

Edgar Filing: ISRAMCO INC - Form 10-Q/A

ISRAMCO INC  
Form 10-Q/A  
August 16, 2004

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-Q/A

CHECK ONE

Quarterly report under Section 13 or 15(d) of the Securities Exchange Act  
of 1934 for the quarterly period ended March 31, 2003

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)

713-621-3882  
(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 an accelerated filer (as  
defined in Rule 12b-2 of the Act).  Yes  No

The number of shares outstanding of the registrant's Common Stock as May 15,  
2003 was 2,639,853.

EXPLANATORY NOTICE

This Amendment No. 1 to our Quarterly Report on Form 10-Q for the three months  
ended March 31, 2003, as originally filed on May 15, 2003, is being filed solely  
to reflect the plugging and abandonment obligations related to our oil and gas  
properties in accordance with the Statement of Financial Accounting Standards  
No. 143 "Accounting for Asset Retirement Obligations" ("SFAS 143") effective  
January 1, 2003. The obligations related to these activities have been included  
in the newly inserted Note 9 to the Consolidated Statements. SFAS 143 was to be  
adopted in January 2003 but the Registrant first recorded these obligations only  
during the quarter ended December 31, 2003. The effect of the restatement was to  
decrease net income for the quarter ended March 31, 2003 by \$313,000 from the

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amount included in the Quarterly Report on Form 10-Q filed on May 15, 2003 with the Securities and Exchange Commission. The revised net income for the quarter was \$588,000.

Except as described above, no other changes have been made to this Report. This Amendment No. 1 does not update any other disclosures to reflect developments since the original date of filing.

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## FORWARD LOOKING STATEMENTS

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

	March 31,	D
	2003	
	----	
	(Unaudited)	
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 1,844	
Marketable securities, at market	3,328	
Accounts receivable	629	
Prepaid expenses and other current assets	271	
	-----	
Total current assets	6,072	
Property and equipment (successful efforts method for oil and gas properties)	3,626	
Real estate	1,888	
Marketable securities, at market	7,745	
Investment in affiliates	8,976	

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Deferred tax asset	915
Other	221
	-----
Total assets	\$ 29,443
	=====

LIABILITIES AND SHAREHOLDERS' EQUITY

Current Liabilities:	
Accounts payable and accrued expenses	1,621
	-----
Total current liabilities	1,621
	-----
Asset Retirement Obligation	670
Shareholders' equity:	
Commonstock \$.01 par value; authorized 7,500,000 shares; issued 2,669,120 shares; outstanding 2,639,853 at March 31,2003 and December 31,2002	27
Additional paid-in capital	26,240
Retained earnings	1522
Accumulated other comprehensive income (loss)	(473)
Treasury stock, 29,267 shares at March 31, 2003 and December 31, 2002	(164)
	-----
Total shareholders' equity	27,152
	-----
Total liabilities and shareholders' equity	\$ 29,443
	=====

See notes to the consolidated financial statements.

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

	Three Months Ended March 31,	
	2003	2002
	-----	-----
REVENUES:		
Operator fees from related party	\$ 53	\$ 83
Oil and gas sales	807	516
Interest income	168	191
Office services to related party	200	286
Gain on Marketable securities, net	135	--
Equity in net income of investees	238	--
Other Income	373	--
	-----	-----

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Total revenues	\$ 1,974	\$ 1,076
	-----	-----
COSTS AND EXPENSES:		
Financial expenses	2	104
Depreciation, depletion and amortization	162	118
Accretion expenses	11	
Lease operating expenses and severance taxes	219	180
Exploration costs	22	2
Operator expense	247	187
General and administrative	279	410
Loss on marketable securities, net	--	105
Equity in net loss of investees	--	130
Impairment of oil and gas assets	180	--
	-----	-----
Total expenses	\$ 1,122	\$ 1,236
	-----	-----
Income before income taxes	852	(160)
Income taxes	--	--
	-----	-----
Net income (loss) from continuing operations	\$ 852	\$ (160)
	=====	=====
Cumulative effect of accounting change	(264)	3,516
	=====	=====
Net income	\$ 588	\$ 3,356
	=====	=====
Earnings per common share-basic and diluted		
Continuing operations	\$ 0.32	\$ (0.06)
Cumulative effect of accounting change	(0.10)	1.33
	-----	-----
	\$ 0.22	\$ 1.27
	=====	=====
Weighted averagew number of shares		
Outstanding - basic and diluted	2,639,853	2,639,853
	=====	=====

See notes to the consolidated financial statements.

