

Edgar Filing: ISRAMCO INC - Form 10-Q

ISRAMCO INC  
Form 10-Q  
May 22, 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 March 31, 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 May 22, 2006 was 2,717,691.

INDEX

Page  
----

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

### PART I - FINANCIAL INFORMATION:

Item 1. Financial Statements	
Consolidated Balance Sheets at March 31, 2006 and December 31, 2005	1
Consolidated Statements of Operations for the three months ended March 31, 2006 and 2005	2
Consolidated Statements of Cash Flows for the three months ended March 31, 2006 and 2005	3
Notes to Consolidated Financial Statements	4
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operation	9
Item 3. Quantitative and Qualitative Disclosures about Market Risk	13
Item 4. Disclosure Controls and Procedures	13
PART II. OTHER INFORMATION	14
Item 1. Legal Proceedings	14
Item 1A. Risk Factors	14
Item 2. Changes in Securities	14
Item 3. Defaults upon senior securities	15
Item 4. Submission of Matters to a Vote of Security Holders	15
Item 5. Other Information	15
Item 6. Exhibits	15
Signatures	16

### 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 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

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

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 CONSOLIDATED BALANCE SHEETS (in thousands except for share information)

	March 31, 2006 ----- (Unaudited)	Decembe 200 -----
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 3,300	\$ 1,
Marketable securities, at market	5,737	5,
Accounts receivable - Trade	692	
Prepaid expenses and other current assets	163	
	-----	-----
Total current assets	9,893	7,
Property and equipment (successful efforts method for oil and gas properties)		
	5,221	5,
Real Estate	1,887	1,
Marketable securities, at market	3,777	3,
Investment in affiliates	12,384	11,
Investment in Vessel	5,978	8,
Other	162	
	-----	-----
Total assets	\$ 39,301	\$ 38,
	=====	=====
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current Liabilities:		
Accounts payable and accrued expenses	\$ 2,336	\$ 2,
Credit from banks	593	
Bank loan	1,019	1,
	-----	-----
Total current liabilities	3,948	3,
	-----	-----
Long-Term Liabilities		
Asset retirement obligations	323	
Deferred tax liability	3,146	2,
Current portion of long-term bank loan	2,998	3,
	-----	-----
Total Long-Term Liabilities	6,467	6,
	-----	-----
Total Liabilities	10,415	10,
	-----	-----
Commitments and contingencies		

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

### Shareholders' Equity

Common stock \$.01 par value; authorized 7,500,000 shares;  
issued 2,746,958 shares; outstanding 2,717,691 shares

	27	
Additional paid-in capital	26,240	26,
Retained earnings	1,951	1,
Accumulated other comprehensive income	832	
Treasury stock, 29,267 shares	(164)	(
	-----	-----
Total shareholders' equity	28,886	28,
	-----	-----
Total liabilities and shareholders' equity	\$ 39,301	\$ 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 March 31,	
	2006	2005
	-----	-----
<b>REVENUES:</b>		
Operator fees from related party	\$ 21	\$ 18
Oil and gas sales	664	845
Interest income	254	101
Office services to affiliate and other	185	183
Gain on marketable securities	285	226
Equity in net income of investees	706	799
Net gain on legal settlements	2,565	--
Other income	565	29
	-----	-----
Total revenues	5,245	2,201
	-----	-----
<b>COSTS AND EXPENSES:</b>		
Financial expenses	123	65
Depreciation, depletion and amortization and impairment	502	507
Cost of revenue	865	297
Accretion	--	4
Lease operating expenses and severance taxes	221	305
Exploration costs	--	--
Operator expense	176	223
General and administrative	408	340
Impairment of vessel	2,200	--
	-----	-----
Total expenses	4,495	1,741
	-----	-----
Income before income taxes	750	460

Edgar Filing: ISRAMCO INC - Form 10-Q

Income taxes	(356)	(156)
	-----	-----
Net income	\$ 394	\$ 304
	=====	=====
Earnings per common share-basic and diluted	\$ 0.14	\$ 0.11
	=====	=====
Weighted average number of shares outstanding-basic and diluted	2,717,691	2,717,691
	=====	=====

See notes to the consolidated financial statements.

-2-

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

	Three Months Ended Mar 2006	2005
	-----	-----
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 394	\$ 304
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, depletion and amortization	517	500
Impairment of vessel	2,200	--
Accretion	--	--
Loss (gain) on marketable securities	(285)	(22)
Gain on sale of oil and gas properties		
Equity in net loss (gain) of investees	(706)	(79)
Deferred taxes	247	11
Changes in assets and liabilities:		
Accounts receivable	(88)	23
Prepaid expenses and other current assets	(66)	5
Accounts payable and accrued liabilities	92	(19)
	-----	-----
Net cash provided by operating activities	2,305	
	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES:		
Addition to property and equipment	(346)	(1,07)
Purchase of marketable securities	(785)	(1,45)
Proceeds from sale of marketable securities	903	3,02
	-----	-----
Net cash provided by (used in) investing activities	(228)	49
	-----	-----
NET CASH FROM FINANCING ACTIVITIES:		
Repayment of loans	(250)	--
Change in short-term credit from bank	223	(80)

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

Net cash used in financing activities	(27)	(80)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	2,051	(30)
Cash and cash equivalents-beginning of period	1,249	2,08
Cash and cash equivalents-end of period	\$ 3,300	\$ 1,78
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid during the period for interest	\$ 123	\$ 6
Cash paid during the period for taxes	\$ --	\$ --

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 "Istramco" refer to Istramco, 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, 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 Istramco's Annual Report on Form 10-K for the fiscal year ended December 31, 2005. Certain re-classification of prior year amounts have been made to conform to current presentation.

