

ISRAMCO INC
Form 10-Q
November 09, 2011

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 September 30, 2011

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

2425 West Loop South, Suite 810, HOUSTON, TX 77027
(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 Securities 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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definition of "large accelerated filer", "accelerated filer" and "smaller reporting

company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer (Do not check if a smaller reporting company)
Smaller reporting company

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

As of November 9, 2011, Isramco, Inc, had outstanding 2,717,691 shares of common stock, par value \$0.01 per share.

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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.

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PART I - Financial Information

ITEM 1. Financial Statements

ISRAMCO INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except share and per share amounts)
(Unaudited)

| | As of September 30, 2011 | As of December 31, 2010 |
|--|--------------------------------|-------------------------------|
| ASSETS | | |
| Current Assets: | | |
| Cash and cash equivalents | \$4,788 | \$5,657 |
| Accounts receivable, net | 5,672 | 6,110 |
| Restricted and designated cash | 2,889 | 889 |
| Deferred tax assets | 2,158 | 3,368 |
| Derivative asset | 4,481 | 2,156 |
| Prepaid expenses and other | 4,539 | 715 |
| Total Current Assets | 24,527 | 18,895 |
| Property and Equipment, at cost – successful efforts method: | | |
| Oil and Gas properties | 224,266 | 222,122 |
| Other | 4,981 | 922 |
| Total Property and Equipment | 229,247 | 223,044 |
| Accumulated depreciation, depletion and amortization | (100,146) | (91,208) |
| Net Property and Equipment | 129,101 | 131,836 |
| Marketable securities, at market | 3,623 | 16,099 |
| Debt cost | - | 70 |
| Derivative asset | 3,673 | 343 |
| Deferred tax assets and other | 3,847 | 4,635 |
| Total assets | \$164,771 | \$171,878 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Accounts payable and accrued expenses | \$9,302 | \$9,316 |
| Bank overdraft | 1,843 | 335 |
| Current maturities of long-term debt | 20,000 | 14,350 |
| Derivative liability | - | 1,133 |
| Due to related party and accrued interest | 31,818 | 9,371 |
| Total current liabilities | 62,963 | 34,505 |
| Long-term debt | - | 22,725 |
| Due to related party and accrued interest | 62,501 | 77,132 |

Other Long-term Liabilities:

| | | |
|------------------------------------|--------|--------|
| Asset retirement obligations | 17,061 | 16,577 |
| Derivative liability – non-current | - | 2,402 |
| Total other long-term liabilities | 17,061 | 18,979 |

Commitments and contingencies

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 | 23,194 | 23,194 |
| Accumulated deficit | (2,460) | (14,149) |
| Accumulated other comprehensive income | 1,649 | 9,629 |
| Treasury stock, 29,267 shares at cost | (164) | (164) |
| Total shareholders' equity | 22,246 | 18,537 |
| Total liabilities and shareholders' equity | \$164,771 | \$171,878 |

See notes to the unaudited condensed consolidated financial statements.

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ISRAMCO INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except share and per share amounts)
(Unaudited)

| | Three Months Ended September 30 | | Nine Months Ended September 30 | |
|---|------------------------------------|-------------------|-----------------------------------|------------------|
| | 2011 | 2010 | 2011 | 2010 |
| Revenues | | | | |
| Oil and gas sales | \$ 11,002 | \$ 9,789 | \$ 33,555 | \$ 29,147 |
| Office services | 148 | 123 | 453 | 432 |
| Other | 27 | 16 | 66 | 41 |
| Total revenues | 11,177 | 9,928 | 34,074 | 29,620 |
| Operating expenses | | | | |
| Lease operating expense, transportation and taxes | 5,116 | 5,142 | 16,854 | 15,096 |
| Depreciation, depletion and amortization | 3,018 | 3,794 | 8,938 | 10,506 |
| Accretion expense | 216 | 231 | 634 | 639 |
| Loss from plug and abandonment | 37 | 102 | 207 | 790 |
| General and administrative | 907 | 855 | 2,919 | 2,756 |
| Total operating expenses | 9,294 | 10,124 | 29,552 | 29,787 |
| Operating income (loss) | 1,883 | (196) | 4,522 | (167) |
| Other expenses (income) | | | | |
| Interest expense, net | 1,987 | 1,923 | 6,090 | 5,840 |
| Realized gain on marketable securities | (15,910) | - | (15,910) | - |
| Net (gain) loss on derivative contracts | (6,801) | 1,683 | (3,643) | (5,726) |
| Total other expenses (income) | (20,724) | 3,606 | (13,463) | 114 |
| Income (loss) before income taxes | 22,607 | (3,802) | 17,985 | (281) |
| Income tax (expense) benefit | (7,913) | 1,292 | (6,296) | 94 |
| Net Income (loss) | \$ 14,694 | \$ (2,510) | \$ 11,689 | \$ (187) |
| Earnings (loss) per share – basic: | \$ 5.41 | \$ (0.92) | \$ 4.30 | \$ (0.07) |
| Earnings (loss) per share – diluted: | \$ 5.41 | \$ (0.92) | \$ 4.30 | \$ (0.07) |
| Weighted average number of shares outstanding basic: | 2,717,691 | 2,717,691 | 2,717,691 | 2,717,691 |
| Weighted average number of shares outstanding diluted: | 2,717,691 | 2,717,691 | 2,717,691 | 2,717,691 |

See notes to the unaudited condensed consolidated financial statements.

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ISRAMCO INC.
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
 (In thousands)
 (Unaudited)

| | Nine Months Ended September 30 | |
|--|--------------------------------|----------|
| | 2011 | 2010 |
| Cash Flows From Operating Activities: | | |
| Net income (loss) | \$ 11,689 | \$ (187) |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities: | | |
| Depreciation, depletion, amortization and impairment | 8,938 | 10,506 |
| Accretion expense | 634 | 639 |
| Changes in deferred taxes | 6,296 | (94) |
| Net unrealized gain on derivative contracts | (9,156) | (893) |
| Amortization of debt cost | 189 | 189 |
| Realized gain on marketable securities | (15,910) | - |
| Changes in components of working capital and other assets and liabilities | | |
| Accounts receivable | 438 | 1,584 |
| Prepaid expenses and other current assets | (85) | (442) |
| Due to related party | 2,314 | (238) |
| Accounts payable and accrued liabilities | (715) | (1,420) |
| Net cash provided by operating activities | 4,632 | 9,644 |
| Cash flows from investing activities: | | |
| Addition to property and equipment, net | (5,683) | (3,120) |
| Restricted cash and deposit, net | (2,000) | (18) |
| Proceeds from sale of gas properties and equipment | 32 | - |
| Proceeds from sale of marketable securities | 12,215 | - |
| Net cash provided by (used in) investing activities | 4,564 | (3,138) |
| Cash flows from financing activities: | | |
| Repayment on loans – related parties, net | (5,498) | - |
| Proceeds on loans – related parties, net | 11,000 | - |
| Repayment of long-term debt | (17,075) | (4,875) |
| Borrowings of short - term debt, net | 1,508 | 713 |
| Net cash used in financing activities | (10,065) | (4,162) |
| Net increase (decrease) in cash and cash equivalents | (869) | 2,344 |
| Cash and cash equivalents at beginning of period | 5,657 | 2,907 |
| Cash and cash equivalents at end of period | \$ 4,788 | \$ 5,251 |

See notes to the unaudited condensed consolidated financial statements.

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Isramco Inc.
Notes to Condensed Consolidated Financial Statements
(Unaudited)

Note 1 - Financial Statement Presentation

Isramco, Inc. (“We”, “Our”, “Isramco” or the Company) is an independent oil and natural gas company engaged in the exploration, development and production of predominately oil and natural gas properties located onshore in the United States.

