

Edgar Filing: ISRAMCO INC - Form 10-Q

ISRAMCO INC  
Form 10-Q  
August 14, 2006

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 June 30, 2006

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 August 10, 2006 was 2,717,691.

INDEX

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

### PART I - FINANCIAL INFORMATION:

#### Item 1. Financial Statements

Consolidated Balance Sheets at June 30, 2006 and December 31, 2005

Consolidated Statements of Operations for the three and six months ended June 30, 2006 and 2005

Consolidated Statements of Cash Flows for the six months ended June 30, 2006 and 2005

Notes to Consolidated Financial Statements

#### Item 2. Management's discussion and analysis of Financial Condition and Result of Operation

#### Item 3. Quantitative and Qualitative Disclosures about Market Risk

#### Item 4. Controls and Procedures

### PART II. OTHER INFORMATION

#### Item 1. Legal Proceedings

#### Item 2. Changes in Securities and Use of Proceeds and Issuer Purchases of Equity Securities

#### Item 3. Defaults upon senior securities

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

#### Item 5. Other Information

#### Item 6. Exhibits

Signatures

### 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

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

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.

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

	June 30, 2006 ----- (Unaudited)	Decemb 20 -----
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 2,124	\$ 1,
Marketable securities, at market	5,320	5,
Accounts receivable - Trade	542	
Prepaid expenses and other current assets	131	
	-----	-----
Total current assets	8,118	7,
Property and equipment (successful efforts method for oil and gas properties)		
	6,261	5,
Real Estate	1,887	1,
Marketable securities, at market	3,631	3,
Investment in affiliates	11,128	11,
Investment in Vessel	5,748	8,
Other	162	
	-----	-----
Total assets	\$ 40,757 =====	\$ 38, =====

LIABILITIES AND SHAREHOLDERS' EQUITY

Current Liabilities:		
Accounts payable and accrued expenses	\$ 2,631	\$ 2,
Income tax payable	1,131	-
Credit from Bank	--	

Edgar Filing: ISRAMCO INC - Form 10-Q

Bank Loan	1,244	1,
	-----	-----
Total current liabilities	5,006	3,
Long Term Liabilities		
Asset retirement obligations	333	
Deferred tax liability	2,408	2,
Current portion of long-term bank loan	2,738	3,
	-----	-----
Total Long Term Liabilities	5,479	6,
	-----	-----
Total Liabilities	10,485	10,
Commitments, contingencies and other matters		
Common stock \$.01 par value; authorized 7,500,000 shares; issued 2,746,958 shares; outstanding 2,717,891 shares	27	
Additional paid-in capital	26,240	26,
Retained earnings	3,112	1,
Accumulated other comprehensive income (loss)	1,152	
Treasury stock, 29,267 shares	(164)	(
	-----	-----
Total shareholders' equity	30,272	28,
	-----	-----
Total liabilities and shareholders' equity	\$ 40,757	\$ 38,
	=====	=====

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 June 30,		Six Mo
	2006	2005	2006
	-----	-----	-----
REVENUES:			
Operator fees from related party	\$ 14	\$ 18	\$ 35
Oil and gas sales	541	672	1,206
Revenue from Vessel	688	568	688
Interest income	42	55	297
Office services to affiliate and other	194	273	380
Gain on marketable securities	527	--	812
Equity in net income of Investees	958	--	1,663
Net gain in legal settlement	--	--	2,565
Other Income	28	35	593
	-----	-----	-----
Total revenues	\$ 2,993	\$ 1,621	\$ 8,239

