume of 336,780 barrels of crude oil during the 46 month period commencing March 2011. The payment required for the termination of these contracts was approximately $7 million.

At June 30, 2011, the Company had a $2.2 million commodity derivative asset, of which $1.7 million was classified as current. For the six months ended June 30, 2011, the Company recorded a net derivative loss of $3.2 million ($3.2 million unrealized gain and a $6.4 million loss from net cash paid on settled contracts).

At June 30, 2010, the Company had a $8.1 million derivative asset, which $5.1 million was classified as current. For the six months ended June 30, 2010, the Company recorded a net derivative gain of $7.4 million ($4.3 million unrealized gain and a $3.1 million gain from net cash received on settled contracts).

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Natural Gas

At June 30, 2011, the Company had the following natural gas swap positions:

Period	Volume in MMbtu's	Swaps Price / Price Range	Weighted Average Price
July 2011 – December 2011	382,410	8.22	8.22
January 2012 – March 2012	174,222	8.65	8.65

Crude Oil

At June 30, 2011, the Company had the following crude oil swap positions:

Period	Volume in Bbls	Swaps Price / Price Range	Weighted Average Price
July 2011 – December 2011	120,168	88.55-103.51	94.96
January 2012 – December 2012	127,473	88.20-103.51	99.67
January 2013 – December 2013	89,400	103.51	103.51
January 2014 – December 2014	66,000	103.51	103.51

Note 4 - Long-Term Debt and Interest Expense

Long-Term Debt as of June 30, 2011 and December 31, 2010 consisted of the following (in thousands):

	As of June 30, 2011	As of December 31, 2010
Libor + 2% Bank Revolving Credit Facility due 2011	-	9,450
Libor + 2% Bank Revolving Credit Facility due 2012	25,875	27,625
Libor + 6% Related party Debt	12,000	12,000
Libor + 5.5% Related party Debt	-	954
Libor + 6% Related party Debt	11,500	11,500
Libor + 6% Related party Debt	6,000	6,000
Libor + 6% Related party Debt	48,900	48,900
10% Related party Debt	11,000	-
	115,275	116,429
Less: Current Portion of Long-Term Debt	(55,100)	(17,350)
Total	60,175	99,079

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Senior Secured Revolving Credit Agreements

On March 3, 2011, the Company paid the outstanding principal balance of the Wells Fargo Senior Credit Facility. By agreement of the parties, the derivative contracts remained in place until March 9, 2011, when these contracts were novated and replaced by new derivative contracts, for the same volumes but at current market prices, with Macquarie Bank, N.A. In connection with this transaction, the Wells Fargo Senior Credit Facility was transferred to and assumed by Macquarie Bank, N.A. This facility currently has no outstanding principal or current availability. The credit facility was assigned and transferred to Macquarie Bank, N.A. in anticipation of the finalization of a successor credit facility pursuant to which all of the Company's debt (including its related party debt) will be consolidated into a single facility at Macquarie Bank, N.A. In the event the parties are not successful in finalizing this transaction the facility will be terminated and all collateral related thereto will be released. The Company is also in negotiations for similar credit facilities with several other commercial lenders, to obtain terms most favorable to the Company. While optimistic of a positive outcome of our consolidation efforts, the Company is uncertain as to whether it will be successful in obtaining new replacement financing or, if is obtained, the timetable upon which such facility will be closed and other material terms and conditions.

At June 30, 2011, the Company was in compliance with all of its debt covenants under its existing Credit Agreements.

On July 28, 2011 the borrowing base available under the other credit facility with the bank of Nova Scotia ("Scotia") was redetermined to $20,000,000. The redetermination of the borrowing base resulted in a borrowing base deficiency of $5.875 million under the terms of the credit facility. As a result of a payment made prior to August 9, 2011, the deficiency has been reduced to $3.5 million. The Company is following an agreed schedule to remedy the borrowing base deficiency during the third quarter of 2011.

Related Party Debt

On March 3, 2011, the Company entered into a Loan Agreement with Israel Oil Company, Ltd. ("IOC") pursuant to which it borrowed the sum of $11 million. The loan bears interest at a rate of 10% per annum and is payable in quarterly payments of interest only until March 3, 2012, when all accrued interest and principal is due and payable. The loan may be prepaid at any time without penalty. The loan is unsecured. The purpose of the loan was to provide funds to Isramco for the payment of amounts due under the Wells Fargo Senior Credit Facility at maturity which was March, 2011, and to terminate and re-set the commodity swap hedge arrangement.

