

Edgar Filing: ISRAMCO INC - Form 10-Q

ISRAMCO INC  
Form 10-Q  
May 21, 2007

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-Q

CHECK ONE

Quarterly report under Section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period ended March 31, 2007

or

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

11767 KATY FREEWAY, HOUSTON, TX 77079  
(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 Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer.

Large accelerated filer  Accelerated filer  Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

The number of shares outstanding of the registrant's Common Stock as May 15, 2007 was 2,717,691.

# Edgar Filing: ISRAMCO INC - Form 10-Q

## INDEX

	Page
PART I - FINANCIAL INFORMATION:	
Item 1. Financial Statements	
Consolidated Balance Sheets at March 31, 2007 and December 31, 2006 (unaudited)	1
Consolidated Statements of Operations for the three months ended March 31, 2007 and 2006 (unaudited)	2
Consolidated Statements of Cash Flows for the three months ended March 31, 2007 and 2006 (unaudited)	3
Notes to Consolidated Financial Statements (unaudited)	4
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operation	11
Item 3. Quantitative and Qualitative Disclosures about Market Risk	14
Item 4. Controls and Procedures	14
PART II. OTHER INFORMATION	16
Item 1. Legal Proceedings	16
Item 2. Changes in Securities	16
Item 3. Defaults Upon Senior Securities	16
Item 4. Submission of Matters to a Vote of Security Holders	16
Item 5. Other Information	16
Item 6. Exhibits	16
Signatures	18

i

## 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", "BELIEVES", "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

## Edgar Filing: ISRAMCO INC - Form 10-Q

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.

ii

ISRAMCO INC. AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS  
(in thousands except for share information)  
(Unaudited)

	March 31, 2007	December 31, 2006
	-----	-----
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 2,792	\$ ,573
Restricted cash deposit	1,000	17,000
Marketable securities, at market	2,195	3,130
Accounts receivable	153	403
Prepaid expenses and other current	4,549	5,057
Accounts receivable - sale of Magic 1	-	2,150
	-----	-----
<b>TOTAL CURRENT ASSETS</b>	<b>10,689</b>	<b>28,313</b>
	-----	-----
Property and equipment, net (successful efforts method for oil and gas properties)	101,739	12,537
Marketable securities, at market	6,708	5,759
Investment in affiliates	16,335	15,302
Other	162	162
	-----	-----
<b>TOTAL ASSETS</b>	<b>\$ 135,633</b>	<b>\$ 62,073</b>
	=====	=====
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable and accrued expenses	\$ 9,116	\$ 5,214
Credit from banks	2,304	347
Short term loan from related party	-	17,000
	-----	-----
<b>TOTAL CURRENT LIABILITIES</b>	<b>11,420</b>	<b>22,561</b>
	-----	-----
<b>LONG-TERM LIABILITIES</b>		
Bank loan	35,300	-

Edgar Filing: ISRAMCO INC - Form 10-Q

Long-term loans from related parties	49,903	-
Asset retirement obligations	1,692	356
Deferred income taxes	3,536	4,412
	-----	-----
TOTAL LONG-TERM LIABILITIES	90,431	4,768
	-----	-----
TOTAL LIABILITIES	101,851	27,329
	-----	-----
SHAREHOLDERS' EQUITY		
Common stock \$0.01 par value; authorized 7,500,000 shares; issued 2,746,958 shares; outstanding 2,717,691 shares	27	27
Additional paid-in capital	26,240	26,240
Retained earnings	3,632	5,399
Accumulated other comprehensive income	4,047	3,242
Treasury stock, 29,267 shares at cost	(164)	(164)
	-----	-----
TOTAL SHAREHOLDERS' EQUITY	33,782	34,744
	-----	-----
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 135,633	\$ 62,073
	=====	=====

See notes to the consolidated financial statements.

1

ISRAMCO INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF OPERATIONS  
(in thousands except for share information)  
(Unaudited)

	Three Months Ended March 31	
	2007	2006
	-----	-----
REVENUES:		
Operator fees from related party	\$ 17	\$ 2
Oil and gas sales	2,164	66
Interest income	438	25
Office services to affiliate and other	178	18
Gain on marketable securities	276	28
Equity in net income of investees	763	70
Net gain on legal settlements	-	2,56
Other income	162	56
	-----	-----
Total revenues	3,998	5,24
	-----	-----
COSTS AND EXPENSES:		
Interest expense	1,034	5
Depreciation, depletion and amortization and impairment	891	20
Accretion expenses	41	
Lease operating expenses and severance taxes	798	22
General and administrative	639	58
Loss from swap transactions	3,402	
	-----	-----
Total expenses	6,805	1,06

Edgar Filing: ISRAMCO INC - Form 10-Q

Income (loss) before income taxes	(2,807)	4,18
Income taxes (expense)	1,041	(35
Income (loss) from continuing operations	(1,766)	3,827
Loss from discontinued operation	-	(3,43
Net income (loss)	\$ (1,766)	\$ 39
Earnings (loss) per common share - basic and diluted:		
Continuing operations	\$ (0.65)	\$ 1.4
Discontinued operations	-	(1.2
Total	\$ (0.65)	\$ 0.1
Weighted average number of shares outstanding - basic and diluted	2,717,691	2,717,69

See notes to the consolidated financial statements.

