

Edgar Filing: ISRAMCO INC - Form 10-Q

ISRAMCO INC
Form 10-Q
November 14, 2007

UNITED STATES
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 September 30, 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

4801 Woodway Drive, HOUSTON, TX 77056
(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 November 14, 2007 was 2,717,691.

INDEX

Edgar Filing: ISRAMCO INC - Form 10-Q

	Page

PART I - FINANCIAL INFORMATION:	
Item 1. Financial Statements	
Consolidated Balance Sheets at September 30, 2007 and December 31, 2006	1
Consolidated Statements of Operations for the three and nine months ended September 30, 2007 and 2006	2
Consolidated Statements of Cash Flows for the nine months ended September 30, 2007 and 2006	3
Notes to Consolidated Financial Statements	4
Item 2. Management's discussion and analysis of Financial Condition and Results of Operations	11
Item 3. Quantitative and Qualitative Disclosures about Market Risk	14
Item 4. Controls and Procedures	14
PART II. OTHER INFORMATION	
Item 1. Legal Proceedings	16
Item 1A. Risk Factors	16
Item 2. Changes in Securities and Use of Proceeds and Issuer Purchases of Equity 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	17
Item 6. Exhibits	17
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

Edgar Filing: ISRAMCO INC - Form 10-Q

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.

II

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

	September 30, 2007	December 31, 2006
	-----	-----
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 2,072	\$ 573
Restricted and designated cash	1,501	17,000
Marketable securities, at market	1,323	3,130
Accounts receivable	3,835	403
Prepaid expenses and other current assets	1,923	3,087
Derivative asset	--	1,970
Receivable - sale of subsidiary - Magic	--	2,150
	-----	-----
TOTAL CURRENT ASSETS	10,654	28,313
	-----	-----
Property and equipment, net (successful efforts method for oil and gas properties)	99,103	12,537
Marketable securities, at market	6,745	5,759
Investment in affiliates	17,365	15,302
Other	117	162
	-----	-----
TOTAL ASSETS	\$ 133,984	\$ 62,073
	=====	=====

LIABILITIES AND SHAREHOLDERS' EQUITY

CURRENT LIABILITIES

Edgar Filing: ISRAMCO INC - Form 10-Q

Accounts payable and accrued expenses	\$ 5,292	\$ 5,214
Current maturities of long-term debt and short-term debt	6,385	347
Derivative liability	831	--
Short term loan from related party	--	17,000
	-----	-----
TOTAL CURRENT LIABILITIES	12,508	22,561
	-----	-----
LONG-TERM LIABILITIES		
Long-term debt	25,700	--
Long-term debt - related party	52,526	--
Asset retirement obligations	1,554	356
Derivative liability - non-current	2,962	--
Deferred income taxes	3,977	4,412
	-----	-----
TOTAL LONG-TERM LIABILITIES	86,719	4,768
	-----	-----
TOTAL LIABILITIES	99,227	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	4,184	5,399
Accumulated other comprehensive income	4,470	3,242
Treasury stock, 29,267 shares at cost	(164)	(164)
	-----	-----
TOTAL SHAREHOLDERS' EQUITY	34,757	34,744
	-----	-----
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 133,984	\$ 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 September 30,		Nin
	2007	2006	2007
	-----	-----	-----
REVENUES:			
Oil and gas sales	\$ 5,877	\$ 599	\$ 13,
Operator fees from related party	(16)	26	
Office services to affiliate and other	165	189	

