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ISRAMCO INC
Form 10-Q
August 20, 2007

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

FORM 10-Q

CHECK ONE

Quarterly report under Section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period ended June 30, 2007

or

Transition report under Section 13 or 15(d) of the Securities Exchange Act of 1934

COMMISSION FILE NUMBER 0-12500

ISRAMCO, INC.
(Exact Name of registrant as Specified in its Charter)

Delaware
(State or other Jurisdiction of
Incorporation or Organization)

13-3145265
I.R.S. Employer Number

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 17, 2007 was 2,717,691.

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I

FORWARD LOOKING STATEMENTS

CERTAIN STATEMENTS MADE IN THIS QUARTERLY REPORT ON FORM 10-Q ARE "FORWARD-LOOKING STATEMENTS" WITHIN THE MEANING OF THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995. FORWARD-LOOKING STATEMENTS CAN BE IDENTIFIED BY TERMINOLOGY SUCH AS "MAY", "WILL", "SHOULD", "EXPECTS", "INTENDS", "ANTICIPATES", "BELIEVES", "ESTIMATES", "PREDICTS", OR "CONTINUE" OR THE NEGATIVE OF THESE TERMS OR OTHER COMPARABLE TERMINOLOGY AND INCLUDE, WITHOUT LIMITATION, STATEMENTS BELOW REGARDING EXPLORATION AND DRILLING PLANS, FUTURE GENERAL AND ADMINISTRATIVE EXPENSES, FUTURE GROWTH, FUTURE EXPLORATION, FUTURE GEOPHYSICAL AND GEOLOGICAL DATA, GENERATION OF ADDITIONAL PROPERTIES, RESERVES, NEW PROSPECTS AND DRILLING LOCATIONS, FUTURE CAPITAL EXPENDITURES, SUFFICIENCY OF WORKING CAPITAL, ABILITY TO RAISE ADDITIONAL CAPITAL, PROJECTED CASH FLOWS FROM OPERATIONS, OUTCOME OF ANY LEGAL PROCEEDINGS, DRILLING PLANS, THE NUMBER, TIMING OR RESULTS OF ANY WELLS, INTERPRETATION AND RESULTS OF SEISMIC SURVEYS OR

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SEISMIC DATA, FUTURE PRODUCTION OR RESERVES, LEASE OPTIONS OR RIGHTS, PARTICIPATION OF OPERATING PARTNERS, CONTINUED RECEIPT OF ROYALTIES, AND ANY OTHER STATEMENTS REGARDING FUTURE OPERATIONS, FINANCIAL RESULTS, OPPORTUNITIES, GROWTH, BUSINESS PLANS AND STRATEGY. BECAUSE FORWARD-LOOKING STATEMENTS INVOLVE RISKS AND UNCERTAINTIES, THERE ARE IMPORTANT FACTORS THAT COULD CAUSE ACTUAL RESULTS TO DIFFER MATERIALLY FROM THOSE EXPRESSED OR IMPLIED BY THESE FORWARD-LOOKING STATEMENTS. ALTHOUGH THE COMPANY BELIEVES THAT EXPECTATIONS REFLECTED IN THE FORWARD-LOOKING STATEMENTS ARE REASONABLE, IT CANNOT GUARANTEE FUTURE RESULTS, PERFORMANCE OR ACHIEVEMENTS. MOREOVER, NEITHER THE COMPANY NOR ANY OTHER PERSON ASSUMES RESPONSIBILITY FOR THE ACCURACY AND COMPLETENESS OF THESE FORWARD-LOOKING STATEMENTS. THE COMPANY IS UNDER NO DUTY TO UPDATE ANY FORWARD-LOOKING STATEMENTS AFTER THE DATE OF THIS REPORT TO CONFORM SUCH STATEMENTS TO ACTUAL RESULTS.

II

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

| | June 30, 2007 | December 31, 2006 |
|---|-------------------|----------------------|
| | ----- | ----- |
| ASSETS | | |
| CURRENT ASSETS | | |
| Cash and cash equivalents | \$ 2,782 | \$ 573 |
| Restricted cash | 1,300 | 17,000 |
| Marketable securities, at market | 1,905 | 3,130 |
| Accounts receivable | 4,501 | 403 |
| Prepaid expenses and other current assets | 152 | 5,057 |
| Receivable - sale of subsidiary - Magic | -- | 2,150 |
| | ----- | ----- |
| TOTAL CURRENT ASSETS | 10,640 | 28,313 |
| | ----- | ----- |
| Property and equipment, net (successful efforts method for oil and gas properties) | 99,594 | 12,537 |
| Marketable securities, at market | 6,900 | 5,759 |
| Investment in affiliates | 17,023 | 15,302 |
| Other | 119 | 162 |
| | ----- | ----- |
| TOTAL ASSETS | \$ 134,276 | \$ 62,073 |
| | ===== | ===== |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| CURRENT LIABILITIES | | |
| Accounts payable and accrued expenses | \$ 5,188 | \$ 5,214 |
| Bank loans | 6,065 | 347 |
| Derivative liability | 4,040 | - |
| Short term loan from related party | - | 17,000 |
| | ----- | ----- |

