

Edgar Filing: ISRAMCO INC - Form 8-K/A

ISRAMCO INC  
Form 8-K/A  
May 15, 2007

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

FORM 8-K/A

CURRENT REPORT

PURSUANT TO SECTION 13 OR 15(D) OF  
THE SECURITIES EXCHANGE ACT OF 1934

Date of Report (Date of earliest event reported): March 2, 2007

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

Delaware  
(State or other Jurisdiction of  
Incorporation or Organization)

13-3145265  
I.R.S. Employer Number

11767 Katy Freeway Suite 711, Houston, Texas 77079  
(Address of Principal Executive Offices) (Zip Code)

713-621-3882  
(Registrant's Telephone Number, Including Area Code)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

EXPLANATORY NOTE

## Edgar Filing: ISRAMCO INC - Form 8-K/A

We are amending the Current Report on Form 8-K that we filed on March 8, 2007 to include the Financial Statements of Business Acquired and Pro Forma Financial Information set forth below under Item 9.01 Financial Statements and Exhibits.

### ITEM 9.01. FINANCIAL STATEMENTS AND EXHIBITS

#### (a) Financial Statements of Businesses Acquired.

##### REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders  
Isramco, Inc.  
Houston, Texas

We have audited the accompanying statements of combined revenues and direct operating expenses of the oil and gas properties purchased by Isramco, Inc. from Five States Energy Company, L.L.C. ("Five States Properties") for the years ended December 31, 2006, 2005 and 2004. These financial statements are the responsibility of Isramco, Inc.'s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

The accompanying statements were prepared for the purpose of complying with the rules and regulations of the Securities and Exchange Commission for inclusion in Isramco Inc.'s Form 8-K and are not intended to be a complete financial presentation of the properties described above.

In our opinion, the financial statements referred to above presents fairly, in all material respects, the combined revenues and direct operating expenses of the oil and gas properties purchased by Isramco, Inc. in the Five States Properties for the periods described above, in conformity with accounting principles generally accepted in the United States.

Malone & Bailey, PC  
www.malone-bailey.com  
Houston, Texas  
May 11, 2007

Isramco, Inc.  
 Statements of Combined Revenues and Direct Operating Expenses  
 Of the Oil and Gas Properties Purchased by Isramco, Inc. in the Five States Properties

	For the Year Ended December	
	2006	2005
Revenues	\$ 22,362,552	\$ 22,590,020
Direct operating expenses	7,727,804	8,446,240
Excess of revenues over direct operating expenses	\$ 14,634,748	\$ 14,143,770

The accompanying notes are an integral part of these financial statements.

Isramco, Inc.  
 Notes to Statements of Combined Revenues and Direct Operating Expenses  
 Of the Oil and Gas Properties Purchased by  
 Isramco, Inc. in the Five States Properties

(1) The Properties

On March 2, 2007, Isramco, Inc. acquired 650 producing wells and related property and equipment located in North and West Texas from Five States Energy Company, L.L.C. The purchase price for the properties was \$92.4 million with an effective date of October 1, 2006.

(2) Basis of Presentation

During the periods presented, the Five States Properties were not accounted for or operated in accordance with generally accepted accounting principles. The entities accounted for their operations without capitalizing many of the costs that related to the full cost method of accounting for oil and gas properties and did not conduct any reserve studies nor calculate an amortization rate per equivalent unit of production. Accordingly, full separate financial statements prepared in accordance with generally accepted accounting principles do not exist and are not practicable to obtain in these circumstances.

Revenues and direct operating expenses included in the Statements of Combined Revenues and Direct Operating Expenses of the Oil and Gas Properties Purchased by Isramco, Inc. in the Five States Properties represent Isramco's interest in

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the properties acquired for the periods prior to the respective closing dates and are presented on the accrual basis of accounting and in accordance with generally accepted accounting principles. Depreciation, depletion and amortization, interest, accretion of asset retirement obligation, general and administrative expenses and corporate income taxes have been excluded. The financial statements presented are not indicative of the results of operations of the acquired properties going forward due to changes in the business and inclusion of the above mentioned expenses.

### (3) Commitments and Contingencies

Isramco is not aware of any legal, environmental or other commitments or contingencies that would have a material effect on the statement of revenues and direct operating expenses.