Edgar Filing: ISRAMCO INC - Form 10-Q

Equity in earnings of unconsolidated affiliates	(671)	267	1,
Total revenues	5,355	1,081	15,
OPERATING EXPENSES:			
Lease operating expense and severance tax	2,207	499	5,
Depreciation, depletion, amortization and impairment	1,699	8	4,
Accretion expense	38	15	
Exploration costs	286	35	
Operator expense	--	178	
General and administrative	739	293	2,
Total operating expenses	4,969	1,028	12,
Operating income	386	53	3,
OTHER INCOME AND (EXPENSE):			
Interest income	51	73	
Unrealized gain (loss) on marketable securities	(280)	73	
Realized gain on sale of investment and capital gain	6	--	1,
Interest expense	(1,847)	(3)	(5,
Gain (loss) from swap transactions, net	678	16	(2,
Net gain on legal settlement and other	36	--	
Total other income and (expense)	(1,356)	159	(5,
Income (loss) before income taxes	(970)	212	(1,
Income taxes benefit (expense)	323	(101)	
Income (loss) from continuing operations	(647)	111	(1,
Income (loss) from discontinued operation, net of tax	--	471	
Net income (loss)	\$ (647)	\$ 582	\$ (1,
Basic and diluted income (loss) per share:			
Continuing operations	\$ (0.24)	\$ 0.04	\$ (0
Discontinued operations	--	0.17	
Net income (loss)	\$ (0.24)	\$ 0.21	\$ (0
Weighted average number of shares outstanding - basic and diluted	2,717,691	2,717,691	2,717,

See notes to the consolidated financial statements

2

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

Nine Month Ended September 30,

2007 2006

Edgar Filing: ISRAMCO INC - Form 10-Q

CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	\$ (1,215)	\$ 2,042
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Discontinued operations	--	2,715
	-----	-----
Income (loss) from continuing operations	(1,215)	4,757
Depreciation, depletion amortization and impairment	4,384	310
Accretion expense	82	52
Unrealized gain on marketable securities	(333)	(367)
Unrealized (gain) loss on derivative contracts	5,740	(609)
Equity in earnings of unconsolidated affiliates	(1,189)	(676)
Deferred taxes	(1,069)	560
Realized gain on sale of investment and capital gain	(1,664)	--
Changes in components of working capital and other liabilities:		
Accounts receivable	(3,432)	(95)
Prepaid expenses and other current assets	95	(38)
Accounts payable and accrued liabilities	(1,542)	2,245
Other liabilities	(35)	--
	-----	-----
Net cash provided by (used in) operating activities		
Continuing operations	(178)	6,139
Discontinued operations	--	348
	-----	-----
Net cash provided by (used in) operating activities	(178)	6,487
	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investment in affiliate	--	(1,197)
Addition to property and equipment, net	(87,082)	(3,123)
Proceeds from restricted deposit	15,499	--
Proceeds from sale of subsidiary - Magic	2,150	--
Proceeds from sale of gas properties and equipment	36	--
Proceeds from sale of other investment	1,670	--
Purchase of marketable securities	(740)	(1,373)
Proceeds from sale of marketable securities	2,880	2,435
	-----	-----
Continuing operations	(65,587)	(3,258)
Discontinued operations	--	(8)
	-----	-----
Net cash used in investing activities	(65,587)	(3,266)
	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net proceeds from loans - related parties	35,526	--
Proceeds from long-term debt	35,300	--
Repayment of loan	(5,533)	(120)
Repayment on bank loans, net	1,971	--
	-----	-----
Continuing operations	67,264	(120)
Discontinued operations	--	(720)
	-----	-----
Net cash provided by (used in) financial activities	67,264	(840)
	-----	-----
Net increase (decrease) in cash and cash equivalents	1,499	2,381
Cash and cash equivalents-beginning of period	573	1,249
	-----	-----
Cash and cash equivalents-end period	\$ 2,072	\$ 3,630
	=====	=====

Edgar Filing: ISRAMCO INC - Form 10-Q

Supplemental cash flow information			
Interest paid	\$	1,377	\$ 275
Income taxes paid		--	--
Non-cash disclosures			
Property and equipment included in accounts payable	\$	1,369	--

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 nine month period ended September 30, 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 re-classification of prior year amounts has been made to conform to current presentation.

On March 2, 2007 (the "Acquisition Date"), Isramco purchased certain oil and gas properties located in Texas and New Mexico from Five States Energy Company, LLC for an aggregate preliminary purchase price of \$92 million (before adjustments as defined in the agreement). Although the acquisition was closed on March 2, 2007, the effective dated of the purchase was determined to be October 1, 2006 (the "Effective Date"). Accordingly, the Company is entitled to the net revenues, less direct operating expenses, of the acquired properties from the Effective Date through the Acquisition Date. This will result in an adjustment to the preliminary purchase price. These financial statements reflect the assets acquired and operations related to those assets from the Acquisition Date through September 30, 2007.