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

Three Months Ended March 31,

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	----- 2003 -----	2002 -----
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 588	\$ 3,356
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, depletion and amortization	162	118
Accretion expenses	11	
Impairment of oil and gas assets	180	
Loss (gain) on marketable securities	(135)	127
Equity in net loss (gain) of investees	(238)	130
Cumulative effect of accounting change	264	(3,516)
Deferred taxes	--	
Changes in assets and liabilities:		
Accounts receivable	(71)	107
Prepaid expenses and other current assets	170	(124)
Accounts payable and accrued liabilities	(580)	(77)
	-----	-----
Net cash provided by operating activities	351	121
	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES:		
Addition to property and equipment	(107)	(361)
Purchase of marketable securities	(100)	(867)
Proceeds from sale of marketable securities	84	335
Purchase of convertible promissory note	--	(50)
	-----	-----
Net cash (used in) provided by investing activities	(123)	(943)
	-----	-----
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	228	(822)
Cash and cash equivalents-beginning of year	1,616	4,280
	-----	-----
Cash and cash equivalents-end of period	\$ 1,844	\$ 3,458
	=====	=====

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:

Cash paid during the period for taxes	--
	=====

See notes to the consolidated financial statements.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)

NOTE 1

As used in these financial statements, the term "Company" refers to Isramco, Inc. and subsidiaries.

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### NOTE 2

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of Management, all adjustments (consisting of only normal recurring adjustments) considered necessary for a fair presentation have been included. Results for the three month period ended March 31, 2003, are not necessarily indicative of the results that may be expected for the year ended December 31, 2003. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2002. Certain re-classification of prior year amounts have been made to conform to current presentation.

### NOTE 3 - CONSOLIDATION

The consolidated financial statements include the accounts of the Company, its direct and indirect non U.S. based wholly-owned subsidiaries Isramco Oil and Gas Ltd. (Oil and Gas), Isramco B.V., a Netherlands company and Isramco Resources Inc., a British Virgin Islands company, and its wholly owned subsidiaries, Jay Petroleum, L.L.C. (Jay), Jay Management L.L.C. (Jay Management) and IsramTec Inc. (IsramTec). Intercompany balances and transactions have been eliminated in consolidation.

### NOTE 4 - ACCOUNTING CHANGES

In June 2002, the Financial Accounting Standard Board (FASB) issued SFAS 146, ACCOUNTING FOR COSTS ASSOCIATED WITH EXIT OR DISPOSAL ACTIVITIES WHICH NULLIFIES EITF 94-3, LIABILITY RECOGNITION FOR CERTAIN EMPLOYEE TERMINATION BENEFIT AND OTHER EXIT COSTS TO EXIT AN ACTIVITY (INCLUDING CERTAIN COSTS INCURRED IN A RESTRUCTURING). The principal difference between Statement 146 and Issue 94-3 relates to its requirements for recognition of a liability for a cost associated with an exit or disposal activity. Statement 146 requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred. Under Issue 94-3, a liability for an exit cost as defined in Issue 94-3 was recognized at the date of an entity's commitment to an exit plan. SFAS 146 is required to be adopted for exit or disposal activities initiated after December 31, 2002.

In November 2002, the Financial Accounting Standards Board issued Interpretation No. 45, "GUARANTOR'S ACCOUNTING AND DISCLOSURE REQUIREMENTS FOR GUARANTEES, INCLUDING INDIRECT GUARANTEES OF INDEBTEDNESS OF OTHERS" (the Interpretation), which addresses the disclosure to be made by a guarantor in its interim and annual financial statements about its obligations under guarantee. The Interpretation also requires the recognition of a liability by a guarantor at the inception of certain guarantees.