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| | | |
|--|------------|-----------|
| TOTAL CURRENT LIABILITIES | 15,293 | 22,561 |
| | ----- | ----- |
| LONG-TERM LIABILITIES | | |
| Bank loan | 27,000 | -- |
| Long-term debt - related party | 51,356 | -- |
| Asset retirement obligations | 4,081 | 356 |
| Deferred income taxes | 84,145 | 4,412 |
| | ----- | ----- |
| TOTAL LONG-TERM LIABILITIES | 83,708 | 4,768 |
| | ----- | ----- |
| TOTAL LIABILITIES | 99,438 | 27,329 |
| | ----- | ----- |
| SHAREHOLDERS' EQUITY | | |
| Common stock \$0.01 par value; authorized 7,500,000 shares; issued 2,746,958 shares; outstanding 2,717,691 shares | 27 | 27 |
| Additional paid-in capital | 26,240 | 26,240 |
| Retained earnings | 4,831 | 5,399 |
| Accumulated other comprehensive income | 3,904 | 3,242 |
| Treasury stock, 29,267 shares at cost | (164) | (164) |
| | ----- | ----- |
| TOTAL SHAREHOLDERS' EQUITY | 34,838 | 34,744 |
| | ----- | ----- |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | \$ 134,276 | \$ 62,073 |
| | ===== | ===== |

See notes to the consolidated financial statements.

1

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

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|--|--------------------------------|--------|------------------------------|----------|
| | 2007 | 2006 | 2007 | 2006 |
| | ----- | ----- | ----- | ----- |
| REVENUES: | | | | |
| Oil and gas sales | \$ 5,487 | \$ 542 | \$ 7,651 | \$ 7,651 |
| Operator fees from related party | 18 | 14 | 35 | 35 |
| Office services to affiliate and other | 204 | 194 | 382 | 382 |
| Equity in earnings of unconsolidated affiliates | 1,506 | 958 | 2,269 | 2,269 |
| | ----- | ----- | ----- | ----- |
| Total revenues | 7,215 | 1,708 | 10,337 | 10,337 |
| OPERATING EXPENSES: | | | | |
| Lease operating expense and severance tax | 2,183 | 179 | 2,981 | 2,981 |
| Depreciation, depletion, amortization and impairment | 1,794 | 87 | 2,685 | 2,685 |
| Accretion expense | 3 | 37 | 44 | 44 |
| Exploration costs | 35 | 89 | 35 | 35 |

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| | | | | |
|---|-----------|-----------|-----------|-----------|
| Operator expense | -- | 200 | -- | |
| General and administrative | 688 | 363 | 1,327 | |
| | ----- | ----- | ----- | ----- |
| Total operating expenses | 4,703 | 955 | 7,072 | |
| | ----- | ----- | ----- | ----- |
| Operating income | 2,512 | 753 | 3,265 | |
| OTHER INCOME AND (EXPENSE): | | | | |
| Interest income | 44 | 42 | 482 | |
| Unrealized gain on marketable securities | 233 | 527 | 509 | |
| Realized gain on sale of investment | 1,647 | -- | 1,647 | |
| Interest expense | (2,143) | (27) | (3,177) | |
| Gain (loss) from swap transactions, net | (357) | 28 | (3,597) | |
| Net gain on legal settlement | -- | -- | -- | |
| | ----- | ----- | ----- | ----- |
| Total other income and (expense) | (576) | 570 | (4,136) | |
| | ----- | ----- | ----- | ----- |
| Income (loss) before income taxes | 1,936 | 1,323 | (871) | |
| Income taxes benefit (expense) | (738) | (407) | 303 | |
| | ----- | ----- | ----- | ----- |
| Income (loss) from continuing operations | 1,198 | 916 | (568) | |
| Income (loss) from discontinued operation, net of tax | -- | 150 | -- | |
| | ----- | ----- | ----- | ----- |
| Net income (loss) | \$ 1,198 | \$ 1,066 | \$ (568) | \$ |
| | ===== | ===== | ===== | ===== |
| Basic and diluted income (loss) per share: | | | | |
| Continuing operations | \$ 0.44 | \$ 0.34 | \$ (0.21) | \$ |
| Discontinued operations | -- | 0.05 | -- | |
| | ----- | ----- | ----- | ----- |
| Net income (loss) | \$ 0.44 | \$ 0.39 | \$ (0.21) | \$ |
| | ===== | ===== | ===== | ===== |
| Weighted average number of shares | | | | |
| outstanding - basic and diluted | 2,717,891 | 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 June 30, | |
|--|--------------------------|----------|
| | 2007 | 2006 |
| | ----- | ----- |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net income (loss) | \$ (568) | \$ 1,460 |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities: | | |
| Discontinued operations | -- | 3,286 |
| | ----- | ----- |
| Income (loss) from continuing operations | (568) | 4,746 |

