ISRAMCO INC
Form 10-K
March 13, 2018

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

Mark one:
ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE FISCAL YEAR ENDED DECEMBER 31, 2017

TRANSITION REPORT PURSUANT TO 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 | 13-3145265 |
| (State or Other Jurisdiction of Incorporation) | (IRS Employer Identification No.) |

1001 West Loop South, Suite 750, Houston Texas 77027
(Address of Principal Executive Offices)

713-621-6785
(Registrant's Telephone Number, including Area Code)

Securities registered under Section 12(b) of the Exchange Act: None

Securities registered under Section 12(g) of the Exchange Act:
Common Stock, par value $0.01
(Title of Class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

Indicate by check mark whether the issuer (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the past 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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark if disclosure of delinquent filers in response to Item 405 of Regulation S-K is not contained in this Form, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

| | | | | |
|---|---|---|---|---|
| Large accelerated filer | Accelerated filer | Non-accelerated filer | Smaller Reporting Company | Emerging growth company |

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

As of March 12, 2018, there were 2,717,648 shares of the Registrant's common stock par value $0.01 per share ("Common Stock") outstanding. The aggregate market value of the Common Stock held by non-affiliates of the Registrant at March 9, 2018, based on the last sale price of such equity reported on Nasdaq Market, was approximately $69.45 million.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's Proxy Statement for its 2017 Annual Meeting of Stockholders to be filed not later than 120 days after the end of the fiscal year covered by this Annual Report on Form 10-K are incorporated by reference into Part III of this Form 10-K.

ISRAMCO, INC.
2017 FORM 10-K ANNUAL REPORT

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Special note regarding forward-looking statements

This report on Form 10-K contains forward-looking statements within the meaning of the federal securities laws. All statements, other than statements of historical facts, concerning, among other things, planned capital expenditures, potential increases in oil and natural gas production, the number of anticipated wells to be drilled in the future, future cash flows and borrowings, pursuit of potential acquisition opportunities, our financial position, business strategy and other plans and objectives for future operations, are forward-looking statements. These forward-looking statements are identified by their use of terms and phrases such as “may,” “expect,” “estimate,” “project,” “plan,” “believe,” “intend,” “achiev “anticipate,” “will,” “continue,” “potential,” “should,” “could” and similar terms and phrases. Although we believe that the expectations reflected in these forward-looking statements are reasonable, they do involve certain assumptions, risks and uncertainties. The actual results could differ materially from those anticipated in these forward-looking statements. One should consider carefully the statements under the “Risk Factors” section of this report and other sections of this report that describe factors that could cause our actual results to differ from those set forth in the forward-looking statements, including, but not limited to, the following factors:

- the timing and extent of changes in prices for, and demand for, crude oil and condensate, NGLs, natural gas and related commodities;
- the possibility that the industry may be subject to future regulatory or legislative actions (including any additional taxes and changes in environmental regulation);
- the presence or recoverability of estimated oil and natural gas reserves and the actual future production rates and associated costs;
- the possibility that production decline rates for some of our oil and gas producing properties are greater than we expect;
- our ability to generate sufficient cash flow from operations, borrowings or other sources to enable us to fully develop our undeveloped acreage positions;
- the ability to replace oil and natural gas reserves;
- our ability to retain skilled operations personnel whom we would need in the event of an upturn in the demand for our services;
- environmental risks;
- drilling and operating risks;
- the loss of one or more of our larger customers;
- our ability to implement price increases or maintain pricing on our core services;
- exploration and development risks;
- competition, including competition for acreage in oil and gas producing areas and for experienced personnel;
- management’s ability to execute our plans to meet our goals;

•technological advances affecting energy consumption and energy supply;

•the collectability of our receivables;

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- our ability to retain key members of senior management and key technical employees;
- industry capacity;
- employee turnover and our ability to replace or add qualified workers;
- severe weather impacts on our business;
- operating risks and the possibility that our insurance may not be adequate to cover all of our losses or liabilities;
- our ability to repay our debt when due;
- changes in domestic and global economic and business conditions that impact the demand for oil, natural gas liquids and natural gas;
- changes in domestic and global supplies of oil, natural gas and natural gas liquids arising from economic and business conditions (including actions by the Organization of the Petroleum Exporting Countries);
- our ability to obtain goods and services, such as drilling rigs and tubulars, and access to adequate gathering systems and pipeline take-away capacity, to execute our drilling and development programs;
- general economic and regulatory conditions, whether internationally, nationally, or in the regional and local market areas in which we do business, may be less favorable than expected; and
- other economic, competitive, governmental, legislative, regulatory, geopolitical and technological factors that may negatively impact our business, operations or commodity prices.