Interest expense

The following table summarizes the amounts included in interest expense for the six month ended June 30, 2011 and 2010 (in thousands):

	Six Months Ended June 30	
	2011	2010
Current debt, long-term debt and other - banks corporation	$ 887	$ 954
Long-term debt – related parties	3,216	2,963
	$ 4,103	$ 3,917

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Note 5 - Comprehensive Gain Income

	Three Months Ended June 30		Six Months Ended June 30	
	2011	2010	2011	2010
Net income (loss)	$ 1,301	$ 966	$ (3,005)	$ 2,323
Other comprehensive income				
Available-for-sale securities, net of taxes	3,292	(535)	3,150	(147)
Change in unrealized gains on hedging instruments, net of taxes	-	105	22	208
Comprehensive income	$ 4,593	$ 536	$ 167	$ 2,384

Note 6 - Fair Value of Financial Instruments

Pursuant to ASC 820, Fair Value Measurements and Disclosures (ASC 820) the Company's determination of fair value incorporates not only the credit standing of the counterparties involved in transactions with the Company resulting in receivables on the Company's consolidated balance sheets, but also the impact of the Company's nonperformance risk on its own liabilities. ASC 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (exit price). The Company utilizes market data or assumptions that market participants would use in pricing the asset or liability, including assumptions about risk and the risks inherent in the inputs to the valuation technique. These inputs can be readily observable, market corroborated, or generally unobservable. The Company classifies fair value balances based on the observability of those inputs.

The following tables set forth by level within the fair value hierarchy the Company's financial assets and liabilities that were accounted for at fair value as of June 30, 2011 and December 31, 2010. As required by ASC 820, a financial instrument's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. The Company's assessment of the significance of a particular input to the fair value measurement requires judgment, and may affect the valuation of fair value assets and liabilities and their placement within the fair value hierarchy levels. There were no transfers between fair value hierarchy levels for the six months ended June 30, 2011.

	June 30, 2011			
	Level 1	Level 2	Level 3	Total
Assets				
Marketable securities	$ 20,943	$ —	$ —	$ 20,943
Commodity derivatives	—	2,222	—	2,222
Total	$ 20,943	$ 2,222	$ —	$ 23,165

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	December 31, 2010			
	Level 1	Level 2	Level 3	Total
Assets				
Marketable securities	$ 16,099	$ —	$ —	$ 16,099
Commodity derivatives	—	2,499	—	2,499
Total	$ 16,099	$ 2,499	$ —	$ 18,598
Liabilities				
Commodity derivatives	$ —	3,501	$ —	$ 3,501
Interest rate derivatives	—	34	—	34
Total	$ —	$ 3,535	$ —	$ 3,535

Marketable securities listed above are carried at fair value. The Company is able to value its marketable securities based on quoted fair values for identical instruments, which resulted in the Company reporting its marketable securities as Level 1.

Derivatives listed above include swaps that are carried at fair value. The Company records the net change in the fair value of these positions in “Net gain on derivative contracts” in the Company’s consolidated statements of operations, in case of commodity derivatives, and in “Other comprehensive income”, in case of interest rate derivatives. The Company is able to value these assets and liabilities based on observable market data for similar instruments, which resulted in the Company reporting its derivatives as Level 2. This observable data includes the forward curve for commodity prices based on quoted market prices and prospective volatility factors related to changes in the forward curves.

As of June 30, 2011 and December 31, 2010, the Company’s derivative contracts were with major financial institutions with investment grade credit ratings which are believed to have a minimal credit risk. As such, the Company is exposed to credit risk to the extent of nonperformance by the counterparties in the derivative contracts discussed above; however, the Company does not anticipate such nonperformance. Each of the counterparties to the Company’s derivative contracts is a lender in the Company’s Senior Credit Agreement. The Company did not post collateral under any of these contracts as they are secured under the Senior Credit Agreements.

Note 7 - Subsequent Events

The Company, through its wholly-owned subsidiary IsramTec, Inc. (“IsramTec”), was the holder of 730,582 unrestricted shares of Mediamind Technologies, Inc. (“Mediamind”), a publicly-traded company. On June 24, 2011, the Company, along with all the other shareholders of Mediamind, received a Tender Offer from DG Acquisition Corp. VII (“DG”), in its bid to merge with Mediamind. IsramTec accepted the terms of the Tender Offer of $22 per unrestricted share of Mediamind, which represents cash of $16,072,804. The merger closed on July 25, 2011.

