

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

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

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

FORM 10-K/A

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES  
EXCHANGE ACT OF 1934 FOR THE FISCAL YEAR ENDED DECEMBER 31, 2003

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

COMMISSION FILE NUMBER: 0-12500

ISRAMCO, INC.

(Exact name of registrant as specified in its charter)

Delaware 13-3145265  
(State or Other Jurisdiction (State or Other Jurisdiction of Incorporation) IRS Employer Identification No.)

11767 KATY FREEWAY, HOUSTON, TX 77079  
(Address of Principal Executive Offices)

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

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

Securities registered under Section 12(g) of the Exchange Act:  
Common Stock, par value \$0.001  
(Title of Class)

Indicate by check mark whether the issuer (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.  Yes  No

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act).  Yes  No

The aggregate market value of registrant's common stock at March 29, 2004 was \$9.67 million. Such market value was calculated by using the closing price of such common stock as of such date reported on the NASDAQ market.

As of March 30, 2004, the Registrant had outstanding 2,639,853 shares of \$0.01 par value Common Stock.

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## DOCUMENTS INCORPORATED BY REFERENCE

The information called for in Items 10, 11, 12, 13 and 14 in Part III will be contained in the issuer's definitive proxy statement which the registrant intends to file within 120 days after the end of the registrant's fiscal year ended December 31, 2003 and such information is incorporated herein by reference.

## EXPLANATORY NOTICE

This Amendment No. 1 to our Annual Report on Form 10-K for the fiscal year ended December 31, 2003, as originally filed on March 30, 2004, is being filed solely to revise the Selected Quarterly Financial Data. Registrant has amended the 2003 quarterly financials on Form 10-Q/A to reflect the plugging and abandonment obligations related to its oil and gas properties in accordance with the Statement of Financial Accounting Standards No. 143, Accounting for Asset Retirement Obligations ("SFAS 143") effective January 1, 2003.

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

## FORWARD LOOKING STATEMENTS

CERTAIN STATEMENTS MADE IN THIS ANNUAL REPORT ON FORM 10-K 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.

## PART I

### ITEM 1. DESCRIPTION OF BUSINESS

#### GENERAL

Since its formation in 1982, Isramco, Inc. ("Isramco" or the "Company") has been active in the exploration of oil and gas in Israel and in the United States. In

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Israel, the Company holds a participation interest in two long-term off-shore leases and serves as an operator of one. In addition the Company holds a participation interest in an off-shore license and also serves as the operator. See "Summary of exploration efforts in Israel".

In the United States, the Company, through its wholly-owned subsidiaries, Jay Petroleum LLC ("Jay Petroleum") and Jay Management LLC ("Jay Management"), is involved in oil and gas exploration and production in the United States. Jay Petroleum owns varying working interests in oil and gas wells in Louisiana, Texas, Oklahoma and Wyoming. Independent estimates of the reserves held by Jay Petroleum as of December 31, 2003 are approximately 136,000 net barrels of proved developed producing oil and 2,785 MMCFs of proved developed producing natural gas. See "Summary of Exploration Efforts in United States".

### THE OPERATOR OF THE ISRAELI LEASES/LICENSES

Under a joint operating agreement entered into among the participants in the off-shore leases and licenses (collectively, the "JOA"), each party participates in all the costs, expenses and obligations incurred in relation to a contract area in the same proportion as its rights and interests in such contract area. Under the JOA, the Operator carries out all the operations contemplated in the JOA, in the framework of approved Work Programs and within the limitations of approved budgets (AFE's). The Operator may be removed for cause, by notice in writing given by two or more of the other parties representing at least 65% of the total interests in a contract area.

The Company is currently the Operator of the Med Ashdod Lease and the 3-year Marine South license granted in January 2002. As the Operator, the Company is responsible for directing the oil exploration and drilling activities of each Venture through its Branch Office in Petach Tikva, Israel. With [eight full-time employees], outside consultants and subcontractors, the Company carries out the operations of each Venture within the framework of approved work programs

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and budgets and pursuant to the terms of a JOA. With respect to the Med Yavne Lease, the Company furnishes to BG International Limited, a member of the British Gas Group ("BG"), the operator of the lease, consulting services of an administrative and technical nature for which it receives a monthly fee equal to \$10,000.

As operator, the Company charges each venture participant for all costs incurred in connection with the exploration and drilling activities conducted by each venture and is entitled to receive a fee for its administrative overhead equal to 6% of all direct charges or minimum monthly compensation of \$6,000 per each License/Lease. During the year ended December 31, 2003, the Company was paid a total of \$753,000 as operator fees.