Finally, our future results will depend upon various other risks and uncertainties, including, but not limited to, those detailed in the section entitled "Risk Factors" included in this report. All forward-looking statements are expressly qualified in their entirety by the cautionary statements in this paragraph and elsewhere in this document. Other than as required under the securities laws, we do not assume a duty to update these forward-looking statements, whether as a result of new information, subsequent events or circumstances, changes in expectations or otherwise.

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# PART I

## ITEM 1. BUSINESS

### Overview

Isramco, Inc., (NASDAQ: ISRL) is a Delaware corporation incorporated in 1982 (hereinafter, “we”, the “Company” or “Isramco”). The Company together with its subsidiaries is an independent oil and natural gas company, engaged in the exploration, development and production of predominately oil and natural gas properties located onshore in the United States and offshore Israel. The Company also operates a production services company that provides a full range of onshore production services to oil companies and independent oil and natural gas production companies conducting operations in the United States.

We currently conduct our operations through two operating segments: our Exploration, Development and Production Segment and our Production Services Segment. The following is a description of these two operating segments. Financial information about our operating segments is included in Note 10, “Segment Information”, of the Notes to Consolidated Financial Statements, included in Part II, Item 8, Financial Statements and Supplemental Data, of this Annual Report on Form 10-K.

### Exploration, Development and Production Segment

At December 31, 2017, our estimated total proved oil, natural gas reserves and natural gas liquids, as prepared by our independent reserve engineering firms, Netherland, Sewell & Associates, Inc. and Cawley, Gillespie & Associates, Inc., were approximately 38,653 thousand barrels of oil equivalent (“MBOE”), consisting of 1,765 thousand barrels (MBbls) of oil, 216,451 million cubic feet (MMcf) of natural gas and 813 thousand barrels (MBbls) of natural gas liquids. Approximately 86.0% of our proved reserves were classified as proved developed (See Note 13, “Supplemental Oil and Gas Information”). Full year 2017 production averaged 3.78 MBOE/d compared to 3.80 MBOE/d in 2016. Tamar Field production share amounted to 2.46 MBOE/d out of total 3.78 MBOE/d compared to 2.35 MBOE/d in 2016.

### United States

We, through our wholly-owned subsidiaries, are involved in oil and gas exploration, including the development, production and operation of wells in the United States. We own varying working interests in oil and gas wells in Louisiana, Texas, New Mexico, Oklahoma, Wyoming, Utah and Colorado and currently serve as operator of approximately 422 producing wells located mainly in Texas and in New Mexico.

### Israel

In 2007, we closed our branch in Israel in order to focus on our expanding presence in the United States. Despite the closure of that branch we retained certain overriding royalties in three oil and gas licenses located offshore Israel. These licenses granted by the government of Israel are known as the “Michal”, “Matan” and “Shimshon” Licenses.

In 2009, two natural gas discoveries, known as “Tamar” and “Dalit”, were made within the area covered by the Michal and Matan Licenses, respectively. In December 2009, the Israeli Petroleum Commissioner granted Noble Energy, Inc. (“Noble”) and its partners, (the “Tamar Consortium”), two leases (the “Tamar Lease” and the “Dalit Lease”). The Leases are scheduled to expire in December 2038 and cover the Tamar and Dalit gas fields (collectively the “Tamar Field”). The Tamar Field is approximately 95 kilometers off the coast of the Israel, in the Israel exclusive economic zone of the Eastern Mediterranean, with a water depth of approximately 1,700 meters.