2

ISRAMCO INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(in thousands)  
(Unaudited)

	Three Months Ended Mar	20
	2007	20
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income (loss)	\$ (1,766)	\$
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, depletion and amortization	970	
Accretion expenses	59	
Gain on marketable securities	(275)	
Equity in net income of investees	(763)	
Loss from swap transactions	3,402	
Deferred taxes	(1,291)	
Changes in assets and liabilities:		
Accounts receivable	(1,374)	
Prepaid expenses and other current assets	2,658	
Accounts payable and accrued liabilities	(722)	
Continuing operations	898	
Discontinued operations	-	
Net cash provided by operating activities	898	
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		

## Edgar Filing: ISRAMCO INC - Form 10-Q

Proceeds from sale of Magic	2,150	
Net proceeds on swap transactions	2,121	
Addition to property and equipment	(90,156)	
Purchase of marketable securities	-	
Restricted deposit	(1,000)	
Proceeds from sale of marketable securities	1,210	
	-----	-----
Net cash used in investing activities	(85,675)	
	-----	-----
NET CASH FROM FINANCING ACTIVITIES:		
Repayment of loans	-	
Proceeds from bank loans	35,300	
Proceeds from loans from related parties	32,739	
Change in short-term credit from bank	1,957	
	-----	-----
Net cash provided by (used in) financing activities	69,996	
	-----	-----
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(14,781)	
Cash and cash equivalents-beginning of period	17,573	
	-----	-----
Cash and cash equivalents-end of period	\$ 2,792	\$
	=====	=====
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid during the period for interest	\$ 294	\$
Cash paid during the period for income taxes	-	
	-----	-----
Non-cash investing and financing activities		
Asset retirement obligation from acquired properties	\$ 1,292	\$

See notes to the consolidated financial statements.

3

### ISRAMCO INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

#### NOTE 1 - BASIS OF PRESENTATION

As used in these financial statements, the terms "Company" and "Isramco" refer to Isramco, Inc. and subsidiaries.

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the 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 three month period ended March 31, 2007 are not necessarily indicative of the results that may be expected for the year ended December 31, 2007. 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, 2006. Certain reclassifications of prior year amounts have

## Edgar Filing: ISRAMCO INC - Form 10-Q

been made to conform to current presentation. At December 31, 2006, cash of \$17 million was restricted in connection with the swap contracts. At March 31, 2007, Isramco had \$1 million restricted cash.

### NOTE 2 - CONSOLIDATION

The consolidated financial statements include the accounts of Isramco, its direct and indirect non U.S. based wholly-owned subsidiaries Isramco Oil and Gas Ltd. ("Oil and Gas") and its U.S. based wholly-owned subsidiaries: Jay Petroleum, L.L.C. ("Jay Petroleum"), Jay Management L.L.C. ("Jay Management"), IsramTec Inc. ("IsramTec") and Isramco Energy LLC. Inter company balances and transactions have been eliminated in consolidation.

### NOTE 3 - OIL AND GAS PROPERTIES

Isramco follows the "successful efforts" method of accounting for its oil and gas properties. Under this method of accounting, all property acquisition costs and costs of exploratory and development wells are capitalized when incurred, pending determination of whether the well has found proved reserves. If an exploratory well has not found proved reserves, the costs of the well are charged to expense. The costs of development wells are capitalized whether successful or unsuccessful. Geological and geophysical costs and the costs of carrying and retaining undeveloped properties are expensed as incurred. Management estimates that the salvage value of lease and well equipment will approximately offset the future liability for plugging and abandonment of the related wells. Accordingly, no accrual for such costs has been recorded.

### NOTE 4 - TRANSACTION WITH FIVE STATES

Isramco and Five States Energy Company, L.L.C. ("Five States") entered into a certain Purchase and Sale Agreement (the "Purchase Agreement") pursuant to which Isramco agreed to purchase from Five States, through Isramco Energy LLC, a Texas limited liability company that is wholly owned by Isramco ("Isramco Energy"), certain oil and gas properties (including 650 oil and gas wells) located in Texas and New Mexico.