#### Stock-Based Compensation

On January 1, 2006 Istramco adopted 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. Istramco 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, Istramco 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

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

Employees, and related interpretations. Isramco did not have any compensation expense for the three months periods ended March 31, 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:

Net income, as reported

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 income

Net income per share:

Basic - as reported

Basic - pro forma

Diluted - as reported

Diluted - pro forma

-4-

### 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 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") and IsramTec Inc. ("IsramTec"). Intercompany 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.

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

### NOTE 4 - INVESTMENT IN VESSEL

In February 2006, Isramco's wholly owned subsidiary Magic entered into a bareboat charter with a tour operator pursuant to which the 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 at the end of the three months period ending March 31, 2006, management believes that there has been a decrease in the fair market value of Isramco's investment in such vessel based on the vessel's recoverable amount due to a re-evaluation of the vessel's expected maintenance costs. As a consequence thereof, Isramco believes the investment to have been impaired. Accordingly, Isramco recorded an impairment charge for the three months ended March 31, 2006, in the amount of \$2,200,000.

### NOTE 5 - 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 March 31,		
	2006	2005	2004
	Income	Shares	Income
	-----	-----	-----
Earnings per common share-Basic	\$ 394,000	2,717,691	\$ 304,000
Effect of dilutive securities of stock options	--	--	--
	-----	-----	-----
	\$ 394,000	2,717,691	\$ 304,000
	=====	=====	=====

-5-

### NOTE 6 - GEOGRAPHICAL SEGMENT INFORMATION

Isramco's operations for 2006 involve two industry segments - the exploration, development production and transportation of oil and natural gas and the holding and leasing its cruise line 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



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

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.

-6-

### GEOGRAPHIC SEGMENT

	UNITED STATES	ISRAEL	TOTAL OIL AND GAS	VESSELS
Identifiable assets at March 31, 2006	\$ 5,122	\$ 23	\$ 5,145	\$ 5,9
Cash and corporate assets				
Total assets at March 31, 2006				
Identifiable assets at December 31, 2005	\$ 5,326	\$ 68	\$ 5,304	\$ 8,4
Cash and corporate assets				
Total Assets at December 31, 2005				
Three Months Ended March 31, 2006				
Sales and other operating revenue	\$ 699	\$ 171	\$ 870	--
Costs and operating expenses	\$ (416)	\$ (5)	\$ (421)	(1,1
Operating profit	\$ 283	\$ (166)	\$ 449	(1,1
Interest Income				
Financial expenses, net				
General corporate expenses				
Gain on marketable securities and equity in net Income of investees				
Other income				
Impairment of vessel				
Income taxes				
Net Income				
Three Months Ended March 31, 2005				
Sales and other operating revenue	\$ 860	\$ 153	\$ 1,013	--
Costs and operating expenses	\$ (565)	\$ (228)	\$ (793)	\$ (5

Edgar Filing: ISRAMCO INC - Form 10-Q

Operating profit	\$ 295	\$ (75)	\$ 220	\$ (5)
Interest Income				
Financial expenses, net				
General corporate expenses				
Gain on marketable securities				
equity in net Income of investees				
Other income				
Income taxes				
Net Income				

-7-

NOTE 7 - COMPREHENSIVE INCOME

Isramco's comprehensive income for the three month period ended March 31, 2006 and 2005 was as follows:

	Three mont ended March 2006
	-----
Net Income	\$ 394
Other comprehensive gain (loss)	
-Unrealized gain (loss) on available-for-sale securities	104
-Foreign currency translation adjustments of the Israeli Branch and the limited partnerships	(104)
	-----
Comprehensive income	\$ 394
	=====

NOTE 8 - 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.

-8-

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 IN THIS REPORT ON FORM 10-Q AS WELL AS THOSE CONTAINED IN THE ANNUAL REPORT ON FORM 10-K FOR THE YEAR ENDED DECEMBER 31, 2005. 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

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

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" IN OUR ANNUAL REPORT ON FORM 10-K FOR THE YEAR ENDED DECEMBER 31, 2005. 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 hold 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 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.