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 - NEW ACCOUNTING PRONOUNCEMENTS

Edgar Filing: ISRAMCO INC - Form 10-Q

In June 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109" (FIN 48). This Interpretation provides guidance on recognition, classification and disclosure concerning uncertain tax liabilities. The evaluation of a tax position requires recognition of a tax benefit if it is more likely than not it will be sustained upon examination. We adopted this Interpretation effective January 1, 2007. The adoption did not have a material impact on our consolidated financial statements.

NOTE 4 - 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.

NOTE 5 - TRANSACTION WITH FIVE STATES

On March 2, 2007, Isramco purchased certain oil and gas properties located in Texas and New Mexico from Five States Energy Company, LLC for an aggregate preliminary purchase price of \$92 million (in addition see Note 1). According to an engineering report prepared by an independent consulting company relating to the properties purchased, 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.

To fund the purchase, we obtained loans from our parent Naphtha Israel Petroleum Corp. Ltd. (including through its wholly owned subsidiary IOC-Israel Oil Company Ltd) in an aggregate principle amount of \$42 million. In addition, we obtained a \$7 million loan from J.O.E.L Jerusalem Oil Exploration Ltd, which is a related party, and a \$35.3 million line of credit from Wells Fargo. (see Note 7) The balance of the purchase was funded from working capital.

4

The following table summarizes the preliminary estimated fair values of assets that Isramco acquired and the liabilities assumed in connection with the acquisition of the Five States properties:

(in thousands)	
Oil and gas properties (after adjustments)	\$ 86,309
Asset retirement obligation	(1,166)

Net asset acquired	\$ 85,143
	=====

The following unaudited pro forma information assumes the acquisition of the Five States properties occurred as of January 1, 2006. 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

Edgar Filing: ISRAMCO INC - Form 10-Q

	REPORTED	PRO FORMA
Nine months ended September 30, 2007: -----		
Revenues	\$ 15,692	\$ 19,063
Net income (loss)	(1,215)	820
Loss per share - basic and diluted		
Continuing operations	\$ (0.45)	\$ 0.30
Discontinued operations	--	--
	-----	-----
Total	\$ (0.45)	\$ 0.30
	=====	=====
Nine months ended September 30, 2006: -----		
Revenues	\$ 4,364	\$ 21,660
Net income	2,042	1,813
Income (loss) per share - basic and diluted		
Continuing operations	\$ 1.75	\$ 1.66
Discontinued operations	(1.00)	(1.00)
	-----	-----
Total	\$ 0.75	\$ 0.66
	=====	=====
Three months ended September 30, 2006: -----		
Revenues	\$ 1,081	\$ 6,932
Net income	582	743
Income per share - basic and diluted		
Continuing operations	\$ 0.04	\$ 0.06
Discontinued operations	0.17	0.21
	-----	-----
Total	\$ 0.21	\$ 0.27
	=====	=====

NOTE 6 - DERIVATIVE CONTRACTS

Following the closing of Five States transaction (see Note 5), Isramco signed swap agreements with Wells Fargo Bank to secure its future oil and gas prices as follows:

Swap contracts to sell 398,918 barrels of crude oil during 46 months commencing March 2007 for a total consideration of \$25.4 million. Swap contracts to sell 29,609,026 MMBTU of natural gas during 46 months commencing March 2007 for a total consideration of \$29.6 million.

The following is the Company's open swap contracts positions at September 30, 2007:

Edgar Filing: ISRAMCO INC - Form 10-Q

OIL

MONTHLY QUANTITY BARRELS	AVERAGE FUTURE PRICE	YEAR	NUMBER OF MONTHS	TOTAL QUANTITY BARRELS	TOTAL AMOUNT
4,000	\$ 62.90	2007	3	12,000	\$ 754,800
4,000	65.08	2008	12	48,000	3,123,960
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	3	19,023	1,188,367
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	3	3,000	198,150
1,000	68.46	2008	12	12,000	821,520
Total				375,531	\$ 24,197,204

GAS

MONTHLY QUANTITY MMBTU	AVERAGE FUTURE PRICE	YEAR	NUMBER OF MONTHS	TOTAL QUANTITY MMBTU	TOTAL AMOUNT
101,167	\$ 8.08	2007	3	303,501	\$ 2,450,913
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	3	60,000	471,900
13,000	8.37	2008	12	156,000	1,304,940
Total				3,891,933	\$ 30,886,969

Isramco recognized a loss of \$2,919,000 for the nine months ended September 30, 2007 and a gain of \$609,000 for the nine months ended September 30, 2006 related to the swap agreements.