The closing of the transactions contemplated in the Purchase Agreement was completed on March 2, 2007 for an aggregate purchase price of \$92 million (the "Purchase Price"). According to an engineering report prepared by an independent consulting company relating to the properties purchased under the Purchase Agreement, the estimated proved developed producing reserves are 1,447,161 net barrels of oil and 20,078,174 net MMCF's of natural gas and 1,305,705 net of liquid products. Isramco funded \$7.7 million of the Purchase Price from working capital and the balance from a combination of commercial bank loans and loans from related parties. The loans are discussed below.

Isramco obtained loans in the total principle amount of \$42 million from Naphtha Israel Petroleum Corp. Ltd., the parent company (including through its wholly owned subsidiary IOC-Israel Oil Company Ltd) ("Naphtha") with terms and conditions as below:

Pursuant to a Loan Agreement dated as of February 27, 2007 (the "Loan Agreement"), Isramco obtained a loan in the aggregate principal amount of \$18.5 million. The outstanding principal amount of the loan accrues interest at per

## Edgar Filing: ISRAMCO INC - Form 10-Q

annum rate equal to the London Inter-bank Offered Rate (LIBOR) plus 5.5%, not to exceed 11% per annum. Interest is payable at the end of each loan year. Principal plus any accrued and unpaid interest are due and payable on February 26, 2014. Interest after the maturity date accrues at the per annum rate of LIBOR plus 12% until paid in full. At any time, Isramco is entitled to prepay the outstanding amount of the loan without penalty or prepayment. To secure its obligations that may be incurred under the Loan Agreement, Isramco agreed to grant to Naphtha a security interest in certain specified properties held by Jay Petroleum, its wholly owned subsidiary. Naphtha can accelerate the loan and exercise its rights under the collateral upon the occurrence of certain events of default. Mr. Jakob Maimon, Isramco's president and director is a director of Naphtha and Mr. Haim Tsuff, Isramco's Chief Executive Officer and Chairman is a controlling shareholder of Naphtha.

Pursuant to a Loan Agreement dated as of February 27, 2007 (the "Second Loan Agreement") Isramco obtained a loan from Naphtha, in the principal amount of \$11.5 million, repayable at the end of seven years. Interest accrues at a per annum rate of LIBOR plus 6%. The Second Loan is not secured. The other terms of the Second Loan Agreement are identical to the terms of the Loan Agreement.

Pursuant to a Loan Agreement dated as of February 27, 2007 (the "Third Loan Agreement ") Isramco obtained a loan from Naphtha, in the principal amount of \$12 million, repayable at the end of five years. Interest accrues at a per annum rate of LIBOR plus 6%. The Third Loan is not secured. The other terms of the Third Loan Agreement are identical to the terms of the Loan Agreement.

Pursuant to a Loan Agreement dated as of February 26, 2007 Isramco obtained a loan from J.O.E.L Jerusalem Oil Exploration Ltd, a related party ("JOEL"), in the principal amount of \$7 million, repayable at the end of three months. Interest accrues at a per annum rate of 5.36%. Mr. Jakob Maimon, Isramco's president and director is a director of JOEL and Mr. Haim Tsuff, Isramco's Chief Executive Officer and Chairman is a controlling shareholder of JOEL.

On March 2, 2007, Isramco obtained a \$35.3 million credit line from Wells Fargo Bank. Amounts outstanding under the credit line are payable by March 1, 2011. Interest on amounts outstanding accrue at a per annum rate equal to LIBOR plus 2%. Isramco is required to maintain several financial covenants in connection with this credit line. Amounts outstanding under the credit line are secured by a guarantee from Isramco and a pledge by Isramco of the shares of Isramco Energy. Additionally, pursuant to an agreement between Sigma Energy Corporation ("Sigma"), an unrelated party that originated the transaction with Five States, Isramco and Isramco Energy, Isramco Energy paid to Sigma on March 2, 2007, the amount of \$300,000 and after Payout (as defined in the agreement with Sigma), Isramco Energy will assign to Sigma a direct ownership interests equal to 3.75% of the interests acquired by Isramco Energy under the Purchase Agreement.

The following table summarizes the allocation of the purchase price, net of approximately \$2.8 million of net activity for the properties from the effective date of the Purchase Agreement to the closing date, to assets that Isramco acquired and the liabilities assumed in connection with the acquisition of the Five States properties:

(in thousands)	
Oil and gas properties	\$ 90,790
Asset retirement obligation	(1,290)
Net assets acquired	<div style="border-top: 1px dashed black; border-bottom: 3px double black; padding: 2px 0;">                     \$ 89,500                 </div>



Edgar Filing: ISRAMCO INC - Form 10-Q

The following unaudited pro forma information assumes the acquisition of the Five States properties occurred as of January 1, 2006 and 2005, respectively. The pro forma results are not necessarily indicative of what actually would have occurred had the acquisition been in effect for the period presented.