Edgar Filing: ISRAMCO INC - Form 10-Q

	-----	-----	-----
COSTS AND EXPENSES:			
Interest expenses	88	91	211
Cost of vessel revenues	152	444	1,017
Depreciation, depletion amortization and impairment	317	323	819
Accretion expenses	37	15	37
Lease operating expenses and severance taxes	179	320	400
Exploration costs	90	160	90
Operator expense	200	139	376
General and administrative	363	463	772
Loss on marketable securities	--	7	--
Impairment of vessel	--	--	2,200
Equity in net loss of Investees	--	411	--
	-----	-----	-----
Total expenses	1,425	2,373	5,920
	-----	-----	-----
Income (loss) before income taxes	1,568	(752)	2,318
	-----	-----	-----
Income tax (expense) benefit	(502)	156	(858)
	-----	-----	-----
Net income (loss)	\$ 1,066	\$ (596)	\$ 1,460
	=====	=====	=====
	-----	-----	-----
Earnings (loss) per common share - basic and diluted	\$ 0.39	\$ (0.22)	\$ 0.54
	=====	=====	=====
	-----	-----	-----
Weighted average number of shares Outstanding - basic and diluted	2,717,891	2,717,891	2,717,891
	=====	=====	=====

See notes to the consolidated financial statements.

-2-

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

	-----	-----
		Six Month Ended Ju
		2006
		-----
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)		\$ 1,460
Adjustments to reconcile net income to net Cash provided by operating activities:		

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

Depreciation, depletion amortization and impairment	834
Impairment of vessel	2,200
Accretion expense	37
Loss (gain) on marketable securities	(811)
Equity in net loss (gain) of investees	(1,663)
Deferred taxes	(496)
Changes in assets and liabilities:	
Accounts receivable	62
Prepaid expenses and other current assets	(34)
Accounts payable and accrued liabilities	228
Income tax payable	1,131
	-----
Net cash provided by operating activities	2,948
	-----
CASH FLOWS FROM INVESTING ACTIVITIES:	
Investment in affiliate	(979)
Addition to property and equipment	(1,500)
Purchase of marketable securities	(1,373)
Proceeds from sale of marketable securities	2,435
	-----
Net cash provided (used) in investing activities	(1,417)
	-----
Net cash provided by financial activities	
Repayment of loan	(501)
Change in short term credit from banks	(154)
	-----
Net cash provided (used) by financial activities	(655)
	-----
Net increase (decrease) in cash and cash equivalents	876
Cash and cash equivalents-beginning of period	1,249
	-----
Cash and cash equivalents-end period	\$ 2,125
	=====

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 June 30, 2006, are not necessarily indicative of the results that may be expected for the year ended December 31, 2006. 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, 2005. Certain re-classification of prior year amounts have

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

been made to conform to current presentation.

### Stock-Based Compensation

On January 1, 2006, Isramco adopted Statement of Financial Accounting Standards Board ("SFAS") No. 123(R), "Share-Based Payment" ("SFAS 123(R)"). SFAS 123(R) replaced SFAS No. 123 and supersedes APB Opinion No. 25. SFAS 123(R) requires all share-based payments to employees, including grants of employee stock options, to be recognized in the financial statements based on their fair values. The pro forma disclosures previously permitted under SFAS 123 are no longer an alternative to financial statement recognition. Isramco adopted SFAS 123(R) using the modified prospective method which requires the application of the accounting standard as of January 1, 2006. The consolidated financial statements as of and for the quarter ended March 31, 2006 reflect the impact of adopting SFAS 123(R). In accordance with the modified prospective method, the consolidated financial statements for prior periods have not been restated to reflect, and do not include, the impact of SFAS 123(R).

Prior to 2006, Isramco accounted for employee stock-based compensation granted under our long-term incentive plans using the intrinsic value method prescribed by Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees, and related interpretations. Isramco did not have any compensation expense for the three months periods ended June 30, 2006 and 2005, as there were no options granted in either of the periods and options historically granted were fully vested on the date of grant. The following table illustrates the effect on net income and earnings per share if we had applied the fair value recognition provisions of SFAS 123 to stock-based employee compensation:

	THREE MONTHS ENDED
	JUNE 30, 2005
Net loss, as reported	\$ (596,000) =====
Add: Total stock-based employee compensation expense determined under intrinsic value based method for all awards, net of related tax effects	--
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	-- -----
Pro forma net loss	\$ (596,000) =====
Net loss per share:	
Basic and diluted - as reported	\$ (0.22) -----
Basic and diluted - pro forma	\$ (0.22) -----

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

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 Magic 1 Cruise Line Corp. ("Magic") and its U.S. based wholly-owned subsidiaries: Jay Petroleum, L.L.C. ("Jay"), Jay Management L.L.C. ("Jay Management"). Intercompany balances and transactions have been eliminated in consolidation.