We own all ownership units in Tamar Royalties LLC, a Delaware limited liability company. Tamar Royalties LLC owns an overriding royalty interest of 1.5375% before payout / 2.7375% after payout in the Tamar Field (collectively the “Tamar Royalty”). An overriding royalty interest is an ownership interest in the oil and gas leasehold estate equating to a certain percentage of production or production revenues, calculated free of the costs of production and development of the underlying lease(s), but subject to its proportionate share of certain post production costs. An overriding royalty interest is a non-possessory interest in the oil and gas leasehold estate and, accordingly, we have no control over the operations, drilling, expenses, timing, production, sales, or any other aspect of development or production of the Tamar Field.

Production from the Tamar Field commenced in March 2013. The Tamar Field is now operational and delivering natural gas to Israel. The natural gas flows from the Tamar Field through the world’s longest subsea tieback, more than 90 miles to the Tamar platform, and then to the Ashdod onshore terminal (AOT).

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With regard to the payout of the Tamar Field, a disagreement between the Company and Isramco Negev 2 Limited Partnership has emerged as to what costs should be included in the calculation of payout. In addition to actual costs for the development of the Tamar Field, Isramco, Negev 2 Limited Partnership has asserted that the following costs should be included in the calculation of payout: (i) Isramco Negev 2 Limited Partnership's financing costs; (ii) the general and administrative expenses of Isramco Negev 2 Limited Partnership; (iii) the expected decommissioning costs of the Tamar Field; and (iv) expected future payments to be made in respect of the "Sheshinsky Levy" under Israeli law. The disagreement primarily stems from the fact that the agreements governing the creation of the Tamar Royalty were formulated in the 1980s and do not have a clear and unequivocal definition as to what costs should be included in the payout calculation. The Company currently believes that the total scope of the disagreement is approximately forty-five million dollars ($45,000,000). Under the terms of the agreements creating the Tamar Royalty, the dispute is subject to arbitration in Israel. The Company believes that the claims of Isramco Negev 2 Limited Partnership are erroneous and contrary to generally accepted industry practice. The Company expects that the matter will be favorably resolved through this arbitration process; however, the Company cannot be assured of a favorable result in this arbitration process.

The Tamar Consortium currently sells natural gas from the Tamar Field to the Israel Electric Corporation ("IEC") and numerous other Israeli purchasers, including independent power producers, cogeneration facilities, local distribution companies and certain industrial companies. Currently, many of the Tamar Consortium's gas purchase and sale agreements provide for sales at a 7 to 15 year term, while some contracts have extension options of up to 2 years. Depending on the specific contract, prices may vary and are based on an initial base price subject to price adjustment provisions, including price indexation and a price floor. The IEC contract provides for price reopeners (sometimes referred to as "price review" clauses) in the eighth and eleventh years of the contract, subject to limits on the amount of increase or decrease from the existing contractual price.

During year ended December 31, 2017, net sales from the Tamar Field attributable to the Company amounted to 5,343,000 Mcf of natural gas and 6,990 Bbl of condensate with prices of $5.35 per Mcf and $47.46 per Bbl of condensate. Total revenues net of marketing and transportation expenses were $28,781,000. The Israeli Tax Authority withheld $6,907,000 of this revenue.

During year ended December 31, 2016, net sales from the Tamar Field attributable to the Company amounted to 5,102,000 Mcf of natural gas and 6,882 Bbl of condensate with prices of $5.34 per Mcf and $37.48 per Bbl of condensate. Total revenues net of marketing and transportation expenses were $27,462,000. The Israeli Tax Authority withheld $6,866,000 of this revenue.

During year ended December 31, 2015, net sales from the Tamar Field attributable to the Company amounted to 4,505,000 Mcf of natural gas and 6,074 Bbl of condensate with prices of $5.52 per Mcf and $46.53 per Bbl of condensate. Total revenues net of marketing and transportation expenses were $25,151,000. The Israeli Tax Authority withheld $6,665,000 of this revenue.