(in thousands, except for share data)	AS REPORTED -----	PRO FORMA -----
Three Months Ended March 31, 2007 -----		
Revenues	\$ 3,998	\$ 7,375
Net loss	(1,766)	(2,887)
Loss per share - basic and diluted		
Continuing operations	\$ (0.65)	\$ (0.88)
Discontinued operations	-	-
Total	----- (0.65) =====	----- (0.88) =====
Three Months Ended March 31, 2006 -----		
Revenues	\$ 5,245	\$ 10,942
Net income	393	757
Income (loss) per share - basic and diluted		
Continuing operations	\$ 1.40	\$ 1.54
Discontinued operations	(1.26)	(1.26)
Total	----- 0.14 =====	----- 0.28 =====

NOTE 5 - SWAP TRANSACTIONS

In connection with the Five States transaction, Isramco entered into the following swap contracts:

1. As of December 31, 2006 Isramco had 24 swap contracts to sell 264,084 barrels of crude oil during 24 months commencing January 2007 for a total consideration of \$17.7 million, and 24 swap contracts to sell 2,853,156 MMBTU of natural gas during 24 months commencing January 2007 for a total consideration of \$23.1 million.

In January 2007, Isramco executed reverse contracts for most of the abovementioned contracts and remained with open swap contracts for 23,000 barrels of crude oil for a total consideration of \$1.5 million and 376,000 MMBTU of natural gas for a total consideration of \$3 million.

The above mentioned reverse of swap contracts generated to Isramco a profit of \$2.1 million.

## Edgar Filing: ISRAMCO INC - Form 10-Q

2. Following the closing of Five States transaction as stated above, Isramco signed additional swap agreements with Wells Fargo Bank to secure its future oil and gas prices as follows:

Swap contracts to sell 443,577 barrels of crude oil during 46 months commencing March 2007 for a total consideration of \$28.5 million.

Swap contracts to sell 4,618,395 MMBTU of natural gas during 46 months commencing March 2007 for a total consideration of \$36.7 million.

6

The following tables reflect the open swap contract positions as of March 31, 2007:

OIL					
MONTHLY QUANTITY BARRELS	AVERAGE FUTURE PRICE	YEAR	NUMBER OF MONTHS	TOTAL QUANTITY BARRELS	TOTAL AMOUNT
4,000	\$ 62.90	2007	9	36,000	\$ 2,264,400
4,000	65.08	2008	12	48,000	3,123,840
3,700	64.97	2009	12	44,400	2,884,680
2,700	63.30	2010	12	32,400	2,050,920
6,341	62.47	2007	9	57,069	3,565,100
5,516	64.70	2008	12	66,192	4,282,622
6,096	64.55	2009	12	73,152	4,721,962
5,447	63.80	2010	12	65,364	4,170,223
1,000	66.05	2007	9	9,000	594,450
1,000	68.46	2008	12	12,000	821,520
Total				443,577	\$ 28,479,717

GAS					
MONTHLY QUANTITY MMBTU	AVERAGE FUTURE PRICE	YEAR	NUMBER OF MONTHS	TOTAL QUANTITY MMBTU	TOTAL AMOUNT
101,107	\$ 8.08	2007	9	909,963	\$ 7,348,403
100,876	8.29	2008	12	1,210,512	10,036,598
100,874	7.85	2009	12	1,210,488	9,496,392
79,286	7.49	2010	12	951,432	7,126,226
20,000	7.87	2007	9	180,000	1,415,700
13,000	8.37	2008	12	156,000	1,304,940
Total				4,618,395	\$ 36,728,259

### NOTE 6 - DISCONTINUED OPERATION

In March 2004, Isramco purchased a luxury cruise liner for aggregate consideration of \$8,050,000. The vessel, a Bahamas registered ship, contains 270 passenger cabins on nine decks. Isramco leased the vessel to a tour operator for the period from April 4, 2005 through October 31, 2005 and from April 6 2006

## Edgar Filing: ISRAMCO INC - Form 10-Q

through November 5 2006 at a daily rate of \$8,000. Under the lease all maintenance and operating costs associated with the vessel were borne by the operator.

Title to the Vessel was in Magic 1 Cruise Line Corp., a British Virgin Islands corporation and a wholly owned subsidiary of Isramco ("Magic"). Isramco expended approximately \$1.4 million and \$1 million in the years 2006 and 2005, respectively, for the maintenance, repairs, renovation and upkeep of the vessel. In addition, following management's assessment conducted in April and May 2006 as part of the preparation of the financial statements for the first quarter of 2006, management determined that there has been a decrease in the fair market value of Isramco's investment in the Magic 1 cruise vessel and, that as a consequence thereof, Isramco believed the investment had been impaired. Accordingly, Isramco recorded as impairment charge in March 2006 in the amount of \$2,200,000.