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the SEC 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 nine-month period ended September 30, 2011 are not necessarily indicative of the results that may be expected for the year ended December 31, 2011. 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, 2010.

Use of Estimates

The preparation of the Company’s condensed consolidated financial statements in conformity with accounting principles generally accepted in the United States requires the Company’s management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities, if any, at the date of the condensed consolidated financial statements and the reported amounts of revenues and expenses during the respective reporting periods. The Company bases its estimates and judgments on historical experience and on various other assumptions and information that are believed to be reasonable under the circumstances. Estimates and assumptions about future events and their effects cannot be perceived with certainty and, accordingly, these estimates may change as new events occur, as more experience is acquired, as additional information is obtained and as the Company’s operating environment changes. Actual results may differ from the estimates and assumptions used in the preparation of the Company’s condensed consolidated financial statements.

Consolidated interim period results are not necessarily indicative of results of operations or cash flows for the full year and accordingly, certain information normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States has been condensed or omitted. The Company has evaluated events or transactions through the date of issuance of these condensed consolidated financial statements.

Risk Management Activities

The Company follows Accounting Standards Codification (ASC) 815, Derivatives and Hedging. From time to time, the Company may hedge a portion of its forecasted oil and natural gas production. Derivative contracts entered into by the Company have consisted of transactions in which the Company hedges the variability of cash flow related to a forecasted transaction. The Company has elected to not designate any of its positions for hedge accounting. Accordingly, the Company records the net change in the mark-to-market valuation of these positions, as well as payments and receipts on settled contracts, in “Net gain on derivative contracts” on the consolidated statements of operations.

Consolidation

The condensed consolidated financial statements include the accounts of Isramco and its wholly-owned subsidiaries. Inter-company balances and transactions have been eliminated in consolidation.

Recently Issued Accounting Pronouncements

The Financial Accounting Standards Board (FASB) issued an Accounting Standards Update (ASU) that further addresses fair-value-measurement accounting and related disclosure requirements. The ASU clarifies the FASB's intent regarding the application of existing fair-value-measurement accounting and disclosure requirements, changes fair-value-measurement requirements for certain financial instruments, and sets forth additional disclosure requirements for other fair-value measurements. The ASU is required to be adopted on a prospective basis by Isramco beginning January 1, 2012. The Company does not expect the adoption of this ASU to have an impact on its consolidated financial statements, other than requiring revised disclosures, where appropriate.

In September 2011, the FASB issued an ASU that permits an initial assessment of qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount for goodwill impairment testing purposes. Thus, determining a reporting unit's fair value is not required unless, as a result of a qualitative assessment, it is more likely than not that the fair value of the reporting unit is less than its carrying amount. This ASU is effective for periods beginning after December 15, 2011. Adoption of this ASU will have no impact on the Company's consolidated financial statements.

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Note 2 - Supplemental Cash Flow Information

Cash paid for interest and income taxes was as follows for the nine months ended September 30 (in thousands):

| | Nine Months Ended September 30 | |
|--------------|--------------------------------|----------|
| | 2011 | 2010 |
| Interest | \$ 3,684 | \$ 6,001 |
| Income taxes | - | - |

The consolidated statements of cash flows exclude the following non-cash transactions:

§ Receivable held by trustee in Israel in connection with sale of investment in shares of Media Mind Ltd in the amount of \$3,857,000 included in prepaid expenses and other

§ Oil and gas properties of \$492,000 included in accounts payable

Note 3 - Derivative Contracts

On March 9, 2011, pursuant to an agreement with Wells Fargo, the derivative contracts between Isramco and Wells Fargo were terminated and the Company signed new swap contracts with Macquarie Bank, N.A. for an aggregate volume of 336,780 barrels of crude oil during the 46 month period commencing March 2011. The payment required for the termination of these contracts was approximately \$7 million.

At September 30, 2011, the Company had an \$8.2 million commodity derivative asset, of which \$4.5 million was classified as current. For the nine months ended September 30, 2011, the Company recorded a net derivative gain of \$3.6 million (\$9.2 million unrealized gain and a \$5.6 million loss from net cash paid on settled contracts).

At September 30, 2010, the Company had a \$5.8 million commodity derivative asset, of which \$4.4 million was classified as current, and a \$1.2 million non-current derivative liability. For the nine months ended September 30, 2010, the Company recorded a net derivative gain of \$5.7 million (\$0.9 million unrealized gain and a \$4.8 million gain from net cash received on settled contracts).

Natural Gas

At September 30, 2011, the Company had the following natural gas swap positions:

| Period | Swaps Volume in MMbtu's | Price / Price Range | Weighted Average Price |
|-----------------------------------|-------------------------------|------------------------|---------------------------|
| September 2011 – December 2011 | 191,205 | 8.22 | 8.22 |
| January 2012 – March 2012 | 174,222 | 8.65 | 8.65 |

Crude Oil

At September 30, 2011, the Company had the following crude oil swap positions:

Swaps

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| Period | Volume in Bbls | Price / Price Range | Weighted Average Price |
|-----------------------------------|-------------------|------------------------|---------------------------|
| September 2011 – December 2011 | 60,084 | 88.55-103.51 | 94.96 |
| January 2012 – December 2012 | 127,473 | 88.20-103.51 | 99.67 |
| January 2013 – December 2013 | 89,400 | 103.51 | 103.51 |
| January 2014 – December 2014 | 66,000 | 103.51 | 103.51 |

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Note 4 - Long-Term Debt and Interest Expense

Long-Term Debt as of September 30, 2011 and December 31, 2010 consisted of the following (in thousands):

| | As of September 30, 2011 | As of December 31, 2010 |
|--|--------------------------------|-------------------------------|
| Libor + 2% Bank Revolving Credit Facility due 2011 | - | 9,450 |
| Libor + 2% Bank Revolving Credit Facility due 2012 | 20,000 | 27,625 |
| Libor + 6% Related party Debt | 12,000 | 12,000 |
| Libor + 5.5% Related party Debt | - | 954 |
| Libor + 6% Related party Debt | 11,500 | 11,500 |
| Libor + 6% Related party Debt | 6,000 | 6,000 |
| Libor + 6% Related party Debt | 48,900 | 48,900 |
| 10% Related party Debt | 6,456 | - |
| | 104,856 | 116,429 |
| Less: Current Portion of Long-Term Debt | (44,681) | (17,350) |
| Total | 60,175 | 99,079 |

Senior Secured Revolving Credit Agreements

On March 3, 2011, the Company paid the outstanding principal balance of the Wells Fargo Senior Credit Facility. By agreement of the parties, the derivative contracts remained in place until March 9, 2011, when these contracts were novated and replaced by new derivative contracts, for the same volumes but at current market prices, with Macquarie Bank, N.A. In connection with this transaction, the Wells Fargo Senior Credit Facility was transferred to and assumed by Macquarie Bank, N.A. This facility currently has no outstanding principal or current availability. The credit facility was assigned and transferred to Macquarie Bank, N.A. in anticipation of the finalization of a successor credit facility pursuant to which all of the Company's debt (including its related party debt) will be consolidated into a single facility at Macquarie Bank, N.A. In the event the parties are not successful in finalizing this transaction the facility will be terminated and all collateral related thereto will be released. The Company is also in negotiations for similar credit facilities with several other commercial lenders, to obtain terms most favorable to the Company. While optimistic of a positive outcome of our consolidation efforts, the Company is uncertain as to whether it will be successful in obtaining new replacement financing or, if is obtained, the timetable upon which such facility will be closed and other material terms and conditions.