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ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

THE FOLLOWING COMMENTARY SHOULD BE READ IN CONJUNCTION WITH THE CONSOLIDATED FINANCIAL STATEMENTS AND RELATED NOTES CONTAINED ELSEWHERE IN THIS REPORT ON FORM 10-Q. THE DISCUSSION CONTAINS FORWARD-LOOKING STATEMENTS THAT INVOLVE RISKS AND UNCERTAINTIES. THESE STATEMENTS RELATE TO FUTURE EVENTS OR OUR FUTURE FINANCIAL PERFORMANCE. IN SOME CASES, YOU CAN IDENTIFY THESE FORWARD-LOOKING STATEMENTS BY TERMINOLOGY SUCH AS "MAY," "WILL," "SHOULD," "EXPECT," "PLAN," "ANTICIPA "BELIEVE," "ESTIMATE," "PREDICT," "POTENTIAL," "INTEND," OR "CONTINUE," AND SIMILAR EXPRESSIO THESE STATEMENTS ARE ONLY PREDICTIONS. OUR ACTUAL RESULTS MAY DIFFER MATERIALLY FROM THOSE ANTICIPATED IN THESE FORWARD-LOOKING STATEMENTS AS A RESULT OF A VARIETY OF FACTORS, INCLUDING, BUT NOT LIMITED TO, THOSE SET FORTH UNDER "RISK FACTORS" AND ELSEWHERE IN THIS REPORT ON FORM 10-Q. ISRAMCO INC. DISCLAIMS ANY OBLIGATION TO UPDATE SUCH FORWARD LOOKING STATEMENTS.

Overview

Isramco, Inc. ("Isramco" or "we") is an independent oil and natural gas company engaged in the exploration, development and production of oil and natural gas properties located onshore in the United States. Our properties are primarily located in Texas, New Mexico and Oklahoma. We also act as the operator of certain of these properties. Historically, we have grown through acquisitions, with a focus on properties within our core operating areas that we believe have significant development and exploration opportunities and where we can apply our technical experience and economies of scale to increase production and proved reserves, while lowering lease operating costs.

Our financial results depend upon many factors, but are largely driven by the volume of our oil and natural gas production and the price that we receive for that production. Our production volumes will decline as reserves are depleted unless we expend capital in successful development and exploration activities or acquire additional properties with existing production. The amount we realize for our production depends predominantly upon commodity prices, which are affected by changes in market demand and supply, as impacted by overall economic activity, weather, pipeline capacity constraints, inventory storage levels, basis differentials and other factors, and secondarily upon our commodity price hedging activities. Accordingly, finding and developing oil and natural gas reserves at economical costs is critical to our long-term success. Our future drilling plans are subject to change based upon various factors, some of which are beyond our control, including drilling results, oil and natural gas prices, the availability and cost of capital, drilling and production costs, availability of drilling services and equipment, gathering system and pipeline transportation constraints and regulatory approvals. To the extent these factors lead to reductions in our drilling plans and associated capital budgets in future periods, our financial position, cash flows and operating results could be adversely impacted.

Liquidity and Capital Resources

Our primary source of cash during the six months ended June 31, 2011 was cash flow from operating activities and loans from related party lender ("Related Party Loans"). We continuously monitor our liquidity and evaluate our development plans in light of a variety of factors, including, but not limited to, our cash flows, capital resources and drilling success.

Our future capital resources and liquidity may depend, in part, on our success in developing the leasehold interests that we have acquired. Cash is required to fund capital expenditures necessary to offset inherent declines in production and proven reserves, which is typical in the capital-intensive oil and gas industry. Future success in growing reserves and production will be highly dependent on the capital resources available and our success in finding and acquiring additional reserves. We expect to fund our future capital requirements through internally generated cash flows and borrowings under our Senior Credit Agreements that remain to be obtained and negotiated. Long-term cash flows are subject to a number of variables, including the level of production and prices and our commodity price hedging activities, as well as various economic conditions that have historically affected the oil and natural gas industry.

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Debt

	As of June 30, 2011	As of December 31, 2010
Senior Credit Facilities	$ -	$ 22,725
Long – term debt – related party	60,175	76,354
Current maturities of long-term debt, short-term debt and bank overdraft	55,602	17,350
Total debt	115,777	116,429
Stockholders' equity	18,704	18,537
Debt to capital ratio	86%	86%

Under the existing credit facility available with Scotia, we can borrow up to a maximum of $20,000,000. Management currently believes that this availability is sufficient to provide the liquidity required to satisfy our anticipated working capital needs for 2011.