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| | | |
|--|----------|----------|
| Depreciation, depletion amortization and impairment | 2,685 | 288 |
| Accretion expense | 44 | 37 |
| Unrealized gain on marketable securities | (509) | (812) |
| (Gain) Loss on derivative contracts | 3,597 | (593) |
| Equity in earnings of unconsolidated affiliates | (2,269) | (1,663) |
| Deferred taxes | (1,108) | -- |
| Realized gain on sale of investment | (1,647) | -- |
| Changes in assets and liabilities: | | |
| Accounts receivable | (4,098) | 62 |
| Prepaid expenses and other current assets | (23) | (242) |
| Accounts payable and accrued liabilities | (278) | 641 |
| | ----- | ----- |
| Net cash provided by (used in) operating activities | | |
| Continuing operations | 4,174 | (338) |
| Discontinued operations | -- | 3,286 |
| | ----- | ----- |
| Net cash provided by operating activities | 4,174 | 2,948 |
| | ----- | ----- |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Investment in affiliate | -- | (979) |
| Addition to property and equipment | (85,240) | (1,500) |
| Proceeds from restricted deposit | 15,700 | -- |
| Distributions from unconsolidated affiliates | 409 | -- |
| Proceeds from swap transactions | 2,414 | -- |
| Proceeds from sale of subsidiary - Magic | 2,150 | -- |
| Proceeds from sale of gas properties and equipment | 495 | -- |
| Proceeds from sale of other investment | 1,670 | -- |
| Purchase of marketable securities | (763) | (1,373) |
| Proceeds from sale of marketable securities | 2,474 | 2,435 |
| | ----- | ----- |
| Net cash used in investing activities | (60,691) | (1,417) |
| | ----- | ----- |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Net proceeds from loans - related parties | 34,356 | -- |
| Proceeds from long-term debt | 35,300 | -- |
| Repayment of loan | (2,500) | (501) |
| Repayment on bank loans, net | (82) | (154) |
| | ----- | ----- |
| Net cash provided (used) by financial activities | 67,074 | (655) |
| | ----- | ----- |
| Net increase (decrease) in cash and cash equivalents | 2,209 | 876 |
| Cash and cash equivalents-beginning of period | 573 | 1,249 |
| | ----- | ----- |
| Cash and cash equivalents-end period | \$ 2,782 | \$ 2,125 |
| | ===== | ===== |
| Supplemental cash flow information | | |
| Interest paid | \$ 616 | \$ 201 |
| Income taxes paid | -- | -- |

See notes to the consolidated financial statements

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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 six month period ended June 30, 2007 are not necessarily indicative of the results that may be expected for the year ended December 31, 2007. For further information, refer to the consolidated financial statements and footnotes thereto included in Isramco's Annual Report on Form 10-K for the fiscal year ended December 31, 2006.

Certain re-classification of prior year amounts has been made to conform to current presentation.

On March 2, 2007, Isramco purchased certain oil and gas properties located in Texas and New Mexico from Five States Energy Company, LLC for an aggregate purchase price of \$92 million. These financial statements reflect the assets acquired and operations related to those assets from the acquisition date through June 30, 2007.

NOTE 2 - CONSOLIDATION

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

NOTE 3 - OIL AND GAS PROPERTIES

Isramco follows the "successful efforts" method of accounting for its oil and gas properties. Under this method of accounting, all property acquisition costs and costs of exploratory and development wells are capitalized when incurred, pending determination of whether the well has found proved reserves. If an exploratory well has not found proved reserves, the costs of the well are charged to expense. The costs of development wells are capitalized whether successful or unsuccessful. Geological and geophysical costs and the costs of carrying and retaining undeveloped properties are expensed as incurred.

NOTE 4 - TRANSACTION WITH FIVE STATES

On March 2, 2007, Isramco purchased certain oil and gas properties located in Texas and New Mexico from Five States Energy Company, LLC for an aggregate purchase price of \$92 million. According to an engineering report prepared by an independent consulting company relating to the properties purchased, the estimated proved developed producing reserves are 1,447,161 net barrels of oil and 20,078,174 net MMCF's of natural gas and 1,305,705 net of liquid products.

To fund the purchase, we obtained loans from our parent Naphtha Israel Petroleum Corp. Ltd. (including through its wholly owned subsidiary IOC-Israel Oil Company Ltd) in an aggregate principle amount of \$42 million. In addition, we obtained a \$7 million loan from J.O.E.L Jerusalem Oil Exploration Ltd, which is a related party, and a \$35.3 million line of credit from Wells Fargo. (see Note 6) The balance of the purchase was funded with working capital.