The Interpretation requires the guarantor to recognize a liability for the non-contingent component of the guarantee, this is the obligation to stand ready to perform in the event that specified triggering events or conditions occur. The initial measurement of this liability is the fair value of the guarantee at inception. The recognition of the liability is required even if it is not probable that payments will be required under the guarantee or if the guarantee was issued with a premium payment or as part of a transaction with multiple elements.

In December 2002, the FASB issued SFAS 148, "Accounting for Stock Based Compensation - Transition and disclosure - an amendment of FASB Statement No. 123" (SFAS 148"). SFAS 148 permits two additional methods for entities that adopt the fair value based method of accounting for stock-based employee

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compensation. The statement also requires new disclosures about the ramp-up effect of stock-based employee compensation on reported results. The Statement also requires that those effects be disclosed more prominently by specifying the form, content, and location of those disclosures. The transition guidance and annual disclosure provisions of

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SFAS 148 are effective for fiscal years ending after December 15, 2002, with earlier application permitted in certain circumstances. The interim disclosure provisions are effective for financial reports containing financial statement for interim periods beginning after December 15, 2002.

The Company has decided to continue accounting for its options in accordance with APB 25.

In accordance with SFAS 143, the Company has recorded an asset retirement obligation in connection with the plugging and abandonment of its oil and gas properties. The fair value of the liability is added to the carrying amount of the associated asset and this additional carrying amount is depreciated over the life of the asset.

### NOTE 5 - OIL AND GAS PROPERTIES

Although the company continues to seek to acquire oil and gas properties, no such purchases were made in the first three months of 2003.

In the three month period ended March 31, 2003, drilling costs in the amount of approximately \$107,000 were capitalized.

The Company also recorded an impairment expense in the amount of \$150,000 relating to the write-off of its investment in the Marine III Permit in the Congo.

### NOTE 6 - EARNINGS PER SHARE COMPUTATION

SFAS No. 128 requires a reconciliation of the numerator (income) and denominator (shares) of the basic earnings per share ("EPS") computation to the numerator and denominator of the diluted EPS computation. The Company's reconciliation is as follows:

	For the Three Months Ended March 31,			
	2003		2002	
	Income	Shares	Income	Shares
	-----	-----	-----	-----
Earnings per common share-Basic	\$ 588,000	2,639,853	\$ 3,356,000	2,639,853
Effect of dilutive securities:	=====	=====	=====	=====
Stock Options	\$ 588,000	2,639,000	\$ 3,356,000	2,639,853

### NOTE 7 - GEOGRAPHICAL SEGMENT INFORMATION

The Company's operations involve a single industry segment--the exploration, development, production and transportation of oil and natural gas. Its current oil and gas activities are concentrated in the United States, Israel, and the

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Republic of Congo, Africa. Operating in foreign countries 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 increases of taxes and governmental royalties, renegotiation of contracts with government entities and changes in laws and policies governing operations of foreign-based companies.

The Company'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 or formations. In addition, oil and gas prices have fluctuated substantially in recent years as a result of events, which were outside of the Company's control. Financial information, summarized by geographic area, is as follows (in thousands):

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### GEOGRAPHIC SEGMENT

	United States -----	Israel -----	Africa -----	Consolidated Total -----
Identifiable assets at March 31, 2003	\$ 3,326	\$ 72	\$ 228	\$ 3,626
Cash and corporate assets				\$ 25,817
				-----
Total Assets at March 31, 2003				\$ 29,443
				=====
Identifiable assets at December 31, 2002	\$ 3,178	\$ 177	\$ 150	\$ 3,505
Cash and corporate assets				\$ 25,162
				-----
Total Assets at December 31, 2002				\$ 28,667
				=====
Three Months Ended March 31, 2003				
Sales and other operating revenue	\$ 825	\$ 235	\$ --	\$ 1,060
Costs and operating expenses	\$ (438)	\$ (253)	\$ (150)	\$ (841)
	-----	-----	-----	-----
Operating profit	\$ 387	\$ (18)	\$ (150)	\$ 219
	=====	=====	=====	
Financial Income, net				\$ 166
General corporate expenses				\$ (279)
Gain on marketable securities and equity in net gain of investees				\$ 373
Other income				\$ 373
				-----
Net income from continuing operations				\$ 852
				=====
Three Months Ended March 31, 2002				
Sales and other operating revenue	\$ 557	\$ 328	\$ --	\$ 885
Costs and operating expenses	\$ (293)	\$ (194)	\$ --	\$ (487)
	-----	-----	-----	-----
Operating profit	\$ 264	\$ 134	\$ --	\$ 398
	=====	=====	=====	