NOTE 7 - DEBT

In connection with the acquisition of the Five States properties (see Note 5), we obtained the following financing:

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

Edgar Filing: ISRAMCO INC - Form 10-Q

occurrence of certain specified 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.

6

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%. At any time Isramco can make prepayments without premium or penalty. The Second Loan is unsecured. 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%. At any time Isramco can make prepayments without premium or penalty. The Third Loan is unsecured. 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 3 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 May 26, 2007, the maturity date this loan was extended until July 11, 2007. Pursuant to a loan agreement dated as of July 11, 2007, the maturity date on this loan was extended for an additional period of seven years. Interest accrues at a per annum rate of LIBOR plus 6%. Principal amount is repayable beginning at the end of third year in five equal installments. At any time Isramco can make prepayments without premium or penalty. The Loan is unsecured.

On March 2, 2007, Isramco Energy 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. The borrowing base for the credit line is determined periodically by Wells Fargo Bank using engineering reports and other information provided by Isramco. In addition, Isramco is required to hedge 80% of expected future volumes for a period of four years. 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 Five States Purchase and Sale Agreement. During the period, the borrowing base with Wells Fargo Bank was reduced to \$27 million due to lack of engineering reports. Isramco will pay back the \$8.3 million reduction in six monthly payments beginning July 1, 2007. As of September 30, 2007 Isramco paid down approximately \$5.8 million. On 30 October, 2007 Isramco provided the bank an engineering report as required on the Credit agreement. Based on this report the bank will determine the new borrowing base.

NOTE 8 - DISCONTINUED OPERATION

In March 2004, Isramco purchased a luxury cruise liner for aggregate

Edgar Filing: ISRAMCO INC - Form 10-Q

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 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, in respect of 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 9 - EARNINGS PER SHARE COMPUTATION

Basic and diluted net income/loss per share calculations are presented in accordance with Financial Accounting Standards Statement 128, and are calculated on the basis of the weighted average number of common shares outstanding during the year. Our weighted average number of outstanding share is the same for both calculating both basic and diluted earnings per share as we did not have any common stock equivalents outstanding during the period.

NOTE 10 - 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 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 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

Edgar Filing: ISRAMCO INC - Form 10-Q

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.

UNITED	CONSOLIDATED		
	STATES	ISRAEL	TOTAL
	-----	-----	-----
Identifiable assets at September 30, 2007	\$ 97,093	\$ 1,977	\$ 99,070
Cash and corporate assets			34,914

Total Assets at September 30, 2007			133,984
			=====
Identifiable assets at December 31, 2006	10,583	1,954	12,537
Cash and corporate assets			49,536

Total Assets at December 31, 2006			\$ 62,073
			=====
 NINE MONTHS ENDED SEPTEMBER 30, 2007			
Sales and other operating revenue	\$ 13,661	\$ 2,031	\$ 15,692
Operating expenses	(11,089)	(952)	(12,041)
	-----	-----	-----
Operating profit	2,572	1,079	3,651
Interest income			533
Interest expense			(5,024)
Gain on marketable securities and other investments			1,882
Loss from swap transactions			(2,919)
Other			36
Income Taxes			626

Net income			\$ (1,215)
			=====

8

 NINE MONTHS ENDED SEPTEMBER 30, 2006			
Sales and other operating revenue	\$ 1,915	\$ 2,449	\$ 4,364
Costs and operating expenses	(1,928)	(1,071)	(2,999)
	-----	-----	-----
Operating profit	(13)	1,378	1,365
Interest income			370
Interest expense			(78)
Gain on marketable securities and other investments			885
Gain from swap transactions			609
Net gain on legal settlement			2,565
Income taxes			(959)
Discontinued operation			(2,715)

Net income			\$ 2,042

Edgar Filing: ISRAMCO INC - Form 10-Q

=====

THREE MONTHS ENDED SEPTEMBER 30, 2007

Sales and other operating revenue	\$ 5,510	\$ (155)	\$ 5,355
Costs and operating expenses	(4,711)	(258)	(4,969)
	-----	-----	-----
Operating profit	799	(413)	386
Interest income			51
Interest expense			(1,847)
Gain on marketable securities and other investments			(274)
Loss from swap transactions			678
Other			36
Income Taxes			323