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

| | |
|-----------------------------|-----------|
| (in thousands) | |
| Oil and gas properties | \$ 92,000 |
| Asset retirement obligation | (1,292) |
| | ----- |
| Net asset acquired | \$ 90,708 |
| | ===== |

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

| | | | |
|---|-----------|----------|-----------|
| (in thousands, except for share data) | | AS | |
| | | REPORTED | PRO FORMA |
| Six months ended June 30, 2007: | | | |
| ----- | | | |
| Revenues | \$ 10,337 | | \$ 16,019 |
| Net loss | (568) | | (1,689) |
| Loss per share - basic and diluted | | | |
| Continuing operations | \$ (0.21) | | \$ (0.62) |
| Discontinued operations | -- | | -- |
| | ----- | | ----- |
| Total | \$ (0.21) | | \$ (0.62) |
| | ===== | | ===== |
| Six months ended June 30, 2006: | | | |
| ----- | | | |
| Revenues | \$ 3,284 | | \$ 14,730 |
| Net income | 1,460 | | 1,500 |
| Income (loss) per share - basic and diluted | | | |
| Continuing operations | \$ 1.75 | | \$ 1.76 |
| Discontinued operations | (1.21) | | (1.21) |
| | ----- | | ----- |
| Total | \$ 0.54 | | \$ 0.55 |
| | ===== | | ===== |
| Three months ended June 30, 2006: | | | |
| ----- | | | |
| Revenues | \$ 1,708 | | \$ 7,274 |
| Net income | 1,066 | | 1,002 |
| Income per share - basic and diluted | | | |
| Continuing operations | \$ 0.34 | | \$ 0.31 |
| Discontinued operations | 0.05 | | 0.05 |

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| | | |
|-------|---------|---------|
| Total | \$ 0.39 | \$ 0.36 |
|-------|---------|---------|

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NOTE 5 - DERIVATIVE CONTRACTS

Following the closing of Five States transaction (see Note 4), Isramco signed additional swap agreements with Wells Fargo Bank to secure its future oil and gas prices as follows:

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

The following is our open swap contracts positions at June 30, 2007:

| OIL | | | | | |
|--------------------------|----------------------|------|------------------|------------------------|----------|
| MONTHLY QUANTITY BARRELS | AVERAGE FUTURE PRICE | YEAR | NUMBER OF MONTHS | TOTAL QUANTITY BARRELS | TOTAL A |
| 4,000 | \$ 62.90 | 2007 | 6 | 24,000 | \$ 1,50 |
| 4,000 | 65.08 | 2008 | 12 | 48,000 | 3,12 |
| 3,700 | 64.97 | 2009 | 12 | 44,400 | 2,88 |
| 2,700 | 63.30 | 2010 | 12 | 32,400 | 2,05 |
| 6,341 | 62.47 | 2007 | 6 | 38,046 | 2,37 |
| 5,516 | 64.70 | 2008 | 12 | 66,192 | 4,28 |
| 6,096 | 64.55 | 2009 | 12 | 73,152 | 4,72 |
| 5,447 | 63.80 | 2010 | 12 | 65,364 | 4,17 |
| 1,000 | 66.05 | 2007 | 6 | 6,000 | 39 |
| 1,000 | 68.46 | 2008 | 12 | 12,000 | 82 |
| Total | | | | 409,554 | \$ 26,33 |

| GAS | | | | | |
|------------------------|----------------------|------|------------------|----------------------|----------|
| MONTHLY QUANTITY MMBTU | AVERAGE FUTURE PRICE | YEAR | NUMBER OF MONTHS | TOTAL QUANTITY MMBTU | TOTAL A |
| 101,107 | \$ 8.08 | 2007 | 6 | 607,002 | \$ 4,90 |
| 100,876 | 8.29 | 2008 | 12 | 1,210,512 | 10,03 |
| 100,874 | 7.85 | 2009 | 12 | 1,210,488 | 9,49 |
| 79,286 | 7.49 | 2010 | 12 | 951,432 | 7,12 |
| 20,000 | 7.87 | 2007 | 6 | 120,000 | 94 |
| 13,000 | 8.37 | 2008 | 12 | 156,000 | 1,30 |
| Total | | | | 4,255,434 | \$ 33,80 |

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Isramco recognized a loss of \$3,597,000 for the six months ended June 30, 2007 and a gain of \$593,000 for the six months ended June 30, 2006 related to the swap agreements.

NOTE 6 - DEBT

In connection with the acquisition of the Five States properties (see Note 4), we obtained the following financing:

Pursuant to a Loan Agreement dated as of February 27, 2007 (the "Loan Agreement"), Isramco obtained a loan from Naphtha, its parent company, in the aggregate principal amount of \$18.5 million. The outstanding principal amount of the loan accrues interest at per annum rate equal to the London Inter-bank Offered Rate (LIBOR) plus 5.5%, not to exceed 11% per annum. Interest is payable at the end of each loan year. Principal plus any accrued and unpaid interest are due and payable on February 26, 2014. Interest after the maturity date accrues at the per annum rate of LIBOR plus 12% until paid in full. At any time, Isramco is entitled to prepay the outstanding amount of the loan without penalty or prepayment. To secure its obligations that may be incurred under the Loan Agreement, Isramco agreed to grant to Naphtha a security interest in certain specified properties held by Jay Petroleum, its wholly owned subsidiary. Naphtha can accelerate the loan and exercise its rights under the collateral upon the occurrence of certain specified events of default. Mr. Jakob Maimon, Isramco's president and director is a director of Naphtha and Mr. Haim Tsuff, Isramco's Chief Executive Officer and Chairman is a controlling shareholder of Naphtha.