We have a third party reserve report from independent petroleum engineers, Netherland, Sewell & Associates, Inc. dated March 7, 2018 estimating reserves allocable to the Tamar Royalty as of December 31, 2017 (the "Tamar Reserve Report"). This reserve report estimates that by reason of the Company's ownership of the Tamar Royalty, we have proven reserves estimated at 206.4 million cubic feet of natural gas and 268 thousand barrels of natural gas liquids. The Tamar Reserve Report indicates the undiscounted estimated future net revenue (after deduction of estimated production, ad valorem taxes and levy but before estimated income tax) for such reserves (paid out over time) to be $684.3 million. The Tamar Reserve Report estimates the net present worth of such reserves, discounted at 10% annual discount rate factor, at $331.7 million (See Note 13 to our consolidated financial statements, "Supplemental Oil and Gas Information"). The gas price used to value the reserves in the Tamar Reserve Report is calculated in accordance with SEC rules based on the unweighted arithmetic price for each month within the 12-month period prior to

December 31, 2017. The report indicates that there are no commercial oil deposits included as reserves.

The amount of proceeds we receive from the Tamar Royalty is contingent on a variety of factors including the timing of production and the price received. In the event of payout, the Tamar Royalty increases. Payout is the point when all the costs of leasing, drilling, producing and operating the leases have been recovered from lease production proceeds, as defined in the royalty agreements under which we acquired our interest.

As we do not control any of the factors affecting our rights to payments (time of production, price received, costs incurred) and as a result of the other risk factors as set forth below in “Risk Factors,” we cannot determine the amounts or timing of any payments we will receive or when payout is likely to occur, if ever. As discussed above, the determination of the occurrence of payout with respect to the Tamar Royalty is currently the subject of a disagreement with Isramco Negev 2 Limited Partnership. The Company believes that the disagreement will be resolved through a forthcoming arbitration process with Isramco Negev 2 Limited Partnership. Based on the reserves and anticipated production, the income from the Tamar Royalty is currently expected to be very significant to the Company for the foreseeable future.

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Commercial production of the Tamar Field reserves is subject to numerous risks, including all of the typical risks associated with offshore oil and gas production. Commercial production of such reserves is also subject to additional risks that may be unique to the Tamar Field. These include:

There has been no previous large scale production of natural gas from offshore Israel. Therefore, there may be geological, geophysical, or other unforeseen problems unique to offshore Israel that could affect production. In addition, because of the lack of comparable production history for this part of offshore Israel, the length of time that large scale production from offshore Israel can be sustained is uncertain.

There has been significant political upheaval and unrest in the Middle East, particularly in Syria. In addition, there is considerable hostility between Israel and other countries in the region. Accordingly, there is significant risk that production from the Tamar Field may be delayed, diminished, or prevented by virtue of war, acts of terrorism, or other similar or dissimilar events of force majeure.

The market for natural gas in Israel exists, but the financial ability of customers of the Tamar Consortium to take and pay for material amounts of such natural gas remains unclear. It is uncertain that existing customers and markets are capable of buying all of the anticipated production from the Tamar Field.

The Israel Antitrust Authority continues to monitor the Israeli natural gas market, including Noble and the Tamar Consortium, and could impose additional regulations or requirements on the Noble or the Tamar Consortium which could include a requirement to divest of some or all of their ownership or require all or any of them to separately market their proportionate share of production.

As noted above, the Company owns an interest in the Shimshon license located offshore Israel. In April of 2012, a well was drilled in the area covered by the Shimshon license, which has been recognized as a commercial discovery by the Israeli government. The Shimshon partners submitted an application to convert the Shimshon license to a lease. Terms of the lease are in discussion with the Israeli government's Ministry of Energy and Water Resources. As of December 31, 2017 there were no estimated recoverable reserves.

Production Services Segment

The Company began production services operations in September 2011. Our production servicing rig and truck fleet provides a range of production services, including the completion of newly-drilled wells, maintenance and workover of existing wells, fluid transportation, related oilfield services and plugging and abandonment of wells at the end of their useful lives to a diverse group of oil and gas exploration and production companies.