Net loss			\$ (647)
			=====

THREE MONTHS ENDED SEPTEMBER 30, 2006

Sales and other operating revenue	\$ 596	\$ 485	\$ 1,081
Costs and operating expenses	(394)	(634)	(1,028)
	-----	-----	-----
Operating profit	202	(149)	53
Interest income			73
Interest expense			(3)
Gain on marketable securities			73
Gain from swap transactions			16
Income taxes			(101)
Discontinued operation			471

Net loss			\$ 582
			=====

9

NOTE 11 - COMPREHENSIVE INCOME

Isramco's comprehensive income for the three and nine months period ended September 30, 2007 and 2006 was as follows:

	Three Months Ended September 30		Nine Months Ended September 30	
	2007	2006	2007	2006
	-----	-----	-----	-----
Net income (loss)	\$ (647)	\$ 582	\$ (1,215)	\$ 2,042
Other comprehensive gain (loss)				
Available-for-sale securities	(135)	(96)	617	8
Foreign currency translation adjustments	669	415	577	311
	-----	-----	-----	-----
Comprehensive income (loss)	\$ (113)	\$ 901	\$ (21)	\$ 2,361
	=====	=====	=====	=====

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. ISRAMCO INC. DISCLAIMS ANY OBLIGATION TO UPDATE SUCH FORWARD LOOKING STATEMENTS.

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.

On March 2, 2007 (the "Acquisition Date"), Isramco purchased certain oil and gas properties located in Texas and New Mexico from Five States Energy Company, LLC for an aggregate preliminary purchase price of \$92 million (before adjustments as defined in the agreement). Although the acquisition was closed on March 2, 2007, the effective date of the purchase was determined to be October 1, 2006 (the "Effective Date"). Accordingly, the Company is entitled to the net revenues, less direct operating expenses, of the acquired properties from the Effective Date through the Acquisition Date. This will result in an adjustment to the preliminary purchase price. These financial statements reflect the assets acquired and operations related to those assets from the Acquisition Date through September 30, 2007.

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

Edgar Filing: ISRAMCO INC - Form 10-Q

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 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.

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.

11

LIQUIDITY AND CAPITAL RESOURCES

The Company finances its operations primarily from cash generated by operations.

During the nine months ended September 30, 2007, our consolidated cash and cash equivalents increased by \$1,499,000 from \$573,000 at December 31, 2006 to \$2,072,000 at September 30, 2007. Our restricted and designated cash decreased from \$17,000,000 to \$1,501,000 during the same period. The decrease in our restricted cash is primarily attributable to the use of cash reserves related to the Five States Acquisition, which was completed in March 2007.

Net cash used by operating activities was \$178,000 for the nine months ended September 30, 2007 compared to \$6,487,000 provided by operating activities for the same period in 2006. The decrease is primarily due to operational cash flows from the properties acquired in the Five States Acquisition and from discontinued operations in 2006 that did not exist in 2007.

Net cash used in investing activities for the nine-month period ended September 30, 2007 was \$65,587,000 compared to \$3,266,000 for the same period in 2006. The cash used in 2007 period was use is primarily attributable to the Five States Acquisition, offset by proceeds from a restricted deposit and the sale or settlement of various investments.

Net cash provided by financing activities was \$67,264,000 for the nine months ended September 30, 2007 compared to net cash used in financing activities of \$840,000 for the same period in 2006. Our financing activities in 2007 primarily relate to borrowings in connection with the Five States Acquisition.

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

RESULTS OF OPERATIONS

SUMMARY OF EXPLORATION EFFORTS 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

Edgar Filing: ISRAMCO INC - Form 10-Q

Management"), is involved in oil and gas production in the United States. Jay Petroleum owns varying working interests in oil and gas wells in Louisiana, Texas, Oklahoma and Wyoming. Jay Management acts as the operator of certain of the producing oil and gas interests owned or acquired by Jay Petroleum.