4

### SUPPLEMENTAL OIL AND GAS INFORMATION (Unaudited)

Proved oil and gas reserve quantities are based on estimates prepared by the Company's engineers in accordance with guidelines established by the Securities and Exchange Commission (SEC).

There are numerous uncertainties inherent in estimating quantities of proved reserves and projecting future rates of production and timing of development expenditures. The following reserve data represents estimates only and should not be construed as being exact.

All of the reserves are located in the United States.

The information for the reserves for the year ended December 31, 2006 is as follows:

	Gas (MCF)	Oil (Bbls)	Plant Products (Bbls)
Proved and undeveloped reserves:			
Balance, December 31, 2003	29,938,321	2,007,679	1,425,218
Production	(2,059,195)	(123,207)	(5,540)
	-----	-----	-----
Balance, December 31, 2004	27,879,126	1,884,472	1,419,679
Production	(2,041,077)	(133,705)	(21,436)
	-----	-----	-----
Balance, December 31, 2005	25,838,049	1,750,767	1,398,243
Production	(1,762,311)	(124,912)	(117,443)
	-----	-----	-----
Balance, December 31, 2006	24,075,738	1,625,855	1,280,800

=====

STANDARDIZED MEASURE OF DISCOUNTED FUTURE NET CASH FLOWS.

The standardized measure of discounted future net cash flows from the Company's estimated proved gas reserves is provided for the financial statement user as a common base for comparing oil and gas reserves of enterprises in the industry and may not represent the fair market value of the Company's oil and gas reserves or the present value of future cash flows of equivalent reserves due to various uncertainties inherent in making these estimates. Those factors include changes in oil and gas prices from year end prices used in the estimates, unanticipated changes in future production and development costs and other uncertainties in estimating quantities and present values of oil and gas reserves.

The following table presents the standardized measure of discounted future net cash flows from the ownership interest in proved oil and gas reserves for the year ended December 31, 2006. The standardized measure of future net cash flows for the year ended December 31, 2006 was calculated using the price received by the seller as of the end of the year. The average prices were \$6.43 per mcf and \$68.88 per barrel.

The resulting estimated future cash inflows are reduced by estimated future costs to produce the estimated proved reserves based on actual year-end operating cost levels. Future income taxes are based on year-end statutory rates, adjusted for any operating loss carry forwards and tax credits. The future cash flows are reduced to present value by applying a 10% discount rate.

The standardized measure of estimated discounted future cash flow is not intended to represent the replacement cost or fair market value of the oil and gas properties.

The information for the reserves as of December 31, 2006 is as follows (in thousands):

	2006
Future cash inflows	\$ 320,852
Future production costs	105,930
Future development costs	2,115
	-----
Future net cash flows before income taxes	212,807
Future income tax	(38,510)
	-----
Future net cash flows	174,297
Effect of discounting future annual net cash flows at 10%	(78,371)
	-----
Discounted future net cash flow	\$ 95,926
	=====

The following table sets forth the principal sources of change in discounted future net cash flows for the reserves for the year ended December 31, 2006 is

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as follows:

	2006
Beginning of the period	\$ 109,656
Sales, net of production costs	(14,635)
Net change in prices and production costs	(5,865)
Accretion of discount	11,916
Change in income tax	7,315
Net change in timing	(12,461)
	-----
End of period	\$ 95,926
	=====

6

Isramco, Inc.  
Unaudited Pro Forma Condensed Financial Statements

The following unaudited pro forma condensed financial statements and related notes are presented to show the pro forma effects of the acquisition of oil and gas properties from Five States on March 2, 2007.

The pro forma condensed statement of operations for the year ended December 31, 2006 that follows contain a column entitled "Five States Historical". This column contains only the revenue and direct operating expenses of the Five States Properties. During the period presented, the Five States Properties were not accounted for or operated in accordance with generally accepted accounting principles. Five States accounted for their operations without capitalizing many of the costs that related to the successful cost method of accounting as followed by Isramco and the Five States entities did not conduct any reserve studies nor calculated an amortization rate per equivalent unit of production. Also excluded are other expenses which include interest, accretion of retirement obligations, general and administrative expenses and corporate income taxes. This condensed pro forma statement of operations is not indicative of the results of operations of the acquired properties due to the exclusion of the above mentioned expenses.