### NOTE 3 - INVESTMENT IN VESSEL

In February 2006, Isramco's wholly owned subsidiary Magic, entered into a bareboat charter with a tour operator pursuant to which Magic's luxury cruise liner is being leased for three specific periods, with the first such period having commenced on April 6, 2006 and scheduled to terminate on November 5, 2006, the period thereafter to commence on March 29, 2007 and terminate on October 28, 2007 and the third period to commence on April 8, 2008 and terminate on November 7, 2008, at a daily rate of \$8,000. The operator may cancel the second and third charter periods by giving a written notice to the Magic to such effect by no later than November 1, 2006 and it may cancel the third charter period by giving a written notice to the Magic to such effect by no later than November 1, 2007.

Following management's assessment conducted in April and May 2006 as part of the preparation of the financial statements for the period ended March 31, 2006, management determined that there has been a decrease in the fair market value of Isramco's investment in such vessel and, that as a consequence thereof, Isramco believed the investment to have been impaired. Accordingly, Isramco recorded an impairment charge in March 2006 in the amount of \$2,200,000 for the three month period ended March 31, 2006.

### NOTE 4 - 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:

	For the Three Months Ended June 30,			
	2006		2005	
	Income	Shares	Income	Shares
Earnings (loss) - Basic	\$1,066,000	2,717,891	\$ (596,000)	2,717,891
Effect of dilutive securities of stock options	--	--	--	--
Earnings (loss) - Diluted	\$1,066,000	2,717,891	\$ (596,000)	2,717,891

	For the Six Months Ended June 30,			
	2006		2005	
	Income	Shares	Income	Shares



Edgar Filing: ISRAMCO INC - Form 10-Q

Earnings (loss) - Basic	\$1,460,000	2,717,891	\$ (293,000)	2,717,891
Effect of dilutive securities of stock options	---	---	---	---
Earnings (loss) - Diluted	<u>\$1,460,000</u>	<u>2,717,891</u>	<u>\$ (293,000)</u>	<u>2,717,891</u>

-5-

NOTE 5 - GEOGRAPHICAL SEGMENT INFORMATION

Isramco's operations for 2006 involve two industry segments - the exploration, development production and transportation of oil and natural gas and holding and leasing its cruise live vessel. Prior to 2004 Isramco operated in a single operating segment - oil and gas activities. 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 additions, oil and gas prices have fluctuated substantially in recent years as a result of events, which were 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 States	Israel	Total Oil and gas
	-----	-----	-----
Identifiable assets at June 30, 2006	\$ 5,960	\$ 60	\$ 6,261
Cash and corporate assets			
Total Assets at June 30, 2006			
Identifiable assets at December 31, 2005	\$ 5,326	\$ 68	\$ 5,304
Cash and corporate assets			
Total Assets at December 31, 2005			
Six Months Ended June 30, 2006			
Sales and other operating revenue	\$ 1,319	\$ 301	\$ 1,620

Edgar Filing: ISRAMCO INC - Form 10-Q

Costs and operating expenses	\$ (802)	\$ (11)	\$ (1,034)
	-----	-----	-----
Operating profit	\$ 517	\$ 290	\$ 807
	=====	=====	=====
Interest income			
Financial Income, net			
General corporate expenses			
Gain on marketable securities and equity in net income of investees			
Impairment of vessel			
Other income			
Income Taxes			
Net income			
Six Months Ended June 30, 2005			
Sales and other operating revenue	\$ 1,609	\$ 400	\$ 2,009
Costs and operating expenses	\$ 1,115	\$ (372)	\$ (1,487)
	-----	-----	-----
Operating profit	\$ 494	\$ 28	\$ 522
Interest income			
Financial Income, net			
General corporate expenses			
Loss on marketable securities and equity in net income of investees			
Other income			
Income taxes			
Net income			