During the nine months ended September 30, 2007, we continued to invest in drilling activities in the Barnett Shale in North Central Texas (Parker County) in which we hold a 15% working interests. To date, 22 gas wells have been drilled of which 11 wells are currently producing 6 wells waiting for pipeline connection and the rest of the wells are in various stage of completion. As to September 30, 2007 we invested \$8,765,727 in the project. In another acres in North Central Wise county Texas (2,700 acres), we have completed 3D data acquiescing and processing and currently we are interpreting the data. The major objective is the Barnett Shale. We intent to drill an horizontal well during the year 2008. We hold 50% working Interests in the acres. During the nine months period we have invested \$272,267 in the projects of which \$268,746 were expensed as incurred and was recorded as exploration cost.

12

SUMMARY OF EXPLORATION EFFORTS IN ISRAEL

Hof Permit

The Company was granted 100% working interes in "Hof permit" offshore Israel (the "Permit"), covering a total area of 98,800 acres. The Company processed and interpreted 2D seismic data. Based on the results, the Company intends to shoot high resolution 2D lines in the shallow water. The Company has reached an agreement with Isramco Negev 2.L.P, for the transfer of 30% working interests in the Permit in consideration for the payment of 37.5% share of the of the first \$4 million of the operation costs and their working interest share of the remaining costs of the operations in the Permit.

The Company intends to transfer an additional 50% working interests in the Permit to third parties, under the same terms, after which the Company shall hold 20% working interests in the Permit and shall bear no operation costs up to the first \$4 million, in the exploration costs. The Company will serve as the operator of the Permit.

Shimshon License

The Company was granted 100% working interests in Shimshon License offshore Israel (the "License"), in a total area 98,800 acres. Based on interpretations of 3D seismic Data, two prospects were identified.

The Company has reached an agreement with Isramco Negev 2.L.P, for the transfer of 79% working interests in the License in consideration for overriding royalties of 5%. The Company intends to transfer an additional 20% working interests to third parties under the same terms. The Company will serve as the operator of the License.

Michal&Matan Licenses.

The Company (through its limited partnership Isramco Negev 2) holds 28% working interest in two offshore licenses .The operator of the licenses is Noble Energy. The partners have approved a budget of \$71 million to drill the "Tamar 1 "well to a total depth of 16,500 feet. Drilling is expected to begin during the first quarter of 2008

NINE MONTHS ENDED SEPTEMBER 30, 2007 COMPARED TO NINE MONTHS ENDED SEPTEMBER 30,

Edgar Filing: ISRAMCO INC - Form 10-Q

2006:

We reported a net loss of \$1,215,000 or (\$0.45) per share for the nine-month period ended September 30, 2007 compared to net income of \$2,042,000 or \$0.75 per share for the same period in 2006. The loss recorded during the nine months ended September 30, 2007 as compared to the income recorded for the same period in 2006 is primarily attributable to an aggregate \$16,853,000 increase in interest expense, lease operating expense, depreciation, depletion, amortization and impairment, and a loss on swap transactions. This was partially offset by a \$11,328,000 increase in revenues and from a one-time non-recurring net gain of \$1.65 million. In addition, we recorded \$2,715,000 in loss from discontinued operations in 2006 that did not exist in 2007.

OIL & GAS REVENUES - During the 2007 period, we recorded \$13,528,000 in oil and gas revenues compared to \$1,804,000 in 2006. This increase is primarily due to the Five States Acquisition, partially offset by a decline in production from our older oil and gas properties and a shutdown of certain production in one of our fields due to unanticipated pipeline maintenance.

LEASE OPERATING EXPENSES AND SEVERANCE TAXES - During the 2007 period, we recorded \$5,188,000 in lease operating expenses and severance taxes compared to \$898,000 in 2006. This increase is primarily due to the Five States Acquisition.

DEPRECIATION, DEPLETION, AMORTIZATION AND IMPAIRMENT - Depreciation depletion and amortization expenses are connected to the producing wells in the United States. During the 2007 period, we recorded \$4,384,000 in depreciation, depletion, amortization and impairment compared to \$295,000 in 2006. This increase is primarily due to the Five States Acquisition.

GENERAL AND ADMINISTRATIVE - During the 2007 period, we recorded \$2,066,000 in general and administrative compared to \$1,074,000 in 2006. This increase is primarily due to the Five States Acquisition.