### GENERAL PARTNER FOR THE ISRAMCO NEGEV 2 LIMITED PARTNERSHIP

In 1989 the Company formed in Israel the Isramco Negev 2 Limited Partnership (the "Limited Partnership") to acquire from the Company a substantial portion of its working interest in the Negev 2 Venture, the venture which the Company and related parties established to hold the rights to the certain oil and gas properties. In exchange for working interests, the Limited Partnership granted to the Company certain overriding royalties. In 1992, the Company transferred to the Limited Partnership additional rights in exchange for additional overriding royalties and reimbursement of expenses. The Company created Isramco Oil and Gas Ltd. ("IOG"), a wholly-owned subsidiary to act as the General Partner for the

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Limited Partnership and formed Isramco Management (1988) Ltd., a wholly-owned subsidiary to act as the Limited Partner and the nominee of Limited Partnership units held by public investors in Israel.

Pursuant to the Limited Partnership Agreement and the Trust Agreement, a Supervisor was appointed on behalf of the Limited Partnership unit holders, with sole authority to appoint the sole director for Isramco Management (1988) Ltd. and to supervise its activities on behalf of and for the benefit of the Limited Partnership unit holders. The control and management of the Limited Partnership vests with the General Partner, however, matters involving certain rights of the Limited Partnership unit holders are subject to the supervision of the Supervisor and in certain instances the approval of the Limited Partnership unit holders. The firm of Igal Brightman & Co., Accountants and Mr. David Valiano, Accountant has been appointed as Supervisors.

The Company currently receives through IOG a management fee of \$40,000 per month from the Limited Partnership for office space, management and other services. It has been significant to the Company that the Limited Partnership (in part through the efforts of the Company and others), has been able to raise monies from the public in Israel to fund the Limited Partnership's share of the work programs for the Petroleum Assets in connection with the continuation of oil and gas exploration activities in Israel and to preserve the existence of the Company's overriding royalties. The Company currently holds 6.65% of the issued Partnership units and IOG holds an additional 0.008% of the Partnership units. On December 31, 2003, the Limited Partnership had cash, cash equivalents, certificates of deposit and marketable securities with a value of approximately \$114 million.

Additionally, IOG (as the general partner) is entitled to 5% overriding royalties in certain petroleum assets held by the Limited Partnership.

### NON-OIL AND GAS PROPERTIES

In June 2002, the Company purchased non oil and gas producing real estate located in Israel at an aggregate cost of \$ 1,887,000. Concurrently with the purchase of the real estate, the Company entered into a lease agreement with a third party to lease the property for a 24-month period at a monthly rent of \$7,000.

In March 2004, the Company completed the purchase of a luxury cruise liner for aggregate consideration of \$8,050,000. The Vessel, a Bahamas flagged ship, contains 270 passenger cabins spread out over nine decks. The Company has secured commercial bank loans for approximately \$7.5 million of the purchase price, to be secured by a lien on the Vessel, marketable securities and a Company guarantee. The Company is currently in discussions with several luxury cruise operators for the purpose of commercially leasing the Vessel as a luxury cruise liner. No assurance can be given that the Company will be able to conclude any leasing arrangement on commercially acceptable terms.

In addition, the Company holds certain equity interests in a high-tech venture. See "Management's Discussion and Analysis of Financial Condition--- Liquidity and Capital Resources."

### OIL AND GAS VENTURES AND PETROLEUM ASSETS

### OIL AND GAS VENTURES AND PETROLEUM ASSETS LOCATED IN ISRAEL

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The table below sets forth the Working Interests and Petroleum Assets of the Company and all affiliated and non-affiliated participants in (i) the Ventures, (ii) the Petroleum Assets, (iii) the total acreage of each Petroleum Asset, and (iv) the expiration dates of each of the licenses as of December 31, 2003. This information pertains only to Petroleum Assets located in Israel. The Company also holds Overriding Royalties in the Petroleum Assets. See "Table of Overriding Royalties".

TABLE OF PETROLEUM ASSETS (WORKING INTEREST)  
OIL AND GAS VENTURES (1) (3)  
(% Interest of 100%)

Name of Participant	Med Yavne Lease*	Med Ashdod Lease** (2)
The Company	0.4584	0.3625
Affiliates		
Isramco Negev 2, Limited Partnership	32.411	19.1370
I.N.O.C. Dead Sea Limited Partnership	--	5.0525
Naphtha	1.8033	1.8411
Naphtha Explorations Limited Partnership	2.2826	1.8411
JOEL	2.8807	--
Equital	2.1639	--
Non-affiliated entities		
Delek Drilling LP	8.000	21.7658
GRANIT - SONOL LP	--	35.000
BG International Ltd.	35.000	--
Middle East Energy (MEE) LP	13.200	13.200
DOR - Gas LP	1.800	1.8000
Total	100.000	100.000
Area (acres)	13,100	61,800
Expiration Date	6/10/2030	6/15/2030

\* The lease was granted in June 2000 and is scheduled to expire in June 2030.