-6-

Three Months Ended June 30, 2006

Sales and other operating revenue	\$ 620	\$ 130	\$
Costs and operating expenses	\$ (386)	\$ (6)	\$
	-----	-----	-----
Operating profit	\$ 234	\$ 124	\$
	=====	=====	=====
Interest Income			
Financial Income, net			
General corporate expenses			
Gain (Loss) on marketable securities and Equity in net income of investees			
Other Income			
Income Taxes			
Net income			

United  
States

Israel

Total  
Oil and gas

Edgar Filing: ISRAMCO INC - Form 10-Q

Three Months Ended June 30, 2005

Sales and other operating revenue	749	247	996
Costs and operating expenses	(574)	(134)	(708)
	-----	-----	-----
Operating profit	175	113	288
	=====	=====	=====
Interest Income			
Financial Income, net			
General corporate expenses			
Loss on marketable securities			
Equity in net loss of investees			
Other income			
Income taxes			
Net loss			

NOTE 6 - COMPREHENSIVE INCOME

Isramco's comprehensive income for the three months ended June 30, 2006 and 2005 was as follows:

	200
	-----
Net income (loss)	\$ 1,06
Other comprehensive gain (loss)	
available-for-sale securities	(9
foreign currency translation adjustments	41
	-----
Comprehensive income (loss)	1,38
	=====

.-7-

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 FOR THE YEAR ENDED DECEMBER 31, 2005. ISRAMCO INC. DISCLAIMS

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

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 hold participation interests in certain other interests. The Company also holds certain non-oil and gas properties.

### 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 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.

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

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

During the three months ended June 30, 2006, the Company's consolidated cash and cash equivalents increased by \$876,000 from \$1,249,000 at December 31, 2005 to \$2,124,000 at June 30, 2006. The increase in the Company's consolidated cash and cash equivalents is primarily attributable to the receipt of \$2,565,000 from the settlement of two lawsuit initiated by the Company.

-8-

Net cash used in investing activities for the six-month period ended June 30, 2006 was \$1,417,000 compared to \$279,000 provided during the six-month period ended June 30, 2005. The cash used in 2006 period was used for investment in the drilling of gas wells in Texas.

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 from working capital.

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

### RESULTS OF OPERATIONS

SIX MONTHS ENDED JUNE 30, 2006 (THE "2006 PERIOD") COMPARED TO THE SIX MONTHS ENDED JUNE 30, 2005 (THE "2005 PERIOD") AND THE THREE MONTHS ENDED JUNE 30, 2006 COMPARED TO THE THREE MONTHS JUNE 30, 2005.

The Company reported a net income of \$1,460,000 (\$(0.54 per share) for the six-month period ended June 30, 2006 compared to net loss of \$293,000 (\$0.11 per share) for the same period in 2005 and net income of \$1,066,000 (\$0.39 per share) for the three months period ended June 30, 2006 compared to net loss of \$596,000 (\$0.22 per share) for the same period in 2005. The increase in net income for the three month ended June 30, 2006 compared to the same period in 2005 is primarily attributable to an increase in the gain on marketable securities and an increase in the equity in net income of investees, offset by a decrease in gas sales. The increase in the net income for the 2006 Period compared to the 2005 Period is primarily attributable to the recording of a non-recurring one time payment of \$2,565,000 for the settlement of certain lawsuits that were initiated by the Company, offset by decreases in oil and gas sales and impairment of the cruise line vessel discussed below.

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

#### United States

#### Oil and Gas Revenues (in thousands)

	Three Months ended June 30,		
	2005	2006	
Oil Volume Sold (Bbl)	3.2	3.6	
Gas Volume Sold (MCF)	85	51	
Oil Sales (\$)	158	218	
Gas Sales (\$)	541	291	
 Average Unit Price			
Oil (\$/Bbl) *	\$46.64	\$60.22	\$
Gas (\$/MCF) **	\$ 6.38	\$ 5.75	\$

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

\*\* MCF - 1,000 Cubic Feet

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

### SUMMARY OF EXPLORATION EFFORTS IN THE UNITED STATES

The Company, through its wholly-owned subsidiaries, Jay Petroleum LLC ("Jay Petroleum") and Jay Management LLC ("Jay 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. Independent estimates of the reserves held by Jay Petroleum as of December 31, 2005 are approximately 106,638 net barrels of proved developed producing oil and 1,645 net MCFs of proved developed producing natural gas. Jay Management acts as the operator of certain of the producing oil and gas interests owned or acquired by Jay Petroleum.