On December 31, 2006, Isramco and Chesny Estates Ltd., a British Virgin Islands corporation, entered into a Share Purchase and Sale Agreement, dated as of December 31, 2006, pursuant to which Isramco sold to Chesny all of the outstanding share capital of Magic for a purchase price of \$2.15 million. The purchase included the assumption by Chesny of a loan in the principal amount of \$3.3 million incurred by Isramco in connection with the purchase of Magic.

7

Isramco's decision to sell its holdings in Magic was primarily attributable to Isramco's decision to focus principally on the oil and gas business. Following the sale of Magic, Isramco is no longer engaged in the cruise line business.

### NOTE 6 - EARNINGS PER SHARE COMPUTATION

SFAS No. 128 requires a reconciliation of the numerator (income) and denominator (shares) of the basic earnings per share ("EPS") computation to the numerator and denominator of the diluted EPS computation. The reconciliation is as follows (dollars in thousands):

	FOR THE THREE MONTHS ENDED MARCH 31,			
	2007		2006	
	LOSS	SHARES	INCOME	SHARES
Basic	\$ (1,766)	2,717,691	\$ 393	2,717,691
Effect of dilutive securities of stock options	-	-	-	-
Diluted	\$ (1,766)	2,717,691	\$ 393	2,717,691

### NOTE 7 - GEOGRAPHICAL SEGMENT INFORMATION

Isramco's operations for 2007 involve one industry segment - the exploration, development production and transportation of oil and natural gas. Prior to 2007

## Edgar Filing: ISRAMCO INC - Form 10-Q

Isramco operated in two operating segment - oil and gas activities and holding and leasing its cruise line vessel. Its current oil and gas activities are concentrated in the United States and Israel. Operating outside the United States subjects the company to inherent risks such as a loss of revenues, property and equipment from such hazards as exploration. Nationalization, war and other political risks, risks of increase of takes and governmental royalties, renegotiation of contracts with governmental royalties, renegotiation of contracts with government entities and change in laws and policies governing operations of foreign-based companies.

Isramco's oil and gas business is subject to operating risks associated with the exploration, and production of oil and gas, including blowouts, pollution and acts of nature that could result in damage to oil and gas wells, production facilities of formations. In addition, oil and gas prices have fluctuated substantially in recent years as a result of events outside of Isramco's control. Isramco does not directly operator the operators. This segment of Isramco's business is subject to many risks all of which cannot be presently anticipated, including losses resulting from unexpected repairs and maintenance and competition.

8

### GEOGRAPHIC SEGMENTS

	UNITED STATES -----	ISRAEL -----	CONSOLIDATED TOTAL -----
Identifiable assets at March 31, 2007	\$ 99,794	\$ 57	\$ 99,851
Cash and corporate assets			36,782
			-----
Total assets at March 31, 2007			\$ 136,633
			=====
Identifiable assets at December 31, 2006	\$ 12,471	\$ 66	\$ 12,537
Cash and corporate assets			51,447
			-----
Total Assets at December 31, 2006			\$ 62,073
			=====
Three Months Ended March 31, 2007			
-----			
Sales and other operating revenue	\$ 2,164	\$ 17	2,181
Costs and operating expenses	1,726	13	1,739
	-----	-----	
Operating profit	438	4	442
	=====	=====	
Interest Income			438
Interest expense			1,035
General corporate expenses			631
Gain on marketable securities and equity in net Income of investees			1,039
Loss from swap transactions			3,402
Other Income			342
Tax benefit			(1,041)
			-----
Net Loss			\$ (1,766)
			=====

Three Months Ended March 31, 2006

Edgar Filing: ISRAMCO INC - Form 10-Q

-----			
Sales and other operating revenue	\$ 699	\$ 171	\$ 870
Costs and operating expenses	(416)	(5)	(422)
	-----	-----	-----
Operating profit	\$ 283	\$ 166	448
	=====	=====	
Interest Income			254
Interest expense			(56)
General corporate expenses			(584)
Gain on marketable securities and equity in net Income of investees			991
Other income			3,130
Income taxes			(356)
			-----
Income from continuing operations			3,827
Loss from discontinued operation			(3,434)
			-----
Net Income			\$ 393
			=====

9

NOTE 8 - COMPREHENSIVE INCOME

Isramco's comprehensive income for the three months ended March 31, 2007 and 2006 was as follows:

	Three months ended Mar	
	2007	2006
	-----	-----
Net income (loss)	\$ (1,766)	\$ 3
Other comprehensive income (loss), net of tax:		
-Unrealized gain (loss) on available-for-sale securities	304	1
-Foreign currency translation adjustments of the Israeli Branch and the limited partnerships	500	(1
	-----	-----
Total comprehensive income (loss)	\$ (962)	\$ 3
	=====	=====

NOTE 9 - CONTINGENCIES

Isramco is involved in various other legal proceedings arising in the normal course of business. In the opinion of management, Isramco's ultimate liability, if any, in these pending actions would not have a material adverse effect on the financial position, operating results or liquidity of Isramco.