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Pursuant to a Loan Agreement dated as of February 27, 2007 (the "Second Loan Agreement") Isramco obtained a loan from Naphtha, in the principal amount of \$11.5 million, repayable at the end of seven years. Interest accrues at a per annum rate of LIBOR plus 6%. At any time Isramco can make prepayments without premium or penalty. The Second Loan is unsecured. The other terms of the Second Loan Agreement are identical to the terms of the Loan Agreement.

Pursuant to a Loan Agreement dated as of February 27, 2007 (the "Third Loan Agreement") Isramco obtained a loan from Naphtha, in the principal amount of \$12 million, repayable at the end of five years. Interest accrues at a per annum rate of LIBOR plus 6%. At any time Isramco can make prepayments without premium or penalty. The Third Loan is unsecured. The other terms of the Third Loan Agreement are identical to the terms of the Loan Agreement.

Pursuant to a Loan Agreement dated as of February 26, 2007 Isramco obtained a loan from J.O.E.L Jerusalem Oil Exploration Ltd, a related party ("JOEL"), in the principal amount of \$7 million, repayable at the end of 3 months. Interest accrues at a per annum rate of 5.36%. Mr. Jakob Maimon, Isramco's president and director is a director of JOEL and Mr. Haim Tsuff, Isramco's Chief Executive Officer and Chairman is a controlling shareholder of JOEL. On May 26, 2007, the maturity date this loan was extended until July 11, 2007. Pursuant to a loan agreement dated as of July 11, 2007, the maturity date on this loan was extended for an additional period of seven years. Interest accrues at a per annum rate of LIBOR plus 6%. Principal amount is repayable beginning at the end of third year in five equal installments. At any time Isramco can make prepayments without premium or penalty. The Loan is unsecured.

On March 2, 2007, Isramco Energy obtained a \$35.3 million credit line from Wells Fargo Bank. Amounts outstanding under the credit line are payable by March 1, 2011. Interest on amounts outstanding accrue at a per annum rate equal to LIBOR plus 2%. Isramco is required to maintain several financial covenants in

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connection with this credit line. The borrowing base for the credit line is determined periodically by Wells Fargo Bank using engineering reports and other information provided by Isramco. In addition, Isramco is required to hedge 80% of expected future volumes for a period of four years. Amounts outstanding under the credit line are secured by a guarantee from Isramco and a pledge by Isramco of the shares of Isramco Energy. Additionally, pursuant to an agreement between Sigma Energy Corporation ("Sigma"), an unrelated party that originated the transaction with Five States, Isramco and Isramco Energy, Isramco Energy paid to Sigma on March 2, 2007, the amount of \$300,000 and after Payout (as defined in the agreement with Sigma), Isramco Energy will assign to Sigma a direct ownership interests equal to 3.75% of the interests acquired by Isramco Energy under the Five States Purchase and Sale Agreement. After June 30, 2007, the borrowing base with Wells Fargo Bank was reduced to \$27 million due to lack of engineering reports. Isramco will pay back the \$8.3 million reduction in six monthly payments beginning July 1, 2007. Isramco expects to have engineering reports prepared for the bank as of November 1, 2007.

NOTE 7 - DISCONTINUED OPERATION

In March 2004, Isramco purchased a luxury cruise liner for aggregate consideration of \$8,050,000. The vessel, a Bahamas registered ship, contains 270 passenger cabins on nine decks. Isramco leased the vessel to a tour operator for the period from April 4, 2005 through October 31, 2005 and from April 6 2006 through November 5 2006 at a daily rate of \$8,000. Under the lease all maintenance and operating costs associated with the vessel were borne by the operator.

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

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

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

NOTE 8 - EARNINGS PER SHARE COMPUTATION

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

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NOTE 9 - GEOGRAPHICAL SEGMENT INFORMATION

Isramco's operations for 2007 involve one industry segment - the exploration, development production and transportation of oil and natural gas. Prior to 2007 Isramco operated in two operating segment - oil and gas activities and holding and leasing its cruise line vessel. Its current oil and gas activities are concentrated in the United States and Israel. Operating outside the United States subjects the company to inherent risks such as a loss of revenues, property and equipment from such hazards as exploration. Nationalization, war and other political risks, risks of increase of takes and governmental royalties, renegotiation of contracts with governmental royalties, renegotiation of contracts with government entities and change in laws and policies governing operations of foreign-based companies.