On July 28, 2011 the borrowing base available under the other credit facility with the Bank of Nova Scotia ("Scotia") was redetermined to \$20,000,000.

In October 2011 the agreement with I.O.C. Israel Oil Company, a related party ("IOC"), pertaining to a loan in the outstanding principal amount of \$6,456,000 was renegotiated. The payoff of principal amount was extended by 6 months to September 9, 2012. Interest accrued per annum was determined on LIBOR+5.5% from initial 10%.

At September 30, 2011, the Company was in compliance with all of its debt covenants under its existing Credit Agreements.

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Interest expense

The following table summarizes the amounts included in interest expense for the nine months ended September 30, 2011 and 2010 (in thousands):

| | Nine Months Ended September 30 | |
|---|-----------------------------------|----------|
| | 2011 | 2010 |
| Current debt, long-term debt and other - banks corporation | \$ 1,156 | \$ 1,365 |
| Long-term debt – related parties | 4,934 | 4,475 |
| | \$ 6,090 | \$ 5,840 |

Note 5 - Comprehensive Income

| | Three Months Ended September 30 | | Nine Months Ended September 30 | |
|--|------------------------------------|------------|-----------------------------------|----------|
| | 2011 | 2010 | 2011 | 2010 |
| Net income (loss) | \$ 14,694 | \$ (2,510) | \$ 11,689 | \$ (187) |
| Other comprehensive income | | | | |
| Available-for-sale securities, net of taxes | (11,152) | 7,331 | (8,002) | 7,184 |
| Change in unrealized gains on hedging instruments, net of taxes | - | 69 | 22 | 277 |
| Comprehensive income | \$ 3,542 | \$ 4,890 | \$ 3,709 | \$ 7,274 |

Note 6 - Fair Value of Financial Instruments

Pursuant to ASC 820, Fair Value Measurements and Disclosures (ASC 820) the Company's determination of fair value incorporates not only the credit standing of the counterparties involved in transactions with the Company resulting in receivables on the Company's consolidated balance sheets, but also the impact of the Company's nonperformance risk on its own liabilities. ASC 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (exit price). The Company utilizes market data or assumptions that market participants would use in pricing the asset or liability, including assumptions about risk and the risks inherent in the inputs to the valuation technique. These inputs can be readily observable, market corroborated, or generally unobservable. The Company classifies fair value balances based on the observability of those inputs.

The following tables set forth by level within the fair value hierarchy the Company's financial assets and liabilities that were accounted for at fair value as of September 30, 2011 and December 31, 2010. As required by ASC 820, a financial instrument's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. The Company's assessment of the significance of a particular input to the fair value measurement requires judgment, and may affect the valuation of fair value assets and liabilities and their placement within the fair value hierarchy levels. There were no transfers between fair value hierarchy levels for the nine months ended September 30, 2011.

| | September 30, 2011 | | | Total |
|--------|--------------------|---------|---------|----------|
| | Level 1 | Level 2 | Level 3 | |
| Assets | \$ 3,623 | \$ — | \$ — | \$ 3,623 |

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| | | | | |
|-----------------------|----------|----------|------|-----------|
| Marketable securities | | | | |
| Commodity derivatives | — | 8,154 | — | 8,154 |
| Total | \$ 3,623 | \$ 8,154 | \$ — | \$ 11,777 |

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| | December 31, 2010 | | | |
|---------------------------|-------------------|-----------------|-------------|------------------|
| | Level 1 | Level 2 | Level 3 | Total |
| Assets | | | | |
| Marketable securities | \$ 16,099 | \$ — | \$ — | \$ 16,099 |
| Commodity derivatives | — | 2,499 | — | 2,499 |
| Total | \$ 16,099 | \$ 2,499 | \$ — | \$ 18,598 |
| Liabilities | | | | |
| Commodity derivatives | \$ — | 3,501 | \$ — | \$ 3,501 |
| Interest rate derivatives | — | 34 | — | 34 |
| Total | \$ — | \$ 3,535 | \$ — | \$ 3,535 |

Marketable securities listed above are carried at fair value. The Company is able to value its marketable securities based on quoted fair values for identical instruments, which resulted in the Company reporting its marketable securities as Level 1.

Derivatives listed above include swaps that are carried at fair value. The Company records the net change in the fair value of these positions in “Net gain on derivative contracts” in the Company’s consolidated statements of operations, in case of commodity derivatives, and in “Other comprehensive income”, in case of interest rate derivatives. The Company is able to value these assets and liabilities based on observable market data for similar instruments, which resulted in the Company reporting its derivatives as Level 2. This observable data includes the forward curve for commodity prices based on quoted market prices and prospective volatility factors related to changes in the forward curves.

As of September 30, 2011 and December 31, 2010, the Company’s derivative contracts were with major financial institutions with investment grade credit ratings which are believed to have a minimal credit risk. As such, the Company is exposed to credit risk to the extent of nonperformance by the counterparties in the derivative contracts discussed above; however, the Company does not anticipate such nonperformance. Each of the counterparties to the Company’s derivative contracts is a lender in the Company’s Senior Credit Agreement. The Company did not post collateral under any of these contracts as they are secured under the Senior Credit Agreements.

Note 7 – New Subsidiaries

In August 2011 the Company created three new subsidiaries. Which only one of them has started activity and has acquired equipment and will be providing well services primarily in New Mexico and Texas.

Note 8 - Subsequent Events

The Company has evaluated subsequent events through November 9, 2011, which is the date the consolidated financial statements were issued.

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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

Istramco, Inc. ("Istramco" or "we") is independent oil and natural gas company engaged in the exploration, development and production of oil and natural gas properties located onshore in the United States. Our properties are primarily located in Texas, New Mexico and Oklahoma. We also act as the operator of certain of these properties. Historically, we have grown through acquisitions, with a focus on properties within our core operating areas that we believe have significant development and exploration opportunities and where we can apply our technical experience and economies of scale to increase production and proved reserves, while lowering lease operating costs.

Our financial results depend upon many factors, but are largely driven by the volume of our oil and natural gas production and the price that we receive for that production. Our production volumes will decline as reserves are depleted unless we expend capital in successful development and exploration activities or acquire additional properties with existing production. The amount we realize for our production depends predominantly upon commodity prices, which are affected by changes in market demand and supply, as impacted by overall economic activity, weather, pipeline capacity constraints, inventory storage levels, basis differentials and other factors, and secondarily upon our commodity price hedging activities. Accordingly, finding and developing oil and natural gas reserves at economical costs is critical to our long-term success. Our future drilling plans are subject to change based upon various factors, some of which are beyond our control, including drilling results, oil and natural gas prices, the availability and cost of capital, drilling and production costs, availability of drilling services and equipment, gathering system and pipeline transportation constraints and regulatory approvals. To the extent these factors lead to reductions in our drilling plans and associated capital budgets in future periods, our financial position, cash flows and operating results could be adversely impacted.

Liquidity and Capital Resources

Our primary source of cash during the nine months ended September 30, 2011 was cash flow from operating activities, loans from related party lender ("Related Party Loans") and the net proceeds of sale of the MediaMind Shares. We continuously monitor our liquidity and evaluate our development plans in light of a variety of factors, including, but not limited to, our cash flows, capital resources and drilling success.

In August, 2011 the company sold all of its shares of an investment in a company called MediaMind. The net proceeds from sale were used for repayment of long term debt and as a source of general capital liquidity.