NOTE 10 - SUBSEQUENT EVENT

In April 2007, IsramTec Inc. a wholly owned subsidiary of the Company, sold part of its equity interests in a high-tech company, for aggregate consideration of approximately \$2.3 million. As a result of the transaction, the Company

## Edgar Filing: ISRAMCO INC - Form 10-Q

anticipates to record a net gain of approximately \$1.65 million (after payment of a commission) during the second quarter of 2007.

10

### 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," "ANTICIPATE," "BELIEVE," "ESTIMATE," "PREDICT," "POTENTIAL," "INTEND," OR "CONTINUE," AND SIMILAR EXPRESSIONS. 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.

#### OVERVIEW

Isramco, Inc., a Delaware company, is active in the exploration of oil and gas in Israel and the United States. The Company acts as an operator of certain leases and licenses and also holds participation interests in certain other interests. The Company also holds certain non-oil and gas properties.

#### CRITICAL ACCOUNTING POLICIES

In response to the Release No. 33-8040 of the Securities and Exchange Commission, "Cautionary Advice Regarding Disclosure and Critical Accounting Policies", the Company identified the accounting principles which it believes are most critical to the reported financial status by considering accounting policies that involve the most complex of subjective decisions or assessments.

The Company maintains allowances for doubtful accounts for estimated losses resulting from the inability of customers to make required payments. If the financial condition of customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

The Company records an investment impairment charge when it believes an investment has experienced a decline in value that is other than is temporary. Future adverse changes in market conditions or poor operating results of underlying investments could result in losses or an inability to recover the carrying value of the investment that may not be reflected in an investment's current carrying value, thereby possibly requiring an impairment charge in the future.

The Company records a valuation allowance to reduce its deferred tax assets to the amount that is more likely than not to be realized. While the Company has considered future taxable income and ongoing prudent and feasible tax planning strategies in assessing the need for the valuation allowance, in the event that the Company were to determine that it would be able to realize its deferred tax assets in the future in excess of its net recorded amount, an adjustment to the deferred tax asset would increase net income in the period

## Edgar Filing: ISRAMCO INC - Form 10-Q

such determination was made.

The Company does not participate in, nor has it created, any off-balance sheet special purpose entities or other off-balance sheet financing. In addition, the Company does not enter into any derivative financial instruments, other than the swap contracts.

The Company records a liability for asset retirement obligation at fair value in the period in which it is incurred and a corresponding increase in the carrying amount of the related long live assets.

### LIQUIDITY AND CAPITAL RESOURCES

Until acquisition of oil and gas properties in the frame of the Five States transaction, the Company had financed its operations primarily from cash generated by operations.

During the three months ended March 31, 2007, the Company's consolidated cash and cash equivalents decreased by \$14,781,000 from \$17,573,000 at December 31, 2006 to \$2,792,000 at March 31, 2007. The decrease in the Company's consolidated cash and cash equivalents is

11

primarily attributable to the usage of cash reserves to the acquisition of oil and gas properties in the frame of the Five States transaction.

Net cash used in investing activities for the three-month period ended March 31, 2007 was \$89,946,000 as compared to \$494,000 provided during the three-month period ended March 31, 2006. The net cash used during the three month period ended March 31, 2007 is primarily attributable to investment in oil and gas properties in connection with the Five States transaction.

The Company believes that existing cash balances and cash flows from activities will be sufficient to meet its financing needs. The Company intends to finance its ongoing oil and gas exploration activities form working capital.

### RESULTS OF OPERATIONS

THREE MONTHS ENDED MARCH 31, 2007 COMPARED TO THE THREE MONTHS ENDED MARCH 31, 2006.

The Company reported net loss of \$1,766,000 (\$0.65 per share) for the three-month period ended March 31, 2007 compared to net income of \$394,000 (\$0.15 per share) for the corresponding three-month period in 2006. The decrease in net income during the three month period ended March 31, 2007 is primarily attributable to recording of losses from swap transactions of approximately \$3.4 million versus an income of \$0.6 million in the three month period ended March 31, 2006, offset by increase of earnings from oil and gas operation due to the acquisitions of oil and gas wells in the Five States transaction and the new drillings of wells. Furthermore, the net income of the three months ended in March 31, 2006 included a non-recurring one time receipt of \$2,565,000 for the settlement of certain lawsuits that were initiated by the Company.

Set forth below is a break-down of these results.