INTEREST INCOME - During the 2007 period, we recorded \$533,000 in interest income compared to \$370,000 in 2006. This increase is primarily due a restricted cash deposit invested during the first part of the year.

INTEREST EXPENSE - During the 2007 period, we recorded \$5,024,000 in interest expense compared to \$78,000 in 2006. This increase is primarily due to the increasing of our long - term loans related to the Five States Acquisition.

GAIN ON SALE OF INVESTMENT - 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 \$1.7 million (net of commission). As a result of the transaction, the Company recorded a one-time non-recurring net gain of \$1.65 million.

13

EQUITY IN EARNINGS OF UNCONSOLIDATED AFFILIATES - During the 2007 period, we recorded \$1,598,000 in equity in earnings of unconsolidated affiliates compared to \$1,930,000 in 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 Period is attributable to the receipt of 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.

Edgar Filing: ISRAMCO INC - Form 10-Q

THREE MONTHS ENDED SEPTEMBER 30, 2007 COMPARED TO THREE MONTHS ENDED SEPTEMBER 30, 2006:

We reported a net loss of \$647,000 or \$(0.24) per share for the three months period ended September 30, 2007 compared to net income of \$582,000 or \$0.21 per share for the same period in 2006. The decrease in net income is primarily attributable to a \$5,278,000 increase in revenue from oil and gas sales, offset by an aggregate \$5,243,000 increase in interest expense, lease operating expense, depreciation, depletion, and amortization and impairment. We recorded \$471,000 in income from discontinued operations in 2006 that did not exist in 2007

OIL & GAS REVENUES - During the 2007 period, we recorded \$5,877,000 in oil and gas revenues compared to \$599,000 in 2006. This increase is primarily due to the Five States Acquisition, partially offset by a decline in production from our older oil and gas properties and a shutdown of certain production in one of our fields due to unanticipated pipeline maintenance.

LEASE OPERATING EXPENSES AND SEVERANCE TAXES - During the 2007 period, we recorded \$2,207,000 in lease operating expenses and severance taxes compared to \$499,000 in 2006. This increase is primarily due to the Five States Acquisition.

DEPRECIATION, DEPLETION, AMORTIZATION AND IMPAIRMENT - Depreciation depletion and amortization expenses are connected to the producing wells in the United States. During the 2007 period, we recorded \$1,699,000 in Depreciation, depletion, amortization and impairment compared to \$8,000 in 2006. This increase is primarily due to the Five States Acquisition.

GENERAL AND ADMINISTRATIVE - During the 2007 period, we recorded \$739,000 in general and administrative compared to \$293,000 in 2006. This increase is primarily due to the five states acquisition.

EQUITY IN EARNINGS OF UNCONSOLIDATED AFFILIATES - During the 2007 period, we recorded \$(671,000) in equity in earnings of unconsolidated affiliates compared to \$267,000 in 2006. The net loss is primarily attributable to the loss of marketable securities held by the limited partnerships Isramco Negev 2 and I.O.C. Dead Sea LP, affiliates of the Company.

INTEREST EXPENSE - During the 2007 period, we recorded \$1,847,000 in interest expense compared to \$3,000 in 2006. This increase is primarily due to the increasing of our long - term loans related to the Five States Acquisition.

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 recorded, 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 Chief 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 Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures. Based on the foregoing, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective.

CHANGES IN INTERNAL CONTROLS OVER FINANCIAL REPORTING. During the quarter ended September 30, 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

Edgar Filing: ISRAMCO INC - Form 10-Q

Exhibits

- 10.1 Employment Agreement dated as of September 1, 2007 between Isramco Inc. and Edy Francis
- 31.1 Certification of Chief Executive Officer pursuant to Section 302 of Sarbanes-Oxley Act
- 31.1 Certification of Chief Financial Officer pursuant to Section 302 of Sarbanes-Oxley Act
- 32.1 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
- 32.1 Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 Of the Sarbanes-Oxley act of 20023

17

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. .

ISRAMCO, INC.

DATE: November 14, 2007

BY /S/ Haim Tsuff

Haim Tsuff,
CHIEF EXECUTIVE OFFICER

PRINCIPAL FINANCIAL AND ACCOUNTING OFFICER

DATE: November 14, 2007

BY /S/ Edy Francis

Edy Francis,
CHIEF FINANCIAL OFFICER

18