Our future capital resources and liquidity may depend, in part, on our success in developing the leasehold interests that we have acquired. Cash is required to fund capital expenditures necessary to offset inherent declines in production and proven reserves, which is typical in the capital-intensive oil and gas industry. Future success in growing reserves and production will be highly dependent on the capital resources available and our success in finding and acquiring additional reserves. We expect to fund our future capital requirements through internally generated cash flows and borrowings under our Senior Credit Agreements that remain to be obtained and negotiated. Long-term cash flows are subject to a number of variables, including the level of production and prices and our commodity price hedging activities, as well as various economic conditions that have historically affected the oil and natural gas industry.

Debt

| | As of September 30, 2011 | As of December 31, 2010 |
|---|--------------------------------|-------------------------------|
| Senior Credit Facilities | \$ - | \$ 22,725 |
| Long – term debt – related party | 60,175 | 76,354 |
| Short – term debt – related party | 6,456 | - |
| Current maturities of long-term debt, short-term debt and bank overdraft | 40,068 | 17,350 |
| Total debt | 106,699 | 116,429 |
| Stockholders' equity | 22,246 | 18,537 |
| Debt to capital ratio | 82.7% | 86.3% |

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Under the existing credit facility available with Bank of Nova Scotia, we can borrow up to a maximum of \$20,000,000. Management currently believes that this availability is sufficient to provide the liquidity required to satisfy our anticipated working capital needs for 2011.

As of September 30, 2011, our total debt was \$106,699,000, compared to total debt of \$116,429,000 at December 31, 2010. As of September 30, 2011, current debt included \$20,000,000 as current maturities of the Revolving Credit Facility, \$6,456,000 short term loan due to related party and \$20,068,000 current maturities on long term loans due to related parties. As of December 31, 2010, the \$4,900,000 included as current maturities was due to the decision by management to continue reducing our debt below the borrowing base.

On March 3, 2011, the Company entered into a Loan Agreement with I.O.C. Israel Oil Company, a related party (“pursuant to which it borrowed the sum of \$11 million. The loan bears interest at a rate of 10% per annum and is payable in quarterly payments of interest only until March 3, 2012, when all accrued interest and principal is due and payable. The loan may be prepaid at any time without penalty. The loan is unsecured. The purpose of the loan was to provide funds to Isramco for the payment of amounts due under the Wells Fargo Senior Credit Facility at maturity, which was March, 2011 and to terminate and re-set the commodity swap hedge arrangement. On March 3, 2011 Isramco paid the outstanding principal balance due under the Wells Fargo Senior Credit Agreement. Subsequently, on March 9, 2011, pursuant to an agreement with Wells Fargo, the derivative contracts between Isramco and Wells Fargo were terminated at a cost to the Company of approximately \$7,007,000. Concurrently, the Company entered into new derivative contracts for 336,780 barrels of crude oil during the 46 month period commencing March 2011 with Macquarie Bank, N.A. During September 2011 Isramco paid \$5,096,000 of principal and interest pursuant to Loan agreement with IOC. The Company is actively pursuing a consolidation of all outstanding debt with Macquarie Bank and other commercial lenders.

In October 2011 the agreement with IOC, pertaining to a loan in the outstanding principal amount of \$6,456,000 was renegotiated. The payoff of principal amount was extended by 6 month to September 9, 2012. Interest accrued per annum was determined on LIBOR+5.5% from initial 10%.

Cash Flow

Our primary source of cash during the nine months ended September 30, 2011 was cash flow from operating activities, loans from related party and proceeds from sale of investment in MediaMind Ltd Shares. Our primary source of cash during the nine months ended September 30, 2010 was our operating activities. In 2011 cash received from operations and from related party was offset by repayments of borrowings under our Senior Credit Agreements, purchase of equipment and payments made on settled derivatives contracts. In 2010 period, cash received from operations were mainly offset by repayments made under our revolving credit facilities.

Operating cash flow fluctuations were substantially driven by changes in commodity prices and changes in our production volumes. Working capital was substantially influenced by these variables. Fluctuation in commodity prices and our overall cash flow may result in an increase or decrease in our future capital expenditures. Prices for oil and natural gas have historically been subject to seasonal fluctuations characterized by peak demand and higher prices in the winter heating season; however, the impact of other risks and uncertainties have influenced prices throughout recent years. See Results of Operations below for a review of the impact of prices and volumes on sales.

| | Nine months Ended September 30, | |
|---|---------------------------------|----------|
| | 2011 | 2010 |
| | (In thousands) | |
| Cash flows provided by operating activities | \$ 4,632 | \$ 9,644 |

| | | | |
|---|----|----------|----------|
| Cash flows provided by (used in) | | | |
| investing activities | | 4,564 | (3,138) |
| Cash flows used in financing activities | | (10,065) | (4,162) |
| Net increase (decrease) in cash | \$ | (869) | \$ 2,344 |

Operating Activities, During the first nine months of 2011, compared to the first nine months of 2010, net cash flow provided by operating activities decreased by \$5,012,000 to \$4,632,000. This decrease was primarily attributable to net cash paid on settled derivatives contracts of \$7,007,000, less cash received on proceeds from settlements of derivative contracts than in 2010, higher lease operating expenses all of which were partially offset by increased oil and natural gas liquids (“NGLs”) revenues. The increase in revenues was primarily attributable to higher average oil and NGLs prices for the nine months ended September 30, 2011 of \$94.35/bbl and 47.64/bbl respectively, compared to \$75.69/bbl and 35.83/bbl for the nine month ended September 30, 2010.

Investing Activities, The primary driver of cash provided by investing activities in 2011 was proceeds from sale of marketable securities which was offset by purchase of equipment. Net cash flows provided (used in) in investing activities for the nine months ended September 30, 2011 and 2010 were \$4,564,000 and \$(3,138,000) respectively.

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Financing Activities, Net cash flows used in financing activities were \$10,065,000 and \$4,162,000 for the nine months ended September 30, 2011 and 2010, respectively. Excess cash flow from proceeds of sale of marketable securities, operations and a loan from related party were primarily used to repay borrowings under our Senior Credit Agreements to the extent available. During the nine months of 2011, we repaid borrowings of \$22,573,000. During the nine months of 2010, we repaid borrowings of \$4,875,000.

Results of Operations

Three Months Ended September 30, 2011 Compared to Three Months Ended September 30, 2010

Selected Data

| | Three Months Ended September 30, | |
|---|--|-----------|
| | 2011 | 2010 |
| | (In thousands except per share and MBOE amounts) | |
| Financial Results | | |
| Oil and Gas sales | \$ 11,002 | \$ 9,789 |
| Other | 175 | 139 |
| Total revenues and other | 11,177 | 9,928 |
| Cost and expenses | 9,294 | 10,124 |
| Other expense (income) | (20,724) | 3,606 |
| Income tax expenses (benefit) | 7,913 | (1,292) |
| Net income (loss) | 14,694 | (2,510) |
| Earnings per common share – basic and diluted | \$ 5.41 | \$ (0.92) |
| Weighted average number of shares outstanding-basic and diluted | 2,717,691 | 2,717,691 |
| Operating Results | | |
| Adjusted EBITDAX (1) | \$ 21,896 | \$ 5,608 |
| Sales volumes (MMBOE) | 202 | 213 |
| Average cost per MBOE: | | |
| Production (excluding transportation and taxes) | \$ 18.51 | \$ 17.87 |
| General and administrative | \$ 4.49 | \$ 4.02 |
| Depletion | \$ 14.95 | \$ 17.83 |

(1) See Adjusted EBITDAX for a description of Adjusted EBITDAX, which is not a Generally Accepted Accounting Principles (GAAP) measure, and a reconciliation of Adjusted EBITDAX to income from operations before income taxes, which is presented in accordance with GAAP.