Completion Services. Newly drilled wells require completion services to prepare the well for production. Production servicing rigs are frequently used to complete newly drilled wells to minimize the use of higher cost drilling rigs in the completion process. The completion process may involve selectively perforating the well casing in the productive zones to allow oil or gas to flow into the well bore, stimulating and testing these zones, and installing the production string and other downhole equipment. The completion process typically ranges from a few days to several weeks, depending on the nature and type of the completion, and generally requires additional auxiliary equipment in addition to a production services rigs. The demand for completion services is directly related to drilling activity levels, which are sensitive to fluctuations in oil and gas prices.

Well-servicing/Maintenance Services. We provide maintenance services on the mechanical apparatus used to pump or lift oil from producing wells. These services include, among other activities, repairing and replacing pumps, sucker rods and tubing. We provide the rigs, equipment and crews for these tasks, which are performed on both oil and natural gas wells, but which are more commonly required on oil wells. Maintenance services typically take less than 48 hours to complete. Rigs generally are provided to customers on a call-out basis.

Workover Services. Producing oil and natural gas wells occasionally require major repairs or modifications, called "workovers." Workovers may be required to remedy failures, modify well depth and formation penetration to capture hydrocarbons from alternative formations, clean out and recomplete a well when production has declined, repair leaks or convert a depleted well to an injection well for secondary or enhanced recovery projects. Workovers normally are carried out with pumps and tanks for drilling fluids, blowout preventers, and other specialized equipment for servicing rigs. A workover may last anywhere from a few days to several weeks.

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Fluid Services. At December 31, 2017, we owned and operated 26 fluid service trucks equipped with an average fluid hauling capacity of up to 130 barrels a piece. Each fluid service truck is equipped to pump fluids from or into wells, pits, tanks and other storage facilities. The majority of our fluid service trucks are also used to transport water to fill frac tanks on well locations, to transport produced salt water to disposal wells, and to transport drilling and completion fluids to and from well locations.

Plugging Services. Production servicing rigs are also used in the process of permanently closing oil and gas wells no longer capable of producing in economic quantities. Many well operators bid this work on a "turnkey" basis, requiring the service company to perform the entire job, including the sale or disposal of equipment salvaged from the well as part of the compensation received, and complying with state regulatory requirements. Plugging and abandonment work can provide favorable operating margins and is less sensitive to oil and gas pricing than drilling and workover activity since well operators must plug a well in accordance with state regulations when it is no longer productive. We perform plugging and abandonment work throughout our core areas of operation in conjunction with equipment provided by us or by other service companies.

We typically bill clients for our production servicing on an hourly basis for the period that the rig is actively working. As of December 31, 2017, our fleet of production servicing rigs totaled 33 rigs, which we operate through 4 locations in Texas and New Mexico. Our fleet is capable of working at depths from 14,000 to 25,000 feet, and as of December 31, 2017, our fleet consists of one 600 series rig, twenty eight 550 series rigs, and four 300 series rigs.

Derivative Instruments and Hedging Activities

From time to time we utilize derivative contracts to hedge against the variability in cash flows associated with interest rate risk and/or the forecasted sale of our anticipated future oil and natural gas production. We may hedge a substantial, but varying, portion of our anticipated oil and natural gas production current and subsequent. We do not use derivative instruments for trading purposes. We have elected not to apply hedge accounting to derivative contracts, which would potentially allow us to not record the change in fair value of our derivative contracts in the consolidated statements of operations. We carry our derivatives at fair value on our consolidated balance sheets, with the changes in the fair value included in our consolidated statements of operations in the period in which the change occurs.

On June 16, 2015, Tamar Royalties LLC, a wholly owned subsidiary of the Company, engaged in an interest rate swap agreement ("IRS Agreement") with the Deutsche Bank AG London Branch ("DBAG"). An interest rate swap is an agreement between two parties (known as counterparties) where one stream of future interest payments is exchanged for another based on a specified notional principal amount. Interest rate swaps often exchange fixed interest payments for floating interest payments that are linked to interest rates.