As of June 30, 2011, our total debt was $115,777,000, compared to total debt of $116,429,000 at December 31, 2010. As of June 30, 2011, current debt included $25,875,000 as current maturities of the Revolving Credit Facilities. As of December 31, 2010, the $4,900,000 included as current maturities was due to the decision by management to continue reducing our debt below the borrowing base.

On March 3, 2011, the Company entered into a Loan Agreement with IOC pursuant to which it borrowed the sum of $11 million. The loan bears interest at a rate of 10% per annum and is payable in quarterly payments of interest only until March 3, 2012, when all accrued interest and principal is due and payable. The loan may be prepaid at any time without penalty. The loan is unsecured. The purpose of the loan was to provide funds to Isramco for the payment of amounts due under the Wells Fargo Senior Credit Facility at maturity, which was March, 2011 and to terminate and re-set the commodity swap hedge arrangement. On March 3, 2011 Isramco paid the outstanding principal balance due under the Wells Fargo Senior Credit Agreement. Subsequently, on March 9, 2011, pursuant to an agreement with Wells Fargo, the derivative contracts between Isramco and Wells Fargo were terminated at a cost to the Company of approximately $7,000,000. Concurrently, the Company entered into new derivative contracts for 336,780 barrels of crude oil during the 46 month period commencing March 2011 with Macquarie Bank, N.A. The Company is actively pursuing a consolidation of all outstanding debt with Macquarie Bank and other commercial lenders.

Cash Flow

Our primary source of cash during the six months ended June 30, 2011 was cash flow from operating activities and loans from related party loans. Our primary source of cash during the six months ended June 30, 2010 was our operating activities. In 2011 cash received from operations and from related party was offset by repayments of borrowings under our Senior Credit Agreements and payments made on settled derivatives contracts. In 2010 period, cash received from operations were mainly offset by repayments made under our revolving credit facilities.

Operating cash flow fluctuations were substantially driven by changes in commodity prices and changes in our production volumes. Working capital was substantially influenced by these variables. Fluctuation in commodity prices and our overall cash flow may result in an increase or decrease in our future capital expenditures. Prices for oil and natural gas have historically been subject to seasonal fluctuations characterized by peak demand and higher prices in the winter heating season; however, the impact of other risks and uncertainties have influenced prices throughout recent years. See Results of Operations below for a review of the impact of prices and volumes on sales.

	Six months Ended June 30, 2011	Six months Ended June 30, 2010
	(In thousands)	
Cash flows provided by operating activities	$ 692	$ 5,460
Cash flows used in investing activities	(3,655)	(1,914)
Cash flows used in financing activities	(987)	(2,529)
Net increase (decrease) in cash	$ (3,950)	$ 1,017

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Operating Activities, During the first six months of 2011, compared to the first six months of 2010, net cash flow provided by operating activities decreased by $4,768,000 to $692,000. This decrease was primarily attributable to net cash paid on settled derivatives contracts of $7,007,000, higher lease operating expenses all of which were partially offset by increased oil and natural gas liquids ("NGLs") revenues. The increase in revenues was primarily attributable to higher average oil and NGLs prices for the six months ended June 30, 2011 of $97.01/bbl and 45.41/bbl respectively, compared to $75.68/bbl and 37.28/bbl for the six month ended June 30, 2010.

Investing Activities, The primary driver of cash used in investing activities in 2011 is capital spending. Net cash flows used in investing activities for the six months ended June 30, 2011 and 2010 were $3,655,000 and $1,914,000 respectively.

Financing Activities, Net cash flows used in financing activities were $987,000 and $2,529,000 for the six months ended June 30, 2011 and 2010, respectively. Excess cash flow from operations and a loan from related party of $11,000,000 were used to repay borrowings under our Senior Credit Agreements to the extent available. During the first six months of 2011, we repaid borrowings of $12,154,000. During the first six months of 2010, we repaid borrowings of $3,375,000.

Results of Operations

Three Months Ended June 30, 2011 Compared to Three Months Ended June 30, 2010

Selected Data

	Three Months Ended June 30, 2011	2010
	(In thousands except per share and MBOE amounts)	
Financial Results		
Oil and Gas sales	$ 11,571	$ 9,403
Other	176	124
Total revenues and other	11,747	9,527
Cost and expenses	10,727	10,144