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

| | UNITED STATES ----- | ISRAEL ----- | CONSOLIDATED TOTAL ----- |
|---|---------------------------|-----------------|--------------------------------|
| Identifiable assets at June 30, 2007 | \$ 97,615 | \$ 1,979 | \$ 99,594 |
| Cash and corporate assets | | | 34,682 |
| | | | ----- |
| Total Assets at June 30, 2007 | | | 134,276 |
| | | | ===== |
| Identifiable assets at December 31, 2006 | 10,583 | 1,954 | 12,537 |
| Cash and corporate assets | | | 49,536 |
| | | | ----- |
| Total Assets at December 31, 2006 | | | \$ 62,073 |
| | | | ===== |
| SIX MONTHS ENDED JUNE 30, 2007 | | | |
| Sales and other operating revenue | \$ 8,151 | \$ 2,186 | \$ 10,337 |
| Operating expenses | (6,378) | (694) | (7,072) |
| | ----- | ----- | ----- |
| Operating profit | 1,773 | 1,492 | 3,265 |
| Interest income | | | 482 |
| Interest expense | | | (3,177) |
| Gain on marketable securities and other investments | | | 2,156 |
| Loss from swap transactions | | | (3,597) |
| Income Taxes | | | 303 |
| | | | ----- |
| Net income | | | \$ (568) |
| | | | ===== |

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SIX MONTHS ENDED JUNE 30, 2006

| | | | |
|---|----------|----------|----------|
| Sales and other operating revenue | \$ 1,320 | \$ 1,964 | \$ 3,284 |
| Costs and operating expenses | (1,531) | (431) | (1,962) |
| | ----- | ----- | ----- |
| Operating profit | (211) | 1,533 | 1,322 |
| Interest income | | | 296 |
| Interest expense | | | (79) |
| Gain on marketable securities and other investments | | | 812 |
| Gain from swap transactions | | | 593 |
| Net gain on legal settlement | | | 2,565 |
| Income taxes | | | (763) |
| Discontinued operation | | | (3,286) |
| | | | ----- |
| Net income | | | \$ 1,460 |
| | | | ===== |

THREE MONTHS ENDED JUNE 30, 2007

| | | | |
|---|----------|----------|----------|
| Sales and other operating revenue | \$ 6,206 | \$ 1,009 | \$ 7,215 |
| Costs and operating expenses | (4,149) | (554) | (4,703) |
| | ----- | ----- | ----- |
| Operating profit | 2,057 | 455 | 2,512 |
| Interest income | | | 44 |
| Interest expense | | | (2,143) |
| Gain on marketable securities and other investments | | | 1,880 |
| Loss from swap transactions | | | (357) |
| Income Taxes | | | (738) |
| | | | ----- |
| Net income | | | \$ 1,198 |
| | | | ===== |

THREE MONTHS ENDED JUNE 30, 2006

| | | | |
|-----------------------------------|--------|--------|----------|
| Sales and other operating revenue | \$ 990 | \$ 718 | \$ 1,708 |
| Costs and operating expenses | (615) | (340) | (955) |
| | ----- | ----- | ----- |
| Operating profit | 375 | 378 | 753 |
| Interest income | | | 42 |
| Interest expense | | | (27) |
| Gain on marketable securities | | | 527 |
| Gain from swap transactions | | | 28 |
| Income taxes | | | (407) |
| Discontinued operation | | | 150 |
| | | | ----- |
| Net loss | | | \$ 1,066 |
| | | | ===== |

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NOTE 10 - COMPREHENSIVE INCOME

Isramco's comprehensive income for the three month period ended June 30, 2007 and 2006 was as follows:

| | Three Months Ended June 30 | | Six Months Ended June 30 | |
|--|-------------------------------|----------|-----------------------------|----------|
| | 2007 | 2006 | 2007 | 2006 |
| Net income (loss) | \$ 1,198 | \$ 1,066 | \$ (568) | \$ 1,460 |
| Other comprehensive gain (loss): | | | | |
| Available-for-sale securities | 837 | (96) | 1,141 | 8 |
| Foreign currency translation adjustments | (640) | 415 | (140) | 311 |
| Comprehensive income | \$ 1,395 | \$ 1,385 | \$ 433 | \$ 1,779 |

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

THE FOLLOWING COMMENTARY SHOULD BE READ IN CONJUNCTION WITH THE CONSOLIDATED FINANCIAL STATEMENTS AND RELATED NOTES CONTAINED ELSEWHERE IN THIS REPORT ON FORM 10-Q. THE DISCUSSION CONTAINS FORWARD-LOOKING STATEMENTS THAT INVOLVE RISKS AND UNCERTAINTIES. THESE STATEMENTS RELATE TO FUTURE EVENTS OR OUR FUTURE FINANCIAL PERFORMANCE. IN SOME CASES, YOU CAN IDENTIFY THESE FORWARD-LOOKING STATEMENTS BY TERMINOLOGY SUCH AS "MAY," "WILL," "SHOULD," "EXPECT," "PLAN," "ANTICIPATE," "BELIEVE," "ESTIMATE," "PREDICT," "POTENTIAL," "INTEND," OR "CONTINUE," AND SIMILAR EXPRESSIONS. THESE STATEMENTS ARE ONLY PREDICTIONS. OUR ACTUAL RESULTS MAY DIFFER MATERIALLY FROM THOSE ANTICIPATED IN THESE FORWARD-LOOKING STATEMENTS AS A RESULT OF A VARIETY OF FACTORS, INCLUDING, BUT NOT LIMITED TO, THOSE SET FORTH UNDER "RISK FACTORS" AND ELSEWHERE IN THIS REPORT ON FORM 10-Q. ISRAMCO INC. DISCLAIMS ANY OBLIGATION TO UPDATE SUCH FORWARD LOOKING STATEMENTS.