As previously disclosed on the Company's Form 8-K filed May 22, 2015, Tamar Royalties LLC entered into a $120,000,000 credit facility with Deutsche Bank, which facility is discussed further in Note 4 "Long-Term Debt and Interest Expense" to the Company's consolidated financial statements, Under the terms of this facility, Tamar Royalties LLC, is required to hedge at least seventy-five percent (75%) of the outstanding balance under this Facility against fluctuations in LIBOR, with at least thirty seven and one-half percent (37.5%) of the outstanding balance being hedged through swaps. The notional value of these hedges corresponds to the amortization schedule covering the facility and previously disclosed in the aforementioned Form 8-K. Accordingly, on June 16, 2015, Tamar Royalties LLC and DBAG entered into the IRS Agreement whereby the Tamar Royalties LLC hedged $119,250,000 of the $120,000,000 initial borrowing as follows:

(a) Tamar Royalties LLC hedged 37.5% of the perpetual outstanding balance under the facility, being an initial notional amount of $45,000,000, with a fixed rate swap whereby the Company will pay DBAG a fixed interest rate of

4.63%, and DBAG will pay the Company a monthly floating interest rate of USD-LIBOR-BBA plus a spread of 2.75%.

(b) Tamar Royalties hedged the remaining 62.5% of the perpetual outstanding balance less $750,000, being an initial notional amount of $74,250,000, against fluctuations in LIBOR by capping the fluctuations in LIBOR at 1.50%. Pursuant to the IRS agreement, the Company will pay DBAG a fixed interest rate of 0.91%, and DBAG will pay the Company the greater of (i) USD-LIBOR-BBA minus a cap strike of 1.5% and (ii) zero.

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Competitive Conditions in the Business

The oil and natural gas industry is highly competitive and we compete with many other companies that have greater financial and other resources. Many of these companies explore for, produce and market oil and natural gas, as well as carry on refining operations and market the resultant products on a worldwide basis. There are also many production services companies that compete for the same customers as we compete. The primary areas in which we encounter substantial competition are in locating and acquiring attractive producing oil and natural gas properties, obtaining purchasers and transporters of the oil and natural gas we produce and hiring and retaining key employees during active times in the oil and gas industry. Furthermore, competitive conditions may be substantially affected by various forms of energy legislation and/or regulation considered from time to time by the government of the United States and in some instances individual states where we operate. It is not possible to predict the nature of any such legislation or regulation which may ultimately be adopted or its effects upon our future operations. Such laws and regulations may substantially increase the costs of exploring for, developing or producing oil and natural gas and may prevent or delay the commencement or continuation of a given operation.

Our production services customers include major oil companies and mid-range independent oil and natural gas production companies. The markets in which we operate are highly competitive. Competition is influenced by such factors as price, capacity, availability of work crews, and reputation and experience of the service provider. We believe that an important competitive factor in establishing and maintaining long-term customer relationships is having an experienced, skilled and well-trained work force. We believe many of our large customers place increased emphasis on the safety, performance and quality of the crews, equipment and services provided by their contractors. Although we believe customers consider all of these factors, price is often the primary factor in determining which service provider is awarded the work. However, in several instances, we have secured and maintained work for large customers for which efficiency, safety, technology, size of fleet, and availability of other services are of equal importance to price.

Markets and Major Customers

Through our wholly-owned subsidiary, we operate a substantial portion of our domestic oil and natural gas properties. As the operator of a property, the Company makes full payment of the costs associated with each property and seeks reimbursement from the other working interest owners in the property for their share of those costs. Our joint interest partners consist primarily of independent oil and natural gas producers. If the oil and natural gas exploration and production industry in general were adversely affected, the ability of the Company’s joint interest partners to reimburse the Company could be adversely affected.

The purchasers of the Company’s United States based oil and natural gas production consist primarily of independent marketers, major oil and natural gas companies and gas pipeline companies. During the year ended December 31, 2017 no purchaser, marketer, or major oil and gas or pipeline company accounted for 10% or more of our consolidated revenues. The Company has not experienced any significant losses from uncollectible accounts as to its sales of oil and gas production. The Company does not believe the loss of any one of its purchasers would materially affect the Company’s ability to sell the oil and natural gas it produces. The Company believes other purchasers are available in the Company’s areas of operations.