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Financial Results

Net Income, in the third quarter of 2011, our net income was \$14,694,000 thousand, or \$5.41 per share. This compares to net loss of \$(2, 510,000) thousand, or \$(0.92) per share, for the third quarter of 2010.

This increase was primarily due to sale of investment in marketable securities, increase of oil and natural gas liquids ("NGLs") sales revenues, gains on derivative contracts which were partially offset by increased tax expenses.

Revenues, Volumes and Average Prices

Sales Revenues

| In thousands except percentages | Three Months Ended September 30, | | |
|---------------------------------|----------------------------------|----------|------------|
| | 2011 | 2010 | D vs. 2010 |
| Gas sales | \$ 2,707 | \$ 2,702 | 0 % |
| Oil sales | 6,411 | 5,794 | 11 |
| Natural gas liquid sales | 1,884 | 1,293 | 46 |
| Total | \$ 11,002 | \$ 9,789 | 12 % |

Our sales revenues for the three months ended September 30, 2011 increased by 12% compared to the same period of 2010 due to higher natural gas, oil and condensate and NGLs commodity prices which were offset by decrease in sales volumes of natural gas, oil and NGLs.

Volumes and Average Prices

| | Three Months Ended September 30, | | |
|--|----------------------------------|----------|------------|
| | 2011 | 2010 | D vs. 2010 |
| Natural Gas | | | |
| Sales volumes Mmcf (2) | 564.10 | 582.43 | (3)% |
| Average Price per Mcf (1) | \$ 4.80 | \$ 4.64 | 3 |
| Total gas sales revenues (thousands) | \$ 2,707 | \$ 2,702 | 0% |
| Crude Oil | | | |
| Sales volumes MBbl | 71.86 | 76.53 | (6)% |
| Average Price per Bbl (1) | \$ 89.21 | \$ 75.71 | 18 |
| Total oil sales revenues (thousands) | \$ 6,411 | \$ 5,794 | 11% |
| Natural gas liquids | | | |
| Sales volumes MBbl (2) | 35.98 | 39.20 | (8)% |
| Average Price per Bbl (1) | \$ 52.37 | \$ 32.99 | 59 |
| Total natural gas liquids sales revenues (thousands) | \$ 1,884 | \$ 1,293 | 46% |

- (1) Amounts exclude the impact of cash paid/received on settled contracts as we did not elect to apply hedge accounting.
- (2) At the end of 2010, the company sold interests in several oil and gas properties which resulted in lower natural gas, oil and natural gas liquids ("NGLs") volumes in 2011.

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The company's natural gas sales volumes decreased by 3%, crude oil sales volumes by 6% and natural gas liquids sales volumes by 8% for the three months ended September 30, 2011 compared to the same period of 2010. This decrease was primarily caused by natural decline in production.

Our average natural gas price for the three months ended September 30, 2011 increased by 3% or \$0.16 per Mcf when compared to the same period of 2010. Our average crude oil price for the three months ended September 30, 2011 increased by 18% or \$13.50 per Bbl when compared to the same period of 2010. Our average natural gas liquids price for the three months ended September 30, 2011 increased by 59% or \$19.38 per Bbl when compared to the same period of 2010.

Analysis of Oil and Gas Operations Sales Revenues

The following table provides a summary of the effects of changes in volumes and prices on Isramco's sales revenues for the three months ended September 30, 2011 compared to the same period of 2010.

| In thousands | Natural Gas | Oil | Natural gas liquids |
|---------------------------------------|-------------|----------|---------------------|
| 2010 sales revenues | \$ 2,702 | \$ 5,794 | \$ 1,293 |
| Changes associated with sales volumes | (85) | (353) | (106) |
| Changes in prices | 90 | 970 | 697 |
| 2011 sales revenues | \$ 2,707 | \$ 6,411 | \$ 1,884 |

Operating Expenses

| In thousands except percentages | Three Months Ended September 30, | | |
|---|----------------------------------|-----------|------------|
| | 2011 | 2010 | D vs. 2010 |
| Lease operating expense, transportation and taxes | \$ 5,116 | \$ 5,142 | (1)% |
| Depreciation, depletion and amortization | 3,018 | 3,794 | (20) |
| Accretion expense | 216 | 231 | (6) |
| Loss from plugging and abandonment of wells | 37 | 102 | (64) |
| General and administrative | 907 | 855 | 6 |
| | \$ 9,294 | \$ 10,124 | (8)% |

During three months ended September 30, 2011, our operating expenses decreased by 8% when compared to the same period of 2010 due to the following factors:

- Lease operating expense, transportation cost and taxes decreased by 1%, or \$26,000, in 2011 when compared to 2010. On a per unit basis, lease operating expenses (excluding transportation and taxes) increased by \$0.64 per MBOE to \$18.51 per MBOE in 2011 from \$17.87 per MBOE in 2010.
- Depreciation, Depletion & Amortization (DD&A) of the cost of proved oil and gas properties is calculated using the unit-of-production method. Our DD&A rate and expense are the composite of numerous individual field calculations. There are several factors that can impact our

composite DD&A rate and expense, including but not limited to field production profiles, drilling or acquisition of new wells, disposition of existing wells, and reserve revisions (upward or downward) primarily related to well performance and commodity prices, and impairments. Changes in these factors may cause our composite DD&A rate and expense to fluctuate from period to period. DD&A decreased by 20%, or \$776,000, in 2011 when compared to 2010, primarily due to higher prices (per MBOE) that impacted our estimated total reserves, which are the basis for the depletion calculation, lower oil and gas production, and the impact of a 2010 impairment of \$5,751,000 on the depletable base used to calculate DD&A. On a per unit basis, depletion expense decreased by \$2.88 per MBOE to \$14.95 per MBOE in 2011 from \$17.83 per MBOE in 2010

- General and administrative expenses decreased by 43%, or \$636 thousand, in 2011 when compared to 2010. This decrease was primarily the result of the one-time payment made in 2010 to settle certain litigation with EOG Resources, LLC.
- General and administrative expenses increased by 6%, or \$52,000, in 2011 when compared to 2010. This increase was primarily due to higher expenditures for professional services.

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Other expenses (income)

| In thousands except percentages | Three Months Ended September 30, | | |
|--|----------------------------------|----------|------------|
| | 2011 | 2010 | D vs. 2010 |
| Interest expense, net | \$ 1,987 | \$ 1,923 | 3% |
| Realized gain on sale of investment | (15,910) | - | - |
| Net loss (gain) on derivative contracts | (6,801) | 1,683 | (504) |
| | \$ (20,724) | \$ 3,606 | (675)% |

Interest expense. Isramco's interest expense increased by 3%, or \$64,000, for the third quarter of 2011 compared to the same period of 2010. This increase is primarily due to a new loan obtained by the company that was used, along with other proceeds and capital, to make required payments on long term debt and to settle derivative contracts in the amount of \$7,007,000 which was partially offset by lower overall long term outstanding debt.

Sale of Marketable Securities. In August 2011 the company sold all of its investment in a company called MediaMind Ltd. The realized gain from this transaction amounted to \$15,910,000.

Net loss (gain) on derivative contracts. We enter into derivative commodity instruments to economically hedge our exposure to price fluctuations on our anticipated oil and natural gas production. Consistent with the prior year, we have elected not to designate any positions as cash flow hedges for accounting purposes. Accordingly, we recorded the net change in the mark-to-market value of these derivative contracts in the consolidated statement of operations.

At September 30, 2011, the Company had a \$8.2 million commodity derivative asset, of which \$4.5 million was classified as current. For the three months ended September 30, 2011, the Company recorded a net derivative gain of \$6.8 million (\$6 million unrealized gain and a \$0.8 million gain from net cash received on settled contracts).