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Financial Income, net	\$ 87
General corporate expenses	\$ (410)
Loss on marketable securities and equity in net loss of investees	\$ (235)
	-----
Net Loss from continuing operations	\$ (160)
	=====

NOTE 8 - COMPREHENSIVE INCOME (LOSS)

The Company's comprehensive income (loss) for the three month period ended March 31, 2003 and 2002 was as follows:

	Three months ended March 31,	
	2003	2002
	-----	-----
Net Income	\$ 588	\$ 3,356
Other comprehensive gain (loss)		
-available - for - sale securities	\$ 35	\$ (149)
-foreign currency translation adjustments	\$ 63	\$ (341)
	-----	-----
Comprehensive income (loss)	\$ 686	\$ 2,866
	=====	=====

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NOTE 9 -ASSET RETIREMENT OBLIGATIONS

Effective January 1, 2003, Company adopted SFAS No. 143, "Accounting for Asset Retirement Obligations." SFAS No. 143 requires entities to record a liability for asset retirement obligations at fair value in the period in which it is incurred and a corresponding increase in the carrying amount of the related long-lived asset. As of January 1, 2003, the Company recorded asset retirement costs of \$458,581 and asset retirement obligations of \$650,240. The cumulative effect of change in accounting principle was \$263,955, net of taxes of \$39,158.

The reconciliation of the beginning and ending asset retirement obligations as of March 31, 2003 was as follows (in thousands):

Asset retirement obligations, as of December 31, 2002	\$ --
Liabilities upon adoption of SFAS No. 143 on January 1, 2003	650
Liabilities incurred	9
Liabilities settled	--
Accretion expense	11
Revisions in estimated cash flows	--
	-----
Asset retirement obligations, as of March 31, 2003	\$ 670
	=====

The following table summarizes the pro forma net income and earnings per share for the three months ended March 31, 2002 and for the years ended December 31, 2002, 2001 and 2000 as if SFAS No. 143 had been adopted on January 1, 2000 (in thousands, except per share amounts):

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	MARCH 31, 2002	DECEMBER 31,		
		2002	2001	2000
Net income:				
As reported	\$ 3,356	\$ 1,717	\$ (139)	\$
Pro forma	3,343	1,663	(186)	
Net income per share, as reported:				
Basic	\$ 1.27	\$ 0.65	\$ (0.05)	\$
Diluted	1.27	0.65	(0.05)	
Net income per share, pro forma:				
Basic	\$ 1.27	\$ 0.63	\$ (0.07)	\$
Diluted	1.27	0.63	(0.07)	

The following table summarizes pro forma asset retirement obligations as of March 31, 2002 and December 31, 2002, 2001 and 2000 as if SFAS No. 143 had been adopted on January 1, 2000 (in thousands):

	MARCH 31, 2002	DECEMBER 31,		
		2002	2001	2000
Asset retirement obligations, pro forma	\$ 623	\$ 650	\$ 613	\$

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NOTE 10- OTHER INCOME

Other income includes a sum of \$350,000 which represents the settlement of a liability recorded in connection with a well drilled in Marine 9 Permit and was recorded during 2002 as exploration costs.

NOTE 11 - CONTINGENCIES

The Company is involved in a dispute with a contractor relating to drilling costs of the Tilapia well in Congo during 2000. The Company believes that it has adequately accrued for all amounts due to this contractor as of March 31, 2003.

The Company is also involved in various other legal proceedings arising in the normal course of business. In the opinion of management, the Company's ultimate liability, if any, in these pending actions would not have a material adverse effect on the financial position, operating results or liquidity of the Company.

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

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### LIQUIDITY AND CAPITAL RESOURCES

The increase in the Company's consolidated cash and cash equivalents of \$ 228,000 from \$1,616,000 at December 31, 2002 to \$ 1,844,000 at March 31, 2003, is primarily attributable to increased retail gas prices in the United States.