The Company’s overriding royalty interest in the Tamar field is paid monthly by Isramco Negev 2 Limited Partnership, a related party. During the twelve months ended December 31, 2017 income from this source accounted for 44% of the Company’s consolidated revenues. If Isramco Negev 2 Limited Partnership were to stop receiving revenue from its working interest in the Tamar Field, we would not receive revenue from our overriding royalty interest (the Tamar Royalty). Loss of payments from this source would cause significant financial consequences to the Company.

Our production service subsidiary customers include major oil and natural gas production companies and independent oil and natural gas production companies. We perform credit evaluations of our customers and usually do not require collateral. We maintain reserves for potential credit losses when necessary. During the twelve months ended December 31, 2017, no one individual customer accounted for 10% or more of consolidated revenues. The Company believes the loss of one or more customers of our production service subsidiary would not have a significant effect on this Segment because the Company believes that it can employ its rigs with other existing customers or new customers to the extent it has in the past in such circumstances.

Seasonality of Business

Weather conditions affect the demand for, and prices of, natural gas and can disrupt our overall business plans. Demand for natural gas is typically higher in the fourth and first quarters resulting in higher natural gas prices. Due to these seasonal fluctuations, results of operations for individual quarterly periods may not be indicative of the results that may be realized on an annual basis.

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Operational Risks

Oil and natural gas exploration and development involves a high degree of risk that even a combination of experience, knowledge and careful evaluation may not be able to overcome. There is no assurance that we will discover or acquire additional oil and natural gas in commercial quantities. Oil and natural gas operations also involve the risk that well fires, blowouts, equipment failure, human error and other circumstances may cause accidental leakage of toxic or hazardous materials, such as petroleum liquids or drilling fluids, into the environment, or cause significant injury to persons or property. Such hazards may also cause damage to or destruction of wells, producing formations, production facilities and pipeline or other processing facilities. In such event, substantial liabilities to third parties or governmental entities may be incurred, the satisfaction of which could substantially reduce available cash and possibly result in loss of oil and natural gas properties.

We carry insurance against such hazards. However, as is common in the oil and natural gas industry, we do not insure fully against all risks associated with our business, either because such insurance is not available or because we believe the premium costs are prohibitive. A loss not fully covered by insurance could have a materially adverse effect on our financial position and results of operations. For further discussion on risks, see Item 1A. Risk Factors.

Regulations

We do not have any offshore operations in the United States. However, all of the jurisdictions in which we own or operate oil and natural gas properties regulate exploration for and production of oil and natural gas. These laws and regulations include provisions requiring permits to drill wells and requirements that we obtain and maintain a bond or other security as a condition to drilling or operating wells. Regulations also specify the permitted location of and method of drilling and casing wells, the surface use and restoration of properties upon which wells are drilled, the sourcing and disposal of water used in the drilling and completion process, and the plugging and abandonment of wells.

Our operations are also subject to various conservation laws and regulations. These include the regulation of the size of drilling and spacing units or proration units, the number of wells which may be drilled in a given area, and the unitization or pooling of oil and natural gas properties, as well as regulations that generally prohibit the venting or flaring of natural gas, and impose certain requirements regarding the establishment of maximum allowable rates of production from fields and individual wells. The effect of these regulations may limit the amount of oil and natural gas that we can produce from our wells and limit the number of wells or the locations at which we can drill, although we can apply for exceptions to such regulations or to have reductions in well spacing.

Failure to comply with applicable laws and regulations can result in substantial penalties. The regulatory burden on the industry increases the cost of doing business and affects profitability.

Each state in which we operate also imposes some form of production or severance tax with respect to the production and sale of oil, natural gas and natural gas liquids within its jurisdiction. We are liable for paying this tax on our production, and are also liable for various real and personal property taxes on our leases and facilities.

Environmental and Occupational Health and Safety Regulations

The oil and gas industry in the United States is subject to stringent federal, state and local laws regulating the discharge of materials into the environment or otherwise relating to health and safety or the protection of the environment. Many governmental agencies, such as the United States Environmental Protection Agency (the “EPA”) have issued lengthy and comprehensive regulations to implement and enforce these laws. These laws and regulations often require difficult and costly compliance measures. Failure to comply with these laws and regulations may result in the assessment of substantial administrative, civil and criminal penalties, as well as the issuance of injunctions limiting or prohibiting our activities.