At September 30, 2010, the Company had a \$5.8 million commodity derivative asset, of which \$4.4 million was classified as current, and a \$1.2 million non-current derivative liability. For the thr months ended September 30, 2010, the Company recorded a net derivative loss of \$1.7 million (\$3.4 million unrealized loss and a \$1.7 million gain from net cash received on settled contracts).

Adjusted EBITDAX.

To assess the operating results of Isramco, management analyzes income from operations before income taxes, interest expense, exploration expense, unrealized gain (loss) on derivative contracts and DD&A expense and impairments ("Adjusted EBITDAX"). EBITDAX is not a GAAP measure. Isramco's definition of Adjusted EBITDAX excludes exploration expense because exploration expense is not an indicator of operating efficiency for a given reporting period, but rather is monitored by management as a part of the costs incurred in exploration and development activities. Similarly, Isramco excludes DD&A expense and impairments from Adjusted EBITDAX as a measure of segment operating performance because capital expenditures are evaluated at the time capital costs are incurred. The Company's definition of Adjusted EBITDAX also excludes interest expense to allow for assessment of segment operating results without regard to Isramco's financing methods or capital structure. Adjusted EBITDAX is a widely accepted financial indicator of a company's ability to incur and service debt and fund capital expenditures and make payments on its long term loans and Management believes that the presentation of Adjusted EBITDAX provides information useful in assessing the Company's financial condition and results of operations.

However, Adjusted EBITDAX, as defined by Isramco, may not be comparable to similarly titled measures used by other companies. Therefore, Isramco's consolidated Adjusted EBITDAX should be considered in conjunction with income (loss) from operations and other performance measures prepared in accordance with GAAP, such as operating income or cash flow from operating activities. Adjusted EBITDAX has important limitations as an analytical tool because it excludes certain items that affect income from continuing operations and net cash provided by operating activities. Adjusted EBITDAX should not be considered in isolation or as a substitute for an analysis of Isramco's results as reported under GAAP. Below is a reconciliation of consolidated Adjusted EBITDAX to income (loss) from operations before income taxes.

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| In thousands except percentages | Three Months Ended September 30, | |
|---|----------------------------------|------------|
| | 2011 | 2010 |
| Income (loss) from operations before income taxes | \$ 22,607 | \$ (3,802) |
| Depreciation, depletion and amortization expense | 3,018 | 3,794 |
| Interest expense | 1,987 | 1,923 |
| Unrealized loss on derivative contract | (5,932) | 3,462 |
| Accretion Expenses | 216 | 231 |
| Consolidated Adjusted EBITDAX | \$ 21,896 | \$ 5,608 |

Nine Months Ended September 30, 2011 Compared to Nine Months Ended September 30, 2010

Selected Data

| | September 30, | |
|---|---------------|-----------|
| | 2011 | 2010 |
| (In thousands except per share and MBOE amounts) | | |
| Financial Results | | |
| Oil and Gas sales | \$ 33,55 | \$ 29,147 |
| Other | 519 | 473 |
| Total revenues and other | 34,074 | 29,620 |
| Cost and expenses | 29,552 | 29,787 |
| Other expense (income) | (13,463) | 114 |
| Income tax expenses (benefit) | 6,296 | (94) |
| Net income (loss) | 11,689 | (187) |
| Earnings per common share – basic and diluted | \$ 4.30 | \$ (0.07) |
| Weighted average number of shares outstanding-basic and diluted | 2,717,691 | 2,717,691 |
| Operating Results | | |
| Adjusted EBITDAX (1) | \$ 24,491 | \$ 15,811 |
| Sales volumes (MMBOE) | 606 | 625 |
| Average cost per MBOE: | | |
| Production (excluding transportation and taxes) | \$ 21.24 | \$ 17.7 |
| General and administrative | \$ 4.82 | \$ 4.41 |
| Depletion | \$ 14.75 | \$ 16.81 |

(1) See Adjusted EBITDAX for a description of Adjusted EBITDAX, which is not a Generally Accepted Accounting Principles (GAAP) measure, and a reconciliation of Adjusted EBITDAX to income from operations before income taxes, which is presented in accordance with GAAP.

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Financial Results

Net Income, in the nine months ended September 30, 2011; our net income was \$11,689,000, or \$4.30 per share. This compares to net loss of \$(187,000), or \$(0.07) per share, for the same period of 2010.

The increase in net income was primarily due to the impact of sale of marketable securities, derivatives, higher oil and NGLs sales revenues due to higher prices and lower depreciation, depletion and amortization expenses. This was partially offset by a decrease in sales volumes of natural gas, oil and natural gas liquids (“NGLs”) caused by natural decline in production, higher taxes paid due to increase in revenues and higher lease operating expenses.

Revenues, Volumes and Average Prices

Sales Revenues

| In thousands except percentages | Nine Months Ended September 30, | | |
|------------------------------------|---------------------------------|-----------|------------|
| | 2011 | 2010 | D vs. 2010 |
| Gas sales | \$ 8,271 | \$ 8,650 | (4)% |
| Oil sales | 19,910 | 16,323 | 22 |
| Natural gas liquid sales | 5,374 | 4,174 | 29 |
| Total | \$ 33,555 | \$ 29,147 | 15% |

Our sales revenues for the nine months ended September 30, 2011 increased by 15% when compared to same period of 2010 due to oil and condensate and NGLs commodity prices which were partially offset by natural decline in production.

Volumes and Average Prices

| | Nine Months Ended September 30, | | |
|---|---------------------------------|-----------|------------|
| | 2011 | 2010 | D vs. 2010 |
| Natural Gas | | | |
| Sales volumes Mmcf (2) | 1,692.10 | 1,756.94 | (4)% |
| Average Price per Mcf (1) \$ | 4.89 | 4.92 | (1) |
| Total gas sales revenues (thousands) | \$ 8,271 | \$ 8,650 | (4)% |
| Crude Oil | | | |
| Sales volumes MBbl | 211.03 | 215.66 | (2)% |
| Average Price per Bbl (1) \$ | 94.35 | 75.69 | 25 |
| Total oil sales revenues (thousands) | \$ 19,910 | \$ 16,323 | 22% |
| Natural gas liquids | | | |
| Sales volumes MBbl (2) | 112.81 | 116.49 | (3)% |
| Average Price per Bbl (1) \$ | 47.64 | 35.83 | 33 |
| Total natural gas liquids sales revenues (thousands) | \$ 5,374 | \$ 4,174 | 29% |

(1)

Amounts exclude the impact of cash paid/received on settled contracts as we did not elect to apply hedge accounting

- (2) At the end of 2010, the company sold interests in several oil and gas properties which resulted in lower natural gas, oil and natural gas liquids ("NGLs") volumes in 2011.

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The company's natural gas sales volumes decreased by 4%, crude oil sales volumes by 2% and natural gas liquids sales volumes by 3% for the nine months ended September 30, 2011 compared to the same period of 2010. This decrease was primarily caused by natural decline in production.

Our average natural gas price for the nine months ended September 30, 2011 decreased by 1%, or \$0.33 per Mcf, when compared to the same period of 2010. Our average crude oil price for the nine months ended September 30, 2011 increased by 25%, or \$18.66 per Bbl, when compared to the same period of 2010. Our average natural gas liquids price for the nine months ended September 30, 2011 increased by 33%, or \$11.81 per Bbl, when compared to the same period of 2010.