Net cash used in investing activities for the three-month period ended March 31, 2003 was \$123,000 as compared to \$943,000 used during the three-month period ended March 31, 2002. The decrease is primarily attributable to decreased investment in marketable securities and in property and equipment.

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

### RESULTS OF OPERATIONS

#### THREE MONTHS ENDED MARCH 31, 2003 COMPARED TO THE THREE MONTHS ENDED MARCH 31, 2002

The Company reported net income of \$588,000 (\$0.22 per share) for the three-month period ended March 31, 2003 compared to net income of \$3,356,000 (\$1.27 per share) for the same period in 2002. The relatively higher net income for the 2002 period compared to the income for the same period in 2003 is primarily attributable to non-cash income booked as a result of the cumulative effect of accounting changes deriving from the Company's adoption, as of January 1st 2002, of SFAS 141 "Business Combination" and SFAS 142 "Goodwill and Intangible Assets" and a portion of the variance is due to the Company's adoption, as of January 1, 2003, of SFAS 143 Accounting for "Asset Retirement Obligations". The increase in net income from continuing operations during the three months ended March 31, 2003 compared to the same period in 2002 is primarily attributable to an increase in oil and gas prices, a gain on marketable securities and the settlement of a liability for a well drilled in Marine 9 Exploration Permit in the Congo in 2002.

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

United States

Oil and Gas Revenues (in thousands)

	Three Months Ended March 31,	
	2003	2002
Oil Volume Sold (Bbl)	5	6
Gas Volume Sold (MCF)	134	177
Oil Sales (\$)	142	102
Gas Sales (\$)	665	414
Average Unit Price		
Oil (\$/Bbl) *	\$ 29.90	\$ 16.95
Gas (\$/MCF) **	\$ 4.94	\$ 2.33

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

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\*\* MCF - 1,000 Cubic Feet

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### SUMMARY OF EXPLORATION EFFORTS IN ISRAEL

To date, three gas fields were discovered offshore Israel known respectively as Or, Or South and Nir. Based on the gas finds, a 30 year lease (including the area of the Or gas discovery) was granted in June 2000 (hereinafter, the "Med Yavne Lease") and an additional 30 year lease (including the area of the Nir gas discovery) was granted in January 2002 (hereinafter, the "Med Ashdod Lease").

#### MED YAVNE LEASE

The Med Yavne Lease covers approximately 53 square kilometers (approximately 12,000 acres). The Company's participation share of the Med Yavne Lease is 0.4585%.

#### MED ASHDOD LEASE

The Med Ashdod Lease covers approximately 250 square kilometers (approximately 62,000 acres). The Company serves as the operator of the Med Ashdod Lease and holds a 0.3625% interest therein.

Two prospects within the southern sector have been identified and recommended for drilling, one of which is for gas and the second for gas or oil. The operator has examined this report and, based thereon, has established the priorities for continued exploration. The operator presented its recommendation to the lease participants in October 2002 that drilling be commenced for oil (Nizanim 1).

As no decision has yet been taken, the Operator has determined to postpone the drilling of Nitzanim and, in lieu of such drilling, has presented an alternative work program as follows: (i) During 2003 - drill a confirmation gas well (Nir-2) in the Nir field, with a total budget of approximately \$10 million; (ii) During 2004 - drill Nizanim-1 to total depth of 5300 meters (17,400 feet), with a total budget of approximately \$35 million.

At a partners meeting held on April 3, 2003, some of the partners announced their readiness to participate in the confirmation well. On April 30, 2003, the operator, on behalf of Isramco Negev 2 Limited Partnership, one of the partners, issued to the partners a sole risk notice regarding the drilling of the confirmation gas well (Nir-2). The well is planned to a total depth of 2050 meters (6,725 feet), with a total budget of approximately \$10.5 million. In accordance with the Joint Operating Agreement the partners may elect to participate in the well within 30 days after receipt of the sole risk notice. At the time of the filing of this report, partners holding, in the aggregate, approximately a 48.2% interest in the Lease, replied and confirmed participation in the well. Non-participating partners stand to forfeit their participating interest in the drilling project.