During the six months ended June 30, 2006 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, seven gas wells have been drilled of which one well has been completed for production and the remainder are in various stages of completion. The total investments of the Company in the six months period of 2006 was \$ 1,498,342.

### OPERATOR'S FEES

During the 2006 Period, the Company earned \$35,000 in operator fees compared to \$14,000 for the 2005 Period and \$14,000 for the three months ended June 30, 2006 compared to \$18,000 for the comparable period in 2005.

### OIL & GAS REVENUES

During the 2006 Period, the Company had oil and gas revenues of \$1,206,000 compared to \$1,517,000 for the 2005 Period and \$541,000 for the three months ended June 30, 2005 compared to \$672,000 for the comparable period in 2005. The decrease in 2006 Period and for the three months ended June 2006 compared to same periods in 2005 ,is attributable to a decline of production in the gas wells and the shutdown of 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 2006 Period were \$400,000 compared to \$625,000 for the 2005 Period and \$179,000 for the three months ended June 30, 2006 compared to \$320,000 for the comparable period in 2005. Texas.

### OIL AND GAS EXPLORATION COSTS

During the 2006 Period the Company incurred expenses for exploration costs in the amount of \$90,000 compared to \$160,000 for the 2005 Period.

### INTEREST INCOME

Interest income in respect of the 2006 Period was \$297,000 compared to \$156,000 for the 2005 Period and \$42,000 in respect of the three months ended June 30, 2006 compared to \$55,000 for the same period in 2005.

### GAIN (LOSS) ON MARKETABLE SECURITIES

During the 2006 Period, the Company recognized a net realized and unrealized gain on trading securities of \$812,000 compared to gain of \$219,000 for the 2005 Period and gain of \$527,000 for the three months ended June 30, 2006 compared to loss of \$7,000 for the same period in 2005.

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

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.

### EQUITY IN NET INCOME OF INVESTEES

The Company's equity in the net income of investees for the 2006 Period was 1,663,000 compared to its equity in net income of \$389,000 for the 2005 Period and gain of \$958,000 in respect of the three months ended June 30, 2006 compared to

-10-

loss of \$411,000 for the same three month period in 2005. The increase is primarily attributable to increase in the market value of the marketable securities held by Negev 2 and IOC Dead Sea LP.

### OPERATOR EXPENSE

Operator expenses were incurred primarily in connection with the offshore activities in Israel. Operator expenses for the 2006 Period were \$376,000 compared to \$362,000 for the 2005 Period and \$200,000 for the three months ended June 30, 2005 compared to \$139,000 for the corresponding period in 2005

### GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses for the 2005 Period were \$ 772,000 compared to \$ 803,000 for the 2005 Period and \$ 363,000 for the three months ended June 30, 2006 compared to \$ 463,000 for the same period in 2005.

### CRUISE LINE VESSEL REVENUES

During the 2006 period the Company earned \$688,000 from leasing the cruise line Vessel. The lease began in April 6, 2006 and is scheduled to expire in October 31, 2006.

### CRUISE LIVE VESSEL EXPENSES

Cruise Line vessel expenses for the 2006 Period were \$1,017,000 and \$152,000 for the three months ended June 30, 2006. The expenses are primarily attributable to maintenance, repairs and payroll.

### DEPRECIATION, DEPLETION AND AMORTIZATION

Depreciation depletion and amortization expenses are connected to the producing wells in the United States and to the cruise line. During the 2006 Period, the Company recorded the amount of \$819,000 compared to \$830,000 for the 2005 Period and \$317,000 for the three months ended June 2006 compared to \$323,000 for the comparable period in 2005. The increase is 2006 Period and for the three months is primarily attributable to increase in the depreciation of the oil and gas wells.