Analysis of Oil and Gas Operations Sales Revenues

The following table provides a summary of the effects of changes in volumes and prices on Isramco's sales revenues for the nine months ended September 30, 2011 compared to the same period of 2010.

| In thousands | Natural Gas | Oil | Natural gas liquids |
|---------------------------------------|-------------|-----------|---------------------|
| 2010 sales revenues | \$ 8,650 | \$ 16,323 | \$ 4,174 |
| Changes associated with sales volumes | (319) | (351) | (132) |
| Changes in prices | (60) | 3,938 | 1,332 |
| 2011 sales revenues | \$ 8,271 | \$ 19,910 | \$ 5,374 |

Operating Expenses

| In thousands except percentages | Nine Months Ended September 30, | | |
|---|---------------------------------|-----------|------------|
| | 2011 | 2010 | D vs. 2010 |
| Lease operating expense, transportation and taxes | \$ 16,854 | \$ 15,096 | 12% |
| Depreciation, depletion and amortization | 8,938 | 10,506 | (15) |
| Accretion expense | 634 | 639 | (1) |
| Loss from plug and abandonment | 207 | 790 | (74) |
| General and administrative | 2,919 | 2,756 | 6 |
| | \$ 29,552 | \$ 29,787 | (1)% |

During nine months ended September 30, 2011, our operating expenses decreased by 1% when compared to the same period of 2010 due to the following factors:

- Lease operating expense, transportation cost and taxes increased by 12%, or \$1,488,000 in 2011 when compared to 2010. This increase was the result of the costs associated with a plan we initiated last year to workover a number of our wells, along with the incremental costs involved in operating older, more mature fields that require additional repair and maintenance. In addition due to changes in regulatory requirements in Texas we incurred additional expenses regarding previously inactive wells in order to renew production in the future. Finally, the higher oil and NGL sale prices we received increased the taxes paid during 2011. On a per unit basis, lease operating expenses (excluding transportation and taxes) increased by \$3.27 per MBOE to \$21.24

per MBOE in 2011 from \$17.97 per MBOE in 2010.

- Depreciation, Depletion & Amortization (DD&A) of the cost of proved oil and gas properties is calculated using the unit-of-production method. Our DD&A rate and expense are the composite of numerous individual field calculations. There are several factors that can impact our composite DD&A rate and expense, including but not limited to field production profiles, drilling or acquisition of new wells, disposition of existing wells, and reserve revisions (upward or downward) primarily related to well performance and commodity prices, and impairments. Changes in these factors may cause our composite DD&A rate and expense to fluctuate from period to period. DD&A decreased by 15%, or \$1,568,000, in 2011 when compared to 2010, primarily due to higher prices (per MBOE) that impacted our estimated total reserves, which are the basis for the depletion calculation, lower oil and gas production, and the impact of a 2010 impairment of \$5,751,000 on the depletable base used to calculate DD&A. On a per unit basis, depletion expense decreased by \$2.06 per MBOE to \$14.75 per MBOE in 2011 from \$16.81 per MBOE in 2010.
- Accretion expense for asset retirement obligations decreased by 1%, or \$5,000 in 2011 when compared to 2010.
- General and administrative expenses increased by 6%, or \$163,000 in 2011 when compared to 2010 primarily due to higher professional services expenses.

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Other expenses (income)

| In thousands except percentages | Nine Months Ended September 30, | | |
|---|---------------------------------|----------|------------|
| | 2011 | 2010 | D vs. 2010 |
| Interest expense, net | \$ 6,090 | \$ 5,840 | 4% |
| Realized gain on sale of marketable securities | (15,910) | - | - |
| Net gain on derivative contracts | (3,643) | (5,726) | (36) |
| | \$ (13,463) | \$ 114 | (11,910)% |

Interest expense. Isramco's interest expense increased by 4%, or \$250 thousand, for the third quarter of 2011 compared to the same period of 2010. This increase is primarily due to a new loan obtained by the company that was used, along with other proceeds and capital, to make required payments on debt to Macquarie Bank, N.A in connection with assignment and transfer of Wells Fargo Senior Credit Facility which were partially offset by the lower average outstanding balance of the loans.

Sale of Marketable Securities. In August 2011 the company sold all of its investment in a company called MediaMind Ltd. The realized gain from this transaction amounted to \$15,910,000.

Net loss on derivative contracts. We enter into derivative commodity instruments to economically hedge our exposure to price fluctuations on our anticipated oil and natural gas production. Consistent with the prior year, we have elected not to designate any positions as cash flow hedges for accounting purposes. Accordingly, we recorded the net change in the mark-to-market value of these derivative contracts in the consolidated statement of operations.

At September 30, 2011, the Company had a \$8.2 million commodity derivative asset, of which \$4.5 million was classified as current. For the nine months ended September 30, 2011, the Company recorded a net derivative gain of \$3.6 million (\$9.2 million unrealized gain and a \$5.6 million loss from net cash paid on settled contracts).

At September 30, 2010, the Company had a \$5.8 million commodity derivative asset, of which \$4.4 million was classified as current, and a \$1.2 million non-current derivative liability. For the nine months ended September 30, 2010, the Company recorded a net derivative gain of \$5.7 million (\$0.9 million unrealized gain and a \$4.8 million gain from net cash received on settled contracts).

Adjusted EBITDAX.

To assess the operating results of Isramco, management analyzes income from operations before income taxes, interest expense, exploration expense, unrealized gain (loss) on derivative contracts and DD&A expense and impairments ("Adjusted EBITDAX"). EBITDAX is not a GAAP measure. Isramco's definition of Adjusted EBITDAX excludes exploration expense because exploration expense is not an indicator of operating efficiency for a given reporting period, but rather is monitored by management as a part of the costs incurred in exploration and development activities. Similarly, Isramco excludes DD&A expense and impairments from Adjusted EBITDAX as a measure of segment operating performance because capital expenditures are evaluated at the time capital costs are incurred. The Company's definition of Adjusted EBITDAX also excludes interest expense to allow for assessment of segment operating results without regard to Isramco's financing methods or capital structure. Adjusted EBITDAX is a widely accepted financial indicator of a company's ability to incur and service debt and fund capital expenditures and make payments on its long term loans and Management believes that the presentation of Adjusted EBITDAX provides information useful in assessing the Company's financial condition and results of operations.

However, Adjusted EBITDAX, as defined by Isramco, may not be comparable to similarly titled measures used by other companies. Therefore, Isramco's consolidated Adjusted EBITDAX should be considered in conjunction with income (loss) from operations and other performance measures prepared in accordance with GAAP, such as operating income or cash flow from operating activities. Adjusted EBITDAX has important limitations as an analytical tool because it excludes certain items that affect income from continuing operations and net cash provided by operating activities. Adjusted EBITDAX should not be considered in isolation or as a substitute for an analysis of Isramco's results as reported under GAAP. Below is a reconciliation of consolidated Adjusted EBITDAX to income (loss) from operations before income taxes.

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| In thousands except percentages | Nine Months Ended September 30, | |
|--|---------------------------------|-----------|
| | 2011 | 2010 |
| Loss from operations before income taxes | \$ 17,985 | \$ (281) |
| Depreciation, depletion and amortization expense | 8,938 | 10,506 |
| Interest expense | 6,090 | 5,840 |
| Unrealized loss (gain) on derivative contract | (9,156) | (893) |
| Accretion Expenses | 634 | 639 |
| Consolidated Adjusted EBITDAX | \$ 24,491 | \$ 15,811 |

ITEM 3. Quantitative and Qualitative Disclosures about Market Risk

Derivative Instruments and Hedging Activity

We are exposed to various risks, including energy commodity price risk. If oil and natural gas prices decline significantly our ability to finance our capital budget and operations could be adversely impacted. We expect energy prices to remain volatile and unpredictable, therefore we have adopted a risk management policy which provides for the use of derivative instruments to provide partial protection against declines in oil and natural gas prices by reducing the risk of price volatility and the affect it could have on our operations. The type of derivative instrument that we typically utilize is swaps. The total volumes which we hedge through the use of our derivative instruments varies from period to period,

We are exposed to market risk on our open derivative contracts of non-performance by our counterparties. However, we do not expect such non-performance because our contracts are with major financial institutions with investment grade credit ratings. Each of the counterparties to our derivative contracts is a lender in our Senior Credit Agreement. We did not post collateral under any of these contracts as they are secured under the Senior Credit Agreement.