The pro forma condensed statement of operations is presented to show income from continuing operations as if the Five States transactions occurred as of the beginning of the period presented. The pro forma condensed balance sheet is based on the assumption that the Five States transaction occurred effective December 31, 2006.

Pro forma data are based on assumptions and include adjustments as explained in the notes to the unaudited pro forma condensed financial statements. The pro forma data are not necessarily indicative of the financial results that would have been attained had the Five States transaction occurred on the dates referenced above and should not be viewed as indicative of operations in future periods. The unaudited pro forma condensed financial statements should be read in conjunction with notes thereto, Isramco's Annual Report on Form 10-K for the year ended December 31, 2006 and the Statements of Combined Revenues and Direct Operating Expenses included herein.

7

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Istramco, Inc.  
 Unaudited Pro Forma Condensed Statement of Operations  
 For The Year Ended December 31, 2006  
 (in thousands)

	ISRAMCIO HISTORICAL	FIVE STATES	ADJUSTMENT
<b>REVENUES:</b>			
Operator fees from related party	\$ 69	\$ --	\$ --
Oil and gas sales	2,167	22,363	--
Interest income	448	--	--
Office services to related parties	480	--	--
Office services to others	276	--	--
Gain on marketable securities	1,177	--	--
Equity in net gain of investees	2,570	--	--
Compensation for legal settlement	2,536	--	--
Gain from swap transactions	2,604	--	--
Other income	39	--	--
	-----	-----	-----
<b>TOTAL REVENUES</b>	<b>12,366</b>	<b>22,363</b>	<b>--</b>
<b>EXPENSES:</b>			
Interest expense	294	--	7,000
Accretion expenses	71	--	1,000
Depreciation, depletion and amortization	455	--	5,900
Lease operating expenses and severance taxes	1,119	7,728	--
Exploration costs	125	--	--
Operator expense	330	--	--
General and administrative			
To related parties	227	--	--
To others	1,782	--	2,000
Impairment of oil and gas assets	668	--	--
	-----	-----	-----
<b>TOTAL EXPENSES</b>	<b>5,071</b>	<b>7,728</b>	<b>13,300</b>
<b>INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE TAXES</b>	<b>7,295</b>	<b>14,635</b>	<b>(13,300)</b>
Income taxes	(726)	--	(300)
	-----	-----	-----
Income (loss) from continuing operations	6,569	14,635	(13,700)
Loss on discontinued operations	(3,111)	--	--
Gain from disposal of discontinued operation	384	--	--
	-----	-----	-----
<b>NET INCOME</b>	<b>\$ 3,842</b>	<b>\$ 14,635</b>	<b>\$ (13,700)</b>
<b>EARNINGS PER SHARE - BASIC AND DILUTED</b>			
Continuing operations	\$ 2.42		
Discontinued operations	(1.01)		
	-----		
Total	\$ 1.41		
	=====		

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WEIGHTED AVERAGE NUMBER OF SHARES  
OUTSTANDING - BASIC AND DILUTED

2,717,691  
=====

See notes to the unaudited pro forma condensed financial statements.

8

Isramco, Inc.  
Unaudited Pro Forma Condensed Balance Sheet  
As of December 31, 2006  
(in thousands)