OVERVIEW

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

On March 2, 2007, Isramco purchased certain oil and gas properties located in Texas and New Mexico from Five States Energy Company, LLC (the "Five States Acquisition") for an aggregate purchase price of \$92 million. These financial statements reflect the assets acquired and operations related to those assets from the acquisition date through June 30, 2007.

CRITICAL ACCOUNTING POLICIES

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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.

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LIQUIDITY AND CAPITAL RESOURCES

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

During the six months ended June 30, 2007, our consolidated cash and cash equivalents increased by \$2,209,000 from \$573,000 at December 31, 2006 to \$2,782,000 at June 30, 2007. Our restricted cash decreased from \$17,000,000 to \$1,300,000 during the same period. The decrease in our restricted cash is primarily attributable to the use of cash reserves related to the Five States Acquisition, which was completed in March 2007, our participation in the drilling of several gas wells to the Barnett formation in North Texas and repayment of loans that were received to finance the oil and gas acquisition.

Net cash provided by operating activities was \$4,174,000 for the six months ended June 31, 2007 compared to \$2,948,000 for the same period in 2006. The increase is primarily due to operational cash flows from the properties acquired in the Five States Acquisition.

Net cash used in investing activities for the six-month period ended June 30, 2007 was \$60,691,000 compared to \$1,417,000 for the same period in 2006. The cash used in 2007 period was use is primarily attributable to the Five States

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Acquisition, which amounted to \$85,204,000, offset by proceeds from a restricted deposit and the sale or settlement of various investments.

Net cash provided by financing activities was \$67,074 for the six months ended June 31, 2007 compared to net cash used in financing activities of \$655 for the same period in 2006. Our financing activities in 2007 primarily relate to borrowings in connection with the Five States Acquisition.

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

RESULTS OF OPERATIONS

SUMMARY OF EXPLORATION EFFORTS IN THE UNITED STATES

The Company, through its wholly-owned subsidiaries, Isramco Energy LLC ("Isramco Energy"), Jay Petroleum LLC ("Jay Petroleum") and Jay Management LLC ("Jay Management"), is involved in oil and gas production in the United States. Jay Petroleum owns varying working interests in oil and gas wells in Louisiana, Texas, Oklahoma and Wyoming. Jay Management acts as the operator of certain of the producing oil and gas interests owned or acquired by Jay Petroleum.

During the six months ended June 30, 2007, we continued to invest in drilling activities in the Barnett Shale in North Central Texas (Parker County) in which we hold a 15% working interests. To date, 22 gas wells have been drilled of which 11 wells have been completed for production and the remainder are in various stages of completion.

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The following table provides additional information regarding our oil and gas activities:

| Oil and Gas Revenues (in thousands) | Three Months ended June 30, | | Six Months ended June 30, | |
|--|--------------------------------|----------|------------------------------|----------|
| | 2007 | 2006 | 2007 | 2006 |
| Oil Volume Sold (Bbl) | 31 | 3.6 | 47.7 | 7.1 |
| Gas Volume Sold (MCF) | 413 | 51 | 599 | 112 |
| Oil Sales | \$1,919 | \$ 218 | \$2,773 | \$ 427 |
| Gas Sales | 2,889 | 291 | 3,973 | 740 |
| Plant Products | 679 | 33 | 905 | 39 |
| Average Unit Price | | | | |
| Oil (\$/Bbl) * | \$61.90 | \$ 60.56 | \$58.13 | \$ 60.14 |
| Gas (\$/MCF) ** | 7.00 | 5.71 | 6.63 | 6.61 |

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

** MCF - 1,000 Cubic Feet

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SIX MONTHS ENDED JUNE 30, 2007 COMPARED TO SIX MONTHS ENDED JUNE 30, 2006:

We reported a net loss of \$568,000 or (\$0.21) per share for the six-month period ended June 30, 2007 compared to net income of \$1,460,000 or \$0.54 per share for the same period in 2006. The loss recorded during the six months ended June 30, 2007 as compared to the income recorded for the same period in 2006 is primarily attributable to an aggregate \$12,266,000 increase in interest expense, lease operating expense, depreciation, depletion, amortization and impairment, and a loss on swap transactions. This was partially offset by a \$7,053,000 increase in revenues. In addition, we recorded \$3,286,000 in loss from discontinued operations in 2006 that did not exist in 2007.

OIL & GAS REVENUES - During the 2007 period, we recorded \$7,651,000 in oil and gas revenues compared to \$1,206,000 in 2006. This increase is primarily due to the Five States Acquisition, partially offset by a decline in production from our older oil and gas properties and a shutdown of certain production in one of our fields due to unanticipated pipeline maintenance.

LEASE OPERATING EXPENSES AND SEVERANCE TAXES - During the 2007 period, we recorded \$2,981,000 in lease operating expenses and severance taxes compared to \$400,000 in 2006. This increase is primarily due to the Five States Acquisition.

DEPRECIATION, DEPLETION, AMORTIZATION AND IMPAIRMENT - Depreciation depletion and amortization expenses are connected to the producing wells in the United States. During the 2007 period, we recorded \$2,685,000 in depreciation, depletion, amortization and impairment compared to \$288,000 in 2006. This increase is primarily due to the Five States Acquisition.