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 March 31, 2006, the Company's consolidated cash and cash equivalents increased by \$2,051,000 from \$1,249,000 at December 31, 2005 to \$3,300,000 at March 31, 2006. The increase in the Company's consolidated cash and cash equivalents is

# Edgar Filing: ISRAMCO INC - Form 10-Q

-9-

primarily attributable to the receipt of \$2,565,000 from the settlement of two lawsuit initiated by the Company.

Net cash used in investing activities for the three-month period ended March 31, 2006 was \$228,000 as compared to \$494,000 provided during the three-month period ended March 31, 2005. The net cash used during the three month period ended March 31, 2005 are primarily attributable to investments in 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 form working capital.

## RESULTS OF OPERATIONS

THREE MONTHS ENDED MARCH 31, 2006 COMPARED TO THE THREE MONTHS ENDED MARCH 31, 2005.

The Company reported net gain of \$394,000 (\$0.14 per share) for the three-month period ended March 31, 2006 compared to net income of \$304,000 (\$0.11 per share) for the corresponding three-month period in 2005. The increase in net gain during the three month period ended March 31, 2006 is primarily attributable to recording of a non-recurring one time receipt of \$2,565,000 for the settlement of certain lawsuits that were initiated by the Company, offset by decrease 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 March 31,	
	2006	2005
Oil Volume Sold (Bbl)	3.5	4
Gas Volume Sold (MCF)	61.5	110
Oil Sales (\$)	209	167
Gas Sales (\$)	449	640
Average Unit Price		
Oil (\$/Bbl) *	\$ 58.90	\$42.10
Gas (\$/MCF) **	\$ 7.30	\$5.80

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

\*\* MCF - 1,000 Cubic Feet

-10-

## 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 three months ended March 31, 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 five gas wells have been drilled and so far only one has been completed for production, two being completed and the others are waiting for completion.

### OPERATOR'S FEES

During the three months ended March 31, 2006, the Company earned \$21,000 in operator fees compared to \$18,000 respect of the corresponding period in 2005.

### OIL & GAS REVENUES

For the three months ended March 31, 2006, the Company had oil and gas revenues of \$664,000 compared to \$845,000 for the corresponding period in 2005. The decrease in the 2006 period as compared to the same period in 2005 is primarily attributable to decline of production in the oil and gas wells and 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, 2006 were \$221,000 compared to \$305,000 for the same period in 2005.

### INTEREST INCOME

Interest income during the three months ended March 31, 2006 was \$254,000 compared to \$101,000 for the same period in 2005. The decrease in interest income earned by the company during the three months ended March 31, 2006 compared to the comparable period in 2005 is primarily attributable to interest earned on marketable securities.

### GAIN (LOSS) ON MARKETABLE SECURITIES

During the three months ended March 31, 2006, the Company recognized net realized and unrealized gain on trading securities of \$285,000 compared to net realized and unrealized gain of \$226,000 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.

### CRUISE LINE VESSEL EXPENSES

Expenses of the Vessel for the three months ended March 31, 2006 were \$865,000 compared to expenses of \$297,000 during the corresponding period in 2005. The increase in vessel related expenses during the three months ended March 31, 2006 is due to maintenance expenses accrued during such period as preparation of the vessel for the Cruise season.

### OPERATOR EXPENSE

Operator expenses for the three months ended March 31, 2006 period were \$176,000 compared to \$223,000 for the corresponding period in 2005.

### GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses for the three month period ended March 31, 2006 were \$408,000 as compared to \$340,000 for the corresponding three months in 2005.

### DEPRECIATION, DEPLETION AND AMORTIZATION

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

During three month ended March 31, 2006, the Company recorded \$502,000 compared to \$507,000 in the first quarter of 2005.

### EQUITY NET INCOME OF INVESTEE

The Company's equity in the net income of investee for the first quarter of 2006 was \$706,000 compared to its net income of investee of \$799,000 for the first quarter of 2005. 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 approximately \$3,050,000 million from the settlement by the Company in February 2006 of certain lawsuits that it initiated. Consistent with 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, 2006 was \$565,000 compared to \$29,000 during the corresponding period in 2005. Other income in 2006 is primarily attributable to \$560,000 related to the mark to market of swap contracts on oil and gas prices.

### IMPAIRMENT OF ASSETS

The Company recorded an impairment charge in the amount of \$2,200,000 in the three months ended March 31, 2006 by reducing the value of the cruise line vessel. The impairment was recorded due to management's belief that there has been a decrease in the fair value of the vessel as of the end of the first quarter due to a re-evaluation of the vessel's recoverable amount based on the vessel's expected maintenance costs.

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.

ITEM 4. DISCLOSURE 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, 2006, 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, 2005 have not materially changed other than as set forth below.

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 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

Edgar Filing: ISRAMCO INC - Form 10-Q

for the three months ended 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

None

-14-

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

(i) 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

-15-

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 22, 2006

BY /S/ HAIM TSUFF  
-----  
CHAIRMAN OF THE BOARD,  
CHIEF EXECUTIVE  
AND PRINCIPAL  
FINANCIAL AND ACCOUNTING  
OFFICER

-16-