United States  
Oil and Gas Revenues (in thousands)

## Edgar Filing: ISRAMCO INC - Form 10-Q

	Three Months ended March 31, 2007 ----	2006 ----
Oil Volume Sold (Bbl)	16.7	3.5
Gas Volume Sold (MCF)	186.0	61.5
Oil Sales (\$)	974	209
Gas Sales (\$)	1,190	449
Average Unit Price		
Oil (\$/Bbl) *	\$ 58.35	\$ 58.90
Gas (\$/MCF) **	\$ 6.40	\$ 7.30

\* Bbl - Stock Market Barrel Equivalent to 42 U.S. Gallons

\*\* MCF - 1,000 Cubic Feet

12

### SUMMARY OF ACTIVITIES IN THE UNITED STATES

The Company, through its wholly-owned subsidiaries, Isramco Energy LLC ("Isramco Energy"), Jay Petroleum LLC ("Jay Petroleum") and Jay Management LLC ("Jay Management"), is involved in oil and gas production in the United States. Isramco Energy and Jay Petroleum owns varying working interests in oil and gas wells in Louisiana, Texas, New Mexico, Oklahoma and Wyoming. Independent estimates of the reserves held by Isramco Energy and Jay Petroleum as of December 31, 2006 are approximately 1,495,215 net barrels of proved developed producing oil and 20,764,086 net MMCFs of proved developed producing natural gas and 1,280,800 of plant products. Jay Management acts as the operator of certain of the producing oil and gas interests owned or acquired by Jay Petroleum.

During the three months ended March 31, 2007 the Company continued to invest in drilling activities in the Barnett Shale in North Central Texas (Parker County) in which the Company holds 15% working interests. To date 21 gas wells have been drilled and completed for production.

#### OPERATOR'S FEES FROM RELATED PARTY

During the three months ended March 31, 2007, the Company earned \$17,000 in operator fees compared to \$21,000 respect of the corresponding period in 2005.

#### OIL & GAS REVENUES

For the three months ended March 31, 2007, the Company had oil and gas revenues of \$2,164,400 compared to \$664,000 for the corresponding period in 2006. The increase in the 2007 period as compared to the same period in 2006 is primarily attributable to the acquisitions of oil and gas wells in the Five States transaction as well as the new drillings of wells in North Central Texas offset by a decline of production in the company's older oil and gas wells and



## Edgar Filing: ISRAMCO INC - Form 10-Q

shutdown of the production caused by unanticipated pipeline maintenance in one of the fields.

### LEASE OPERATING EXPENSES AND SEVERANCE TAXES

Lease operating expenses and severance taxes were primarily in connection with oil and gas fields in the United States. Oil and gas lease operating expenses and severance taxes for the three months ended on March 31, 2007 were \$798,000 compared to \$221,000 for the same period in 2006. The increase is primarily attributable to the acquisitions of oil and gas wells in the Five States transaction.

### INTEREST INCOME

Interest income during the three months ended March 31, 2007 was \$438,000 compared to \$254,000 for the same period in 2006. The decrease in interest income earned by the company during the three months ended March 31, 2007 compared to the comparable period in 2006 is primarily attributable to interest earned on marketable securities.

### GAIN (LOSS) ON MARKETABLE SECURITIES

During the three months ended March 31, 2007, the Company recognized net realized and unrealized gain on trading securities of \$281,000 compared to net realized and unrealized gain of \$285,000 for the same period in 2006.

Increases or decreases in the gains and losses from marketable securities are dependent on the market prices in general and the composition of the portfolio of the Company.

### GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses for the three month period ended March 31, 2007 were \$639,000 as compared to \$584,000 for the corresponding three months in 2006.

13

### DEPRECIATION, DEPLETION AND AMORTIZATION

Depreciation depletion and amortization expenses are connected to the producing wells in the United States.

During the three month ended March 31, 2007, the Company recorded \$891,000 compared to \$502,000 in the first quarter of 2006. The increase is primarily attributable to the acquisitions of oil and gas wells in the Five States transaction.

### EQUITY NET INCOME OF INVESTEE

The Company's equity in the net income of investee for the first quarter of 2007 was \$763,000 compared to its net income of investee of \$706,000 for the first quarter of 2006. The net income is primarily attributable to the gain of marketable securities held by the limited partnerships Isramco Negev 2 and I.O.C. Dead Sea LP, affiliates of the Company.

### NET GAIN ON LEGAL SETTLEMENTS

Net Gain on Legal Settlements in 2006 is attributable to the receipt of

## Edgar Filing: ISRAMCO INC - Form 10-Q

approximately \$3,050,000 million from the settlement by the Company in February 2006 of certain lawsuits that it initiated. According to the agreements with the defendants settling these lawsuits, the Company recorded a net gain of \$2,565,000.

### OTHER INCOME

Other income in the three months ended March 31, 2007 was \$162,000 compared to \$565,000 during the corresponding period in 2006. Other income in 2006 is primarily attributable to \$560,000 related to the mark to market of swap contracts on oil and gas prices.