#### MARINE CENTER LICENSE

On September 21, 1999, the Company was awarded a preliminary permit, Marine Center covering an area of 194 square kilometers. The permit included a preferential right to obtain a license. In December 2000, Israeli Petroleum Commissioner issued a license in respect of the area covered by the permit (hereinafter, the "Marine Center License"), which license continues in effect through December 3, 2003. The Company holds a 1% participation interest in the Marine Center License and the remaining interests are held by affiliated

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entities.

The Company serves as operator of the Marine Center License.

### MARINE SOUTH LICENSE

In January 2002, Israeli Petroleum Commissioner issued a license in respect of the area covered by the Marine South permit (hereinafter, the "Marine South License"), which license continues in effect through January 15, 2005 and is subject to (i) the performance of a seismic 3D survey and the processing of the results thereof no later than January 15, 2003, (ii) the preparation of an oil drilling prospect by July 15, 2003 and (iii) the drilling of a well no later than January 15, 2004. In March 2003, the Petroleum Commissioner granted an eight month extension for the period in which the above work plan is to be performed. The Company serves as operator of the License and holds a 1% participation interest in the License; the remaining participation interests are held by affiliated entities.

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### SUMMARY OF EXPLORATION EFFORTS IN THE UNITED STATES

The Company, through its wholly-owned subsidiaries, Jay Petroleum LLC ("Jay Petroleum") and Jay Management LLC ("Jay Management"), is involved in oil and gas production in the United States. Jay Petroleum owns varying working interests in oil and gas wells in Louisiana, Texas, Oklahoma and Wyoming. Independent estimates of the reserves held by Jay Petroleum as of December 31, 2002 are approximately 109,183 net barrels of proved developed producing oil and 3,381 MMCFs of proved developed producing natural gas. Jay Management acts as the operator of certain of the producing oil and gas interests owned or acquired by Jay Petroleum.

In March 2003 gas production from the Hoover 4 well located in Oklahoma commenced.

### SUMMARY OF EXPLORATION EFFORTS IN THE CONGO

The oil and gas properties in the Congo consist of the Marine III Exploration Permit and the Marine 9 Exploration Permit. The Company holds 25% participation interest in the Marine III Exploration Permit (through Naphtha Congo Ltd.). The Company's participation interest in the Marine 9 Exploration Permit is 5%, held through Naphtha Congo Limited Partnership ("Naphtha Congo"). The remaining participants in the Marine 9 License are recognized widely-known oil companies.

In April 2003, Naphtha Congo Ltd. received notice from the Congolese Ministry of Oil that the Republic of the Congo has decided to retrieve the rights of Naphtha Congo Ltd. in Marine III, providing as a reason therefore the company's non-performance of the required work program. Naphtha Congo, the operator of the Marine III Exploration Permit, has decided to discontinue the planned work program principally because it did not believe that the continuation of such program was commercially reasonable. Under applicable law, the Congolese Government is entitled to request reimbursement in the amount of funds not expended on the required work program. Based on the foregoing and management's belief that the value of the Company's investment has been impaired, the Company wrote-off during the three months ended March 31, 2003 the amount of \$150,000, representing the Company's investment in Marine III Permit.

### OPERATOR'S FEES

During the three months ended March 31, 2003, the Company earned \$53,000 in

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operator fees compared to \$83,000 respect of the same period in 2002.

### OIL & GAS REVENUES

For the three months ended March 31, 2003, the Company had oil and gas revenues of \$ 807,000 compared to \$516,000 for the same period in 2002. The increase in the 2003 period as compared to the same period in 2002 is primarily attributable to increased of oil & gas prices.

### LEASE OPERATING EXPENSES AND SEVERANCE TAXES

Lease operating expenses and severance taxes were primarily in connection with oil and gas fields in the United States. Oil and gas lease operating expenses and severance taxes for the three months ended on March 31, 2003 were \$219,000 compared to \$180,000 for the same period in 2002. The increase in lease operating expenses during the 2003 period as compared to the 2002 period is primarily attributable to the higher operating expenses associated with the oil and gas wells in the United States.

### OIL AND GAS EXPLORATION COSTS

During the three months ended March 31, 2003, the Company expended \$22,000 in oil and Gas Exploration, as compared to \$2,000 for the same period in 2002.