\*\* The lease was granted in January 2002 and is scheduled to expire in June 2030.

(1) Subject to the fulfillment of applicable provisions of the Israel Petroleum Law and Regulations, and the conditions and work obligations of each of the

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above licenses/Leases.

(2) Under the Grant Agreement with the Government of Israel, the Government may claim that the Company is contingently obligated to repay to the Government the Grant monies in the amount of \$110,000 and to pay a 6.5 % Overriding Royalty on all production from the area.

(3) All of the Petroleum Assets are subject to a 12.5% Overriding Royalty due to the Government of Israel under the Petroleum Law.

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Name of Participant	Marine South
Company	1
Isramco Negev 2 Limited Partnership	59
Modein Energy Limited Partnership	10
Naphtha Explorations Limited Partnership	15
I.N.O.C. Dead Sea Limited Partnership	15
Total	100
Acres	35,000
Expiration Date	1/15/05

### OVERRIDING ROYALTIES HELD BY THE COMPANY

The Company holds overriding royalties in certain petroleum assets. Additionally, in connection with the BG Transaction, the Company is entitled to receive from each member of the Isramco Group overriding royalties equal to 2% of each such member's rights to any oil/gas produced within the existing offshore licenses or within any new licenses or to any oil or gas rights which may be obtained in lieu of existing offshore licenses. The Company holds the following Overriding Royalties:

#### TABLE OF OVERRIDING ROYALTIES

From the Limited Partnership, on the first 10% of the Limited Partnership's share of the following Petroleum Licenses

	Before Payout	After Payout
Med Yavne Lease*	1%	13%
Med Ashdod Lease**	1%	13%
From JOEL	On 8% of JOEL's Interest	

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	Before Payout	After Payout
Med Ashdod Lease	2.5%	12.5%
From Delek Oil Exploration Ltd. (DOEX) (1) (2)	On 6% of DOEX's Interest	
	Before Payout	After Payout
Med Ashdod Lease	2.5%	12.5%
From Naphtha, Naphtha Exploration LP, Joel, Equital, INOC Dead Sea L P on oil and/or gas produced on the Med Leases		2%
To IOC On Certain petroleum rights held by Limited Partnership		5%

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\* A 30 year lease covering an area of approximately 53 square kilometers (including the area of the gas discovery) was granted in June 2000.

\*\* A 30-year lease covering an area of approximately 250 square kilometers (including the area of the gas discovery) was granted in January 2002.

(1) The Working Interests of Delek and DOEX have been assigned to Delek Drilling Limited Partnership.

(2) In a prospectus of the Delek Limited Partnership dated January 26, 1994 it is stated that the Interest which the Delek L.P, received from Delek and DOEX is free from any encumbrances except that Isramco, Inc. may argue that the Interests are subject to an overriding royalty. The Company has no information available to it as to why this statement is in the Delek L.P. prospectus. Summary Description of the Ventures, the Petroleum Assets, Related Work Obligations and Exploration Efforts.

The Company has no financial obligation with regard to the Overriding Royalties, however, in the event the Limited Partnership, JOEL, DOEX or Delek, fails to fund its obligation with regard to a Petroleum Asset to which an Overriding Royalty exists, the Company could lose its interest in such Overriding Royalty. See Glossary for definition of "Payout".

### SUMMARY OF EXPLORATION EFFORTS IN ISRAEL

#### MED YAVNE LEASE

Based on the gas finds known as "Or 1" and "Or South", a 30 years lease was granted in June 2000 (hereinafter: the "Med Yavne Lease"). The Med Yavne Lease covers 53 square kilometers (approximately 13,000 acres) offshore Israel. The operator of the Med Yavne Lease is BG International Limited, a member of the British Gas Group ("BG").

According to the operator's estimated, which are based on the results of the drillings in the "Or 1" and "Or South" wells, and a three-dimensional seismic survey performed in the area of the lease, and which also covered parts of nearby gas reserves (outside the area of the lease), the recoverable gas reserves in the Med Yanve Lease is estimated at 93 billion cubic feet. In November 2002, the Company received an opinion from a consulting firm in the United States that performed a techno-economic examination for the development of the "Or 1" reserve. The opinion indicates that, under certain assumptions,

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development of the reserve by connection to a nearby extraction platform (at a distance of 7 Miles) and from there via a transportation pipe to the coast, may be economically feasible.

The Company's participation share of the Med Yavne Lease is 0.4585%.