GENERAL AND ADMINISTRATIVE - During the 2007 period, we recorded \$1,327,000 in general and administrative compared to \$772,000 in 2006. This increase is primarily due to increased salaries.

INTEREST INCOME - During the 2007 period, we recorded \$482,000 in interest income compared to \$296,000 in 2006. This increase is primarily due a restricted cash deposit invested during the first part of the year.

GAIN ON SALE OF INVESTMENT - In April 2007, IsramTec Inc. a wholly owned subsidiary of the Company, sold part of its equity interests in a high-tech company, for aggregate consideration of approximately \$1.7 million (net of commission). As a result of the transaction, the Company recorded a one-time non-recurring net gain of \$1.65 million.

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EQUITY IN EARNINGS OF UNCONSOLIDATED AFFILIATES - During the 2007 period, we recorded \$2,269,000 in equity in earnings of unconsolidated affiliates compared to \$1,663,000 in 2006. The net income is primarily attributable to the gain of marketable securities held by the limited partnerships Isramco Negev 2 and I.O.C. Dead Sea LP, affiliates of the Company.

NET GAIN ON LEGAL SETTLEMENTS - Net Gain on Legal Settlements in 2006 Period is attributable to the receipt of approximately \$3,050,000 million from the settlement by the Company in February 2006 of certain lawsuits that it initiated. According to the agreements with the defendants settling these lawsuits, the Company recorded a net gain of \$2,565,000.

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

We reported a net income of \$1,198,000 or \$0.44 per share for the three months

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period ended June 30, 2007 compared to \$1,066,000 or \$0.39 per share for the same period in 2006. The increase in net income is primarily attributable to a \$5,507,000 increase in revenue and a \$1,647,000 realized gain of sale of investment, partially offset by an aggregate \$6,212,000 increase in interest expense, lease operating expense, depreciation, depletion, amortization and impairment, and a loss on swap transactions.

OIL & GAS REVENUES - During the 2007 period, we recorded \$5,487,000 in oil and gas revenues compared to \$542,000 in 2006. This increase is primarily due to the Five States Acquisition, partially offset by a decline in production from our older oil and gas properties and a shutdown of certain production in one of our fields due to unanticipated pipeline maintenance.

LEASE OPERATING EXPENSES AND SEVERANCE TAXES - During the 2007 period, we recorded \$2,183,000 in lease operating expenses and severance taxes compared to \$179,000 in 2006. This increase is primarily due to the Five States Acquisition.

DEPRECIATION, DEPLETION, AMORTIZATION AND IMPAIRMENT - Depreciation depletion and amortization expenses are connected to the producing wells in the United States. During the 2007 period, we recorded \$1,794,000 in Depreciation, depletion, amortization and impairment compared to \$87,000 in 2006. This increase is primarily due to the Five States Acquisition.

GENERAL AND ADMINISTRATIVE - During the 2007 period, we recorded \$688,000 in general and administrative compared to \$363,000 in 2006. This increase is primarily due to increased salaries.

EQUITY IN EARNINGS OF UNCONSOLIDATED AFFILIATES - During the 2007 period, we recorded \$1,506,000 in equity in earnings of unconsolidated affiliates compared to \$958,000 in 2006. The net income is primarily attributable to the gain of marketable securities held by the limited partnerships Isramco Negev 2 and I.O.C. Dead Sea LP, affiliates of the Company.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

ITEM 4. CONTROLS AND PROCEDURES

EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES. The Company maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in the Company's Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to management, including our Chief Executive Officer (and 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

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not effective.

CHANGES IN INTERNAL CONTROLS OVER FINANCIAL REPORTING. During the quarter ended June 30, 2007, there have been no changes in our internal controls over financial reporting that have materially affected, or are reasonably likely to materially affect, these controls.

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PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

None

ITEM 1A. RISK FACTORS

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

ITEM 2. CHANGE IN SECURITIES & USE OF PROCEEDS

None

ITEM 3. DEFAULT UPON SENIOR SECURITIES

None

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

The Company's Annual Meeting of Stockholders was held on June 27, 2007. 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 2008 Annual Meeting of Stockholders.

(2)

| | FOR | WITHHOLD |
|------------------|-----------|----------|
| | ----- | ----- |
| Haim Tsuff | 2,053,227 | 2,943 |
| Jackob Maimon | 2,053,227 | 2,943 |
| Max Pridgeon | 2,053,822 | 2,343 |
| Donald D. Lovell | 2,053,827 | 2,343 |
| Frans Sluiter | 2,053,742 | 2,428 |

2) Proposal to ratify the appointment of Malone & Bailey, PC as the Company's auditors for the year ending December 31, 2007.

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| FOR | AGAINST | ABSTAIN | BROKER NON VOTES |
|-----------|---------|---------|------------------|
| 2,052,964 | 1,905 | 1,299 | --- |

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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

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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 20, 2007

BY /S/ HAIM TSUFF

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

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