In addition, some laws and regulations relating to protection of the environment may, in certain circumstances, impose strict liability for environmental contamination, rendering a person liable for environmental damages and cleanup costs without regard to negligence or fault on the part of that person. We endeavor to fully comply with these regulatory requirements; however, compliance increases our costs and consequently affects our profitability.

As a part of the overall environmental regulatory policy, the permitting, construction and operations of certain oil and gas facilities are regulated. Many factors, including public perception, can materially impact the ability to secure an environmental construction or operation permit. Once operational, enforcement measures can include significant civil penalties for regulatory violations, regardless of intent. Under appropriate circumstances, an administrative agency can issue a cease and desist order to require termination of operations.

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Environmental regulation is becoming more comprehensive and additional programs, as well as increased obligations under existing programs, are anticipated. In this regard, we expect additional regulation of naturally occurring radioactive materials, oil and natural gas exploration and production operations, waste management, and underground injection of water and waste material. The adoption of additional regulations could have a material adverse effect on our financial condition and results of operations. Environmental laws and regulations have been subject to frequent changes over the years, and the imposition of more stringent requirements could have a material adverse effect on our financial condition and results of operations.

Compliance with environmental laws and regulations increases the Company's overall cost of business, but has not had, to date, a material adverse effect on its operations, financial condition or results of operations. It is not anticipated, based on current laws and regulations, that Isramco will be required in the near future to expend amounts (whether for environmental control facilities or otherwise) that are material in relation to its total exploration and development expenditure program in order to comply with such laws and regulations. However, given that such laws and regulations are subject to change, Isramco is unable to predict the ultimate cost of compliance or the ultimate effect on its operations, financial condition and results of operations.

Comprehensive Environmental Response, Compensation and Liability Act and Hazardous Substances

In 1980, the United States Congress enacted the federal Comprehensive Environmental Response, Compensation and Liability Act, referred to as CERCLA or the Superfund law. This law, which has been amended since enactment, and comparable state laws impose strict liability, without regard to fault, on certain classes of persons that are considered to be responsible for the release of what are considered to be "hazardous substances" into the environment. These persons include the current or former owners or operators of the sites where the release occurred and companies that disposed or arranged for the disposal of hazardous substances released at the site. Under CERCLA, we may be subject to joint and several liability for the costs of investigating and cleaning up hazardous substances that have been released into the environment whether or not we are responsible for the release or even owned an interest in the site at the time of the release, as well as for damages to natural resources and for the costs of health studies. In addition, companies that incur liability frequently confront additional claims because it is not uncommon for neighboring landowners and other third parties to file claims for personal injury and property damage allegedly caused by hazardous substances or other pollutants released into the environment in addition to a CERCLA claim.

The Solid Waste Disposal Act and Waste Management

The federal Solid Waste Disposal Act, as amended by the Resource Conservation and Recovery Act of 1976, referred to as RCRA, regulates the disposal of solid waste but generally excludes most wastes generated by the exploration and production of oil and natural gas, such as drilling fluids, produced waters and other wastes associated with the exploration, development or production of oil and natural gas from regulation as hazardous wastes. However, these wastes may be regulated by the EPA or state agencies as non-hazardous wastes as long as these wastes are not commingled with regulated hazardous wastes. Moreover, in the ordinary course of our operations, other wastes generated in connection with our exploration and production activities may be regulated as hazardous waste under RCRA or hazardous substances under CERCLA. From time to time, releases of materials or wastes have occurred at locations we own or at which we have operations. These properties and the materials or wastes released thereon may be subject to CERCLA, RCRA and analogous state laws. Under these laws, we have been and may be required to remove or remediate these materials or wastes. At this time it is not possible to estimate the potential liabilities to which we may be subject from unknown, latent liability risks with respect to any properties where materials or wastes may have been released, but of which we have not been made aware.

The Clean Water Act, wastewater and storm water discharges

The oil and gas industry, generally, and our ope