### NET GAIN ON LEGAL SETTLEMENTS

Net Gain on Legal Settlements in 2006 Period is attributable to the receipt of approximately \$3,050,000 from the settlement by the Company in February 2006 of certain lawsuits that it initiated. The Company recorded a net gain of \$2,565,000.

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

### OTHER INCOME

Other income in the six months ended June 30, 2006 was \$593,000 compared to \$64,000 during the corresponding period in 2005. Other income in 2006 is primarily attributable to the mark to market of swap contracts on oil and gas prices.

### IMPAIRMENT OF ASSETS

Following management's assessment conducted in April and May 2006 as part of the preparation of the financial statements for the period ended March 31, 2006, management determined that there has been a decrease in the fair market value of the Company's investment in such vessel and, that as a consequence thereof, the Company believed the investment to have been impaired. Accordingly, the Company recorded an impairment charge in March 2006 in the amount of \$2,200,000 for the three month period ended March 31, 2006.

### 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, 2005. There has been no material change in these market risks since the end of the fiscal year 2005.

-11-

### 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 and Accounting 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, the Company carried out an evaluation, under the supervision and with participation of management, including its Chief Executive Officer (and Principal Financial and Accounting Officer), of the effectiveness of the design and operation of the disclosure controls and procedures. Based of the foregoing, the Company's Chief Executive Officer (and Principal Financial and Accounting Officer) concluded that the Company's disclosure controls and procedures were effective.

CHANGES IN INTERNAL CONTROLS OVER FINANCIAL REPORTING. During the quarter ended June 30, 2006, there have been no changes in the Company's internal controls over financial reporting that have materially affected, or are reasonably likely to materially affect, these controls.

-12-



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

### 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, 2005 have not materially changed other than as set forth below. The update to the risk factors contained below was first included in the Company quarterly report on Form 10-QSB for the three months ended March 31, 2006.

In March 2004, the Company purchased a luxury cruise liner (the "Vessel") for aggregate consideration of \$8,050,000. The Vessel is being operated by the Company's wholly owned subsidiary Magic. Based on a re-evaluation of the vessel's recoverable amount completed in May 2006 that is based on a revision of the vessel's anticipated maintenance costs, the Company's management believes that there has been a decrease in the fair market value of the vessel and that the Company's investment in the vessel has thus been impaired. Accordingly, the Company recorded an impairment charge of \$2,200,000 as of March 31, 2006. The Company periodically re-evaluates the carrying value of the vessel. No assurance can be given that future developments in the cruise line industry generally or in the costs associated with the maintenance of the vessel will not result in additional impairment to the value of the vessel.

### ITEM 2. CHANGE IN SECURITIES, USE OF PROCEEDS AND ISSUER PURCHASES OF EQUITY SECURITIES

None

### ITEM 3. DEFAULT UPON SENIOR SECURITIES

None

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

The Company's Annual Meeting of Stockholders was held on June 27, 2006. The following matters were voted on: (1) Election of Directors and (2) Appointment of Auditors. The vote tally was as follows:

(1) Proposal to Elect Directors to Serve until the 2006 Annual Meeting of Stockholders.

-13-

	FOR	WITHHOLD
	-----	-----
Haim Tsuff	2,181,507	6,021
Jackob Maimon	2,174,617	12,911
Max Pridgeon	2,182,317	5,211
Donald D. Lovell	2,175,217	12,311
Amir Mireskandari	2,182,317	5,211

Edgar Filing: ISRAMCO INC - Form 10-Q

2) Proposal to ratify the appointment of Malone & Bailey, PC as the Company's auditors for the year ending December 31, 2006.

FOR	AGAINST	ABSTAIN	BROKER NON-VOTE
2,179,994	6,332	1,262	--

ITEM 5. OTHER INFORMATION

None

ITEM 6. EXHIBITS

Exhibits

- 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

-14-

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: AUGUST 14, 2006

BY /S/ HAIM TSUFF

CHAIRMAN OF THE BOARD,  
CHIEF EXECUTIVE OFFICER  
(AND PRINCIPAL  
FINANCIAL AND ACCOUNTING  
OFFICER)

-15-