	ISRAMCO HISTORICAL	FIVE STATES PRO FORMA ADJUSTMENTS		
<b>CURRENT ASSETS</b>				
Cash and cash equivalents	\$ 573	\$ 84,300	(e)	\$
		(85,300)	(g)	
		700	(h)	
Restricted cash	17,000	(17,000)	(g)	
Marketable securities, at market	3,130	(1,200)	(f)	
Accounts receivable	403	--		
Prepaid expenses and other current assets	5,057	(3,000)		
Accounts receivable - sale of Magic 1	2,150	--		
	-----	-----		
<b>TOTAL CURRENT ASSETS</b>	<b>28,313</b>	<b>(21,500)</b>		
Property and equipment, net	12,537	90,790	(g)	1
Marketable securities, at market	5,759	--		
Investment in affiliates	15,302	--		
Other assets	162	--		
	-----	-----		
<b>TOTAL ASSETS</b>	<b>\$ 62,073</b>	<b>\$ 69,290</b>		<b>\$ 1</b>
	=====	=====		=====
<b>CURRENT LIABILITIES</b>				
Accounts payable and accrued expenses	\$ 5,050	\$ --		\$
Bank loans	347	--		
Short term loan from related party	17,164	7,000	(e)	
		(17,000)	(e)	
	-----	-----		
<b>TOTAL CURRENT LIABILITIES</b>	<b>22,561</b>	<b>(10,000)</b>		
	-----	-----		
Long-term bank loan	--	35,300	(e)	
Long-term loans from related party	--	42,000	(e)	
Asset retirement obligations	356	1,290	(g)	
Deferred income taxes	4,412	--		
	-----	-----		
<b>TOTAL LONG-TERM LIABILITIES</b>	<b>4,768</b>	<b>78,590</b>		
	-----	-----		
<b>TOTAL LIABILITIES</b>	<b>27,329</b>	<b>68,590</b>		
	-----	-----		
<b>SHAREHOLDERS' EQUITY</b>				
Common stock	27	--		

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Additional paid-in capital	26,240	--	
Retained earnings	5,399	700	(h)
Accumulated other comprehensive income	3,242	--	
Treasury stock	(164)	--	
	-----	-----	
TOTAL SHAREHOLDERS' EQUITY	34,744	700	
	-----	-----	
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 62,073	\$ 69,290	\$ 1
	=====	=====	=====

See notes to the unaudited pro forma condensed financial statements.

9

### Istramco Inc. Notes to Unaudited Pro Forma Condensed Financial Statements

#### (1) BASIS OF PRESENTATION

The unaudited pro forma statement of operations for the year ended December 31, 2006, is based on the audited financial statements of Istramco for the year ended December 31, 2006, the audited statement of combined revenues and direct operating expenses for the Five States Properties for the year ended December 31, 2006, the adjustments and assumptions described below and the Form 8-K on the Five States Acquisition filed on March 8, 2007.

The closing on March 2, 2007 contemplated an aggregate purchase price of \$92 million, subject to adjustment. The purchase price was funded \$7.7 million from working capital and the balance from a combination of commercial bank loans and loans from related parties. Istramco obtained a \$35.3 million credit line from Wells Fargo. Amounts outstanding under the credit line are payable by March 1, 2011. Interest on amounts outstanding accrue at a per annum rate equal to London Inter-bank Offered Rate ("LIBOR") plus 2%.

Istramco obtained loans in the total principal amount of \$42 million from Naphtha Israel Petroleum Corp. Ltd., the parent company (including through its wholly owned subsidiary IOC-Israel Oil Company Ltd) as follows:

- o \$18.5 million. The outstanding principal amount of the loan accrues interest at per annum rate equal to the 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.
- o \$12 million, repayable at the end of five years. Interest accrues at a per annum rate of LIBOR plus 6%.
- o \$11.5 million, repayable at the end of seven years. Interest accrues at a per annum rate of LIBOR plus 6%.

Istramco also obtained a loan from J.O.E.L Jerusalem Oil Exploration Ltd, a related party, in the principal amount of \$7 million, repayable on May 26, 2007. Interest accrues at a per annum rate of 5.36%.

Additionally, Istramco paid \$300,000 as a fee to a third party that originated the transaction with Five States. After payout (as defined in the agreement with the third party), Istramco will assign direct ownership interests equal to 3.75%

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of the interests acquired by Isramco.

(2) PRO FORMA ADJUSTMENTS:

The unaudited pro forma statements reflect the following adjustments:

- (a) Record incremental financing expenses resulting from loans obtained by Isramco from the bank and related parties.
- (b) Record incremental depreciation, depletion, amortization expenses using the depletion of the wells based on engineering report.
- (c) Record accretion expenses due to increase in asset retirement obligations.
- (d) Record expected increase in general and administrative expense as a result of the purchase.
- (e) Record the loans and fees associated with the bank and related party loans. Includes the payoff of \$17 million bridge loan obtained in November 2006.
- (f) Record sale of \$1.2 million on marketable securities. Proceeds used to pay for the purchase.
- (g) Record the purchase price and related purchase price adjustments from the acquisition of the Five States Properties. Purchase price was adjusted for approximately \$2.8 million of activity from effective date of purchase (October 1, 2006) to the closing date. Purchase price adjustments are subject to further review, post-closing adjustments and audit.
- (h) Reflect impact of cash flow from operations generated during 2007 that was used for the acquisition.
- (i) Record income tax effects of operations from purchase.