### IMPAIRMENT OF OIL AND GAS INTERESTS

During the three months ended March 31, 2003, the Company wrote-off the amount of \$150,000, representing the Company's investment in the Marine III Permit in the Congo. The Company's decision was based on management's assessment that the value of such investment has been impaired. See "Summary of Exploration Efforts in the Congo".

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### INTEREST INCOME

Interest income during the three months ended March 31, 2003 was \$168,000 compared to \$191,000 for the same period in 2002. The increase in interest income earned by the company during the three months ended March 31, 2003 compared to the comparable period in 2002 is primarily attributable to interest earned on marketable securities.

### GAIN (LOSS) ON MARKETABLE SECURITIES

During the three months ended March 31, 2003, the Company recognized net realized and unrealized gain on trading securities of \$135,000 compared to net realized and unrealized losses of \$105,000 for the same period in 2002.

Increases or decreases in the gains and losses from marketable securities are dependent on the market prices in general and the composition of the portfolio of the Company.

### OPERATOR EXPENSE

Operator expenses were primarily in connection with oil & gas fields in the United States. Operator expenses for the 2003 period were \$247,000 compared to \$187,000 for the 2002 period. The increase in operator expenses during the 2003 period compared to the same period in 2002 is primarily attributable to increased salary expenses.

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### GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses for the three month period ended March 31, 2003 were \$279,000 as compared to \$410,000 for the same period in 2002. The decrease in general and administrative expenses during the 2003 period as compared to the same period in 2002 is primarily attributable to professional services rendered by related and third parties during the three months ended March 31, 2002.

### OTHER INCOME

Other Income includes a sum of \$350,000 which represents the settlement of a liability recorded in connection with a well drilled in Marine 9 Permit and was recorded during 2002 as exploration costs.

### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market risks relating to changes in interest rates and foreign currency exchanges rates were reported in Item 7A of the Company's Annual Report on Form 10-K for the year ended December 31, 2002. There has been no material change in these market risks since the end of the fiscal year 2002.

### ITEM 4. 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 Securities and Exchange Commission's rules and forms, and that such information is accumulated and communicated to the Company's management, including its Chief Executive Officer and Principal Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

Within the 90 days prior to the filing date of this report on Form 10-Q, the Company carried out an evaluation, under the supervision and with the participation of the Company's Chief Executive and Principal Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14). Based upon that evaluation, the Chief Executive and Principal Financial Officer concluded that the Company's disclosure controls and procedures are effective in timely alerting him to material information relating to the Company (including its consolidated subsidiaries) required to be included in the Company's periodic SEC filings. Subsequent to the date of that evaluation, there have been no significant changes in internal controls or in other factors that could significantly affect internal controls.

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## PART II

### ITEM 1. LEGAL PROCEEDINGS

The Company, together with Naphtha Congo Ltd. an Israeli and related entity ("Naphtha Congo"), were served in October 2002 in District Court of Harris County, Texas, with summons and complaint by Romfor International, Ltd., a contractor ("Contractor") who provided drilling services in the Tilapia permit

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in the Congo, alleging breach of contract and damages of approximately \$1.5 million and moving for court ordered arbitration. The Contractor and Naphtha Congo entered into a drilling agreement in October 2000 with respect to the Tilapia 1 well. The Company indirectly held, through Naphtha Congo, a 50% participation interest in the Tilapia 1 well.

The Company filed its answer on October 18, 2002, wherein it denied all allegations made and denied that it is a proper party to the suit and moved to dismiss the complaint. On March 20, 2003, the court granted the Company's motion to dismiss the complaint against it and concurrently granted Contractor's motion to compel arbitration against Naphtha Congo. The dismissal of the lawsuit against the Company is not final and the Contractor is entitled, under certain conditions, to move for a new trail of motion for reconsideration.

ITEM 2. CHANGE IN SECURITIES & USE OF PROCEEDS

None

ITEM 3. DEFAULT UPON SENIOR SECURITIES

None

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

None

ITEM 5. OTHER INFORMATION

None

ITEM 6. EXHIBITS AND REPORTS ON 8-K

(i) Exhibits

99.1 Certification of Chief Executive and Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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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 16, 2004

BY /s/ HAIM TSUFF

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

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