### OTHER EXPENSES

Other expenses in the three months ended March 31, 2007 was 3,474,000 compare to none during the corresponding period in 2006. Other expenses in 2007 is attributable to the mark to market of swap contracts on oil and gas prices as related to the transaction of Five States.

### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market risks relating to changes in interest rates and foreign currency exchanges rates were reported in Item 7A of the Company's Annual Report on Form 10-K for the year ended December 31, 2006. There has been no material change in these market risks since the end of the fiscal year 2006.

### ITEM 4. CONTROLS AND PROCEDURES

EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES. The Company maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in the Company's Exchange Act reports is recoded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to management, including our Chief Executive Officer (and Principal Financial Officer), as appropriate, to allow timely decisions regarding required disclosure based closely on the definition of "disclosure controls and procedures" in Rule 13 a- 14 c.

As of the end of the period covered by this report, we carried out an evaluation, under the supervision and with participation of management, including our Chief Executive Officer (and our Principal Financial Officer), of the effectiveness of the design and operation of our disclosure controls and procedures. Based of the foregoing, our Chief Executive Officer (and Principal Financial Officer) concluded that our disclosure controls and procedures were effective.

CHANGES IN INTERNAL CONTROLS OVER FINANCIAL REPORTING. During the quarter ended March 31, 2007, there have been no changes in our internal controls over financial reporting that have materially affected, or are reasonably likely to materially affect, these controls.

PART II -- OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

None

ITEM 1A. RISK FACTORS

The Risk Factors included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2006 have not materially changed.

ITEM 2. CHANGE IN SECURITIES & USE OF PROCEEDS

None

ITEM 3. DEFAULT UPON SENIOR SECURITIES

None

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None

ITEM 5. OTHER INFORMATION

None

ITEM 6. EXHIBITS

- 4.1 Promissory Note dated as of February 27, 2007, issued to NAPHTHA ISRAEL PETROLEUM CORP., LTD. in the principal amount of \$18,500,000.
- 4.2 Promissory Note dated as of February 27, 2007, issued to NAPHTHA ISRAEL PETROLEUM CORP., LTD. in the principal amount of \$11,500,000.
- 4.3 Promissory Note dated as of February 27, 2007, issued to and I.O.C. ISRAEL OIL COMPANY, LTD. in the principal amount of \$12,000,000.
- 4.4 Promissory Note dated as of February 27, 2007, issued to and J.O.E.L JERUSALEM OIL EXPLORATION, LTD. in the principal amount of \$7,000,000
- 10.1 Purchase and Sale Agreement, dated as of February 16, 2007, among Five States Energy Company, L.L.C. and each of the other parties listed as a party "Seller" on the signature pages thereof and ISRAMCO, Inc.
- 10.2 LOAN AGREEMENT, dated as of February 27, 2007, between ISRAMCO, INC., and NAPHTHA ISRAEL PETROLEUM CORP., LTD.

Edgar Filing: ISRAMCO INC - Form 10-Q

- 10.3 LOAN AGREEMENT, dated as of February 27, 2007, between ISRAMCO, INC., and NAPHTHA ISRAEL PETROLEUM CORP., LTD.
- 10.4 LOAN AGREEMENT, dated as of February 27, 2007, Between ISRAMCO, INC., and I.O.C. ISRAEL OIL COMPANY, LTD.

16

- 10.5 LOAN AGREEMENT, dated as of February 26, 2007, between ISRAMCO, INC., and J.O.E.L JERUSALEM OIL EXPLORATION, LTD.
- 10.6 CREDIT AGREEMENT dated as of March 2, 2007 among ISRAMCO ENERGY, L.L.C.,; each of the lenders that is a signatory hereto or which becomes a signatory hereto; and WELLS FARGO BANK, N. A., a national banking association, as agent for the Lenders.
- 10.7 GUARANTY AGREEMENT, dated as of March 2, 2007 by ISRAMCO, Inc. in favor of Wells Fargo Bank, N.A., as administrative agent (the "ADMINISTRATIVE AGENT") for the lenders that are or become parties to the Credit Agreement referred to in Item 10.6.
- 10.8 PLEDGE AGREEMENT, dated as of March 2, 2007 by Isramco, Inc. in favor of Wells Fargo Bank, N.A., as administrative agent for itself and the lenders (the "LENDERS") which are parties to the Credit Agreement referred to in Item 10.6.
- 31 Certification of Chief Executive and Principal Financial Officer pursuant to Section 302 of Sarbanes-Oxley Act
- 32 Certification of Chief Executive and Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley act of 2002

17

SIGNATURES

In accordance with 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.

ISRAMCO, INC.

DATE: MAY 18, 2007

BY /S/ HAIM TSUFF

CHAIRMAN OF THE BOARD,  
CHIEF EXECUTIVE  
AND PRINCIPAL  
FINANCIAL OFFICER