### MED ASHDOD LEASE

Following the results of "Nir 1" drilling, a 30 year lease was granted in January 2002. The Med Ashdod Lease covers approximately 250 square kilometers (approximately 62,000 acres) offshore Israel. The Company serves as the operator of the Med Ashdod Lease and holds a 0.3625% interest therein.

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

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

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At a partners meeting held on April 3, 2003, certain of the partners announced their readiness to participate in the confirmation well. On April 30, 2003, the operator, on behalf of Isramco Negev 2 Limited Partnership, one of the partners, issued to the partners a sole risk notice regarding the drilling of the confirmation gas well (Nir-2). As certain of the partners declined to participate in the well, the participation of Isramco Negev 2 Limited partnership in the well increased to 56.17805%.

The Nir - 2 confirmation well was spud on September 1, 2003. On October 8, 2003, production tests commenced, in accordance with the recommendation given by the operator's consultants. On November 19, 2003 the operator presented the partners with an analysis of the results of the production test, which indicated that it is not economically feasible to produce gas from the "Nir 2" well. The total cost of the "Nir 2" well amounted to \$10 million. On February 15, 2004 the operator notified the partners that based on the data analyzed, production of gas from the "Nir 1" well is not economically feasible.

On February 15, 2004 the operator presented the partners with two drilling prospect: a) Nizanim 1 well b) Yam-3 well to a total depth of 5700 meter (18,700 feet), with a total budget of \$40 million. As of the filing of this report on Form 10-K, the Company did not receive notice of the partners' decision.

### MARINE CENTER LICENSE

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



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interests were held by affiliated entities.

In December 2000, Romi 1 well was drilled. Following analysis of the logs, it was decided to plug and abandon the well. In December 2003 the Marine Center License expired.

### MARINE SOUTH LICENSE

In January 2000, the Company was awarded an offshore preliminary permit known as Marine South, covering an area of approximately 142 square kilometers offshore Israel known as "Marine South" and an additional permit known as "Marine South B", covering an area of approximately 40 square kilometers offshore Israel. The permits include a preferential right to obtain a license. In January 2002, Israeli Petroleum Commissioner issued a license in respect of the area covered by the Marine South permit (hereinafter, the "Marine South License"), which license continues in effect through January 15, 2005 and is subject to (i) the performance of a seismic 3D survey and the processing of the results thereof no later than February 15, 2004, (ii) the preparation of an oil drilling prospect by June 15, 2004 and (iii) the drilling of a well no later than December 15, 2004. The Company serves as operator of the License and holds a 1% participation interest in the License; the remaining participation interests are held by affiliated entities.

As there were no seismic vessels in the general vicinity, a seismic survey was not conducted by February 15, 2004 and, consequently, in February 2004, the Petroleum Commissioner requested that the Company relinquish the license. The Company is currently appealing this decision.

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### SUMMARY OF EXPLORATION EFFORTS IN THE UNITED STATES

The Company, through its wholly-owned subsidiaries, Jay Petroleum LLC ("Jay Petroleum") and Jay Management LLC ("Jay Management"), is involved in oil and gas production in the United States. Jay Petroleum owns varying working interests in oil and gas wells in Louisiana, Texas, Oklahoma and Wyoming. Independent estimates of the reserves held by Jay Petroleum as of December 31, 2003 are approximately 136,000 net barrels of proved developed producing oil and 2,785 net MMCFs of proved developed producing natural gas. Jay Management acts as the operator of certain of the producing oil and gas interests owned or acquired by Jay Petroleum.

In March 2003 gas production from Hoover 4 well located in Oklahoma commenced. In June 2003 the Company purchased a 55% working Interest in 13 non producing wells located in west Texas for an aggregate purchase price of approximately \$264,000. Certain of the wells were re-entered for purposes of commercial production and are currently producing. The Company's share of the re-entry costs is approximately \$125,000. The Company anticipates re-entering the remaining wells.

In addition, the Company purchased a 30% interest in a currently non-producing well for aggregate purchase price of approximately \$28,000. To date, the Company expended approximately \$100,000 to commence commercial production. The well is currently producing.

### WRITE-OFF/EXPIRATION OF INTERESTS IN THE CONGO

The Company formerly held oil and gas properties in the Congo. These consisted of the Marine III Exploration Permit and the Marine 9 Exploration Permit. The Company held a 25% participation interest in the Marine III Exploration Permit

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(through its affiliate Naphtha Congo Ltd). The Company's participation interest in the Marine 9 Exploration Permit was comprised of 5% (through Naphtha Congo (1995) Limited Partnership, an affiliate); the remaining participants in the Marine 9 License are recognized well-known oil companies.

In March 2003, Naphtha Congo, the operator of the Marine III Exploration Permit, decided to discontinue the planned work program principally because it did not believe that the continuation of such program was commercially