We are also exposed to interest rate risk on our variable interest rate debt. If interest rates increase, our interest expense would increase and our available cash flow would decrease. We continue to monitor our risk exposure as we incur future indebtedness at variable interest rates and will look to continue our risk management policy as situations present themselves. Periodically, we look to utilize interest rate swaps to reduce the exposure to market rate fluctuations by converting variable interest rates to fixed interest rates.

We account for our derivative activities under the provisions of ASC 815, Derivatives and Hedging (ASC 815). ASC 815 establishes accounting and reporting that every derivative instrument be recorded on the balance sheet as either an asset or liability measured at fair value. See Item 1. Consolidated Financial Statements—Note 3, “Derivative contracts” for more details.

ITEM 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures.

In accordance with Exchange Act Rule 13a-15 and 15d-15, we carried out an evaluation, under the supervision and with the participation of management, including our Chief Executive Officer and our Chief Financial Officer, of the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of September 30, 2011 to provide reasonable assurance that information required to be

disclosed in our reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms. Our disclosure controls and procedures include controls and procedures designed to ensure that information required to be disclosed in reports filed or submitted under the Exchange Act is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

There were no changes in the Company's internal control over financial reporting that occurred during the most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

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PART II - Other Information

ITEM Legal Proceedings

1.

We disclosed information in our Quarterly Report on Form 10-Q for the three months ended September 30, 2010 and our Annual Report on Form 10-K for the year ended December 31, 2010, relating to three shareholder derivative petitions that were filed by individual shareholders of the Company in the District Court of Harris County, Texas. These petitions each named certain of our officers and directors as defendants. Each of these suits claims that the shareholders were damaged as a result of various breaches of fiduciary duty, self dealing and other wrongdoing in connection with the Restated Agreement between the Company and Goodrich, dated November 25, 2008 (the "Goodrich Agreement"), primarily on the part of the Company's Chairman and Chief Executive Officer, Haim Tsuff, and other directors along with other matters. These cases had all been previously consolidated into a single case, called Lead Cause No. 2009-34535; In Re Isramco, Inc. Shareholder Derivative Litigation (the "Derivative Litigation"); In the 55th Judicial District Court of Harris County, Texas (the "Court").

Although the defendants dispute the allegations of the plaintiffs and believe them to be without merit, subsequently, the derivative plaintiffs, the Company and the other defendants reached a tentative settlement of this litigation (the "Settlement"). Among the substantive provisions of the Settlement are that the Company has agreed to revise the Goodrich Agreement to delete section 2(ii) effective January 1, 2011, adopt and/or maintain certain corporate governance reforms and pay plaintiffs' counsel's attorneys' fees and expenses of \$1 million.

The Settlement received preliminary approval by the Court pursuant to the terms of the Preliminary Order Approving Derivative Settlement and Providing for Notice dated August 22, 2011. The Settlement is subject to final approval of the Court which had been scheduled for October 24, 2011. The Court's final approval is subject to various terms and conditions including the requirement that the notice of the Settlement be provided to shareholders by dissemination of Notice of Proposed Settlement of Derivative Action in the form approved by the Court (the "Notice") and related Stipulation of Settlement (the "Stipulation") by issuance of Current Report on Form 8-K ("8-K Notice Requirement") filed with the Securities and Exchange Commission (the "Commission") and publication of the Notice in the Investor's Business Daily. We have filed this Report on a Form 8-K on August 30, 2011 which satisfied the 8-K Notice Requirement and the Notice and Stipulation are filed as Exhibits to this Form 8-K to satisfy the Court's 8-K Notice Requirement.

On or about September 21, 2011, the Company's former general counsel, Dennis Holifield, resigned. On or about October 12, 2011, Mr. Holifield submitted a "Summary Report" to the Securities and Exchange Commission (the "Summary Report"), in which made numerous factual allegations regarding Haim Tsuff, the Company's Chief Executive Officer and Chairman; Edy Francis, the Company's Chief Financial Officer; Amir Sanker, the Company's Asset Manager; and other Company personnel. In the Summary Report, Mr. Holifield characterized the alleged conduct as illegal or criminal.

Mr. Holifield subsequently delivered a copy of the Summary Report to counsel for Plaintiffs in the Derivative Action and to counsel for Yuval Lapiner, the sole objector to the Settlement in the Derivative Action. Mr. Lapiner had previously filed an identical derivative action in Delaware Chancery Court, which action was dismissed in favour of the previously filed Texas action. On or around October 20, 2011, Mr. Lapiner filed a Supplemental Objection to the Proposed Settlement relying, in part, on allegations in Mr. Holifield's Summary Report. As a result of Mr. Holifield's allegations, Court rescheduled the final settlement hearing to December 12, 2011. On October 31, 2011 the Company received a written demand from, Mr. Holifield's attorney on the Company for \$900,000.

Messrs. Tsuff, Francis, and Sanker have reviewed all of Mr. Holifield's allegations and have advised the Company that they have not engaged in any criminal conduct or other illegal activity. As of November 3, 2011, the Company's Board of Directors has constituted a committee of independent directors consisting of Max Pridgeon and Asaf Yarkoni which has been directed to investigate all of the Holifield allegations and report back to the full board and make any recommendations, if any, for corrective action.

ITEM Risk Factors

1A.

None

ITEM Change in Securities & Use of Proceeds

2.

None

ITEM Default Upon Senior Securities

3.

None

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ITEM Removed and Reserved

4.

None

ITEM Other Information

5.

None

ITEM Exhibits

6.

Exhibits

31.1 Certification of Chief Executive Officer pursuant to Section 31 2 of Sarbanes-Oxley Act

31.2 Certification of Chief Financial Officer pursuant to Section 31 2 of Sarbanes-Oxley Act

32.1 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

32.2 Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 Of the Sarbanes-Oxley act of 2002

101.INS* XBRL Instance Document

101.SCH* XBRL Taxonomy Extension Schema

101.CAL* XBRL Taxonomy Extension Calculation Linkbase

101.DEF* XBRL Taxonomy Extension Definition Linkbase

101.LAB* XBRL Taxonomy Extension Label Linkbase

101.PRE* XBRL Taxonomy Extension Presentation Linkbase

* Pursuant to Rule 406T of Regulation S-T, these interactive data files are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933 or Section 18 of the Securities Exchange Act of 1934 and otherwise are not subject to liability.

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SIGNATURES

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, thereunto duly authorized.

ISRAMCO, INC

Date: NOVEMBER 9, 2011

By: /s/ HAIM TSUFF
HAIM TSUFF
CHIEF EXECUTIVE
OFFICER
(PRINCIPAL EXECUTIVE
OFFICER)

Date: NOVEMBER 9, 2011

By: /s/ EDY
FRANCIS
EDY FRANCIS
CHIEF FINANCIAL
OFFICER
(PRINCIPAL FINANCIAL
AND PRINCIPAL
ACCOUNTING OFFICER)

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