10

Isramco Inc.  
Pro Forma Supplemental Oil and Gas Disclosures  
(Unaudited)

The following table sets forth certain unaudited pro forma information concerning Isramco's proved oil and gas reserves at December 31, 2006 giving effect to the Five States Properties as if it had occurred as of the beginning of 2006. There are numerous uncertainties inherent in estimating the quantities of proved reserves and projecting future rates of production and timing of development expenditures. The following reserve data represents estimates only and should not be construed as being exact.

All of the reserves are located in the United States.

Proved and undeveloped reserves:

	OIL RESERVES OIL (MBBLS)		
	ISRAMCO	FIVE STATES	PRO FORMA
	-----	-----	-----
Balance, December 31, 2005	105,368	1,750,767	1,856,135
Production	(13,464)	(124,912)	(138,376)
Revisions of previous estimates	24,071	--	24,071
	-----	-----	-----
Balance, December 31, 2006	115,975	1,625,855	1,741,830

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	=====	=====	=====
	GAS RESERVES OIL (MCF)		
	-----	-----	-----
	ISRAMCO	FIVE STATES	PRO FORMA
	-----	-----	-----
Balance, December 31, 2005	1,644,700	25,838,049	27,482,749
Production	(59,066)	(1,762,311)	(1,821,377)
Revisions of previous estimates	(213,634)		(213,634)
	-----	-----	-----
Balance, December 31, 2006	1,372,000	24,075,738	25,447,738
	=====	=====	=====

11

The standardized measure of discounted future net cash flows from the Company's estimated proved gas reserves is provided for the financial statement user as a common base for comparing oil and gas reserves of enterprises in the industry and may not represent the fair market value of the Company's oil and gas reserves or the present value of future cash flows of equivalent reserves due to various uncertainties inherent in making these estimates. Those factors include changes in oil and gas prices from year end prices used in the estimates, unanticipated changes in future production and development costs and other uncertainties in estimating quantities and present values of oil and gas reserves.

The following table presents the standardized measure of discounted future net cash flows from the ownership interest in proved oil and gas reserves as December 31, 2006. The standardized measure of future net cash flows as of December 31, 2006 is calculated using the price received by the seller as of the end of the year. The prices for Five States were \$6.43 per mcf and \$68.88 per barrel at December 31, 2006.

The resulting estimated future cash inflows are reduced by estimated future costs to produce the estimated proved reserves based on actual year-end operating cost levels. Future income taxes are based on year-end statutory rates, adjusted for any operating loss carryforwards and tax credits. The future cash flows are reduced to present value by applying a 10% discount rate.

	YEAR ENDED DECEMBER 31	
	ISRAMCO	FIVE STATES
	-----	-----
	(IN THOUSANDS)	
Future cash inflows	\$ 18,208	\$ 320,852
Future production costs	(866)	(105,930)
Future development costs	(7,170)	(2,115)
Future net cash flows before income taxes	10,172	212,807
Future income tax	(2,976)	(38,510)
Future net cash flows	7,196	174,297
Effect of discounting future annual net cash flows at 10%	(2,875)	(78,371)
	-----	-----

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Discounted future net cash flow	\$ 4,321 =====	\$ 95,926 =====
Beginning of the year	\$ 7,488	\$ 109,656
Sales, net of production costs	(1,048)	(14,635)
Net change in prices and production costs	(5,629)	(5,865)
Change in income tax	4,961	7,315
Acquisition of minerals in place	993	--
Revision of previous estimates	(1,716)	--
Change in discount	1,395	11,916
Change in production rate and other	(2,123)	(12,461)
	-----	-----
End of year	\$ 4,321 =====	\$ 95,926 =====

12

SIGNATURE

Pursuant to 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, hereunto duly authorized.

ISRAMCO INC.

DATE: May 15, 2007

By: /s/ Haim Tsuff

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Haim Tsuff  
Chairman and Chief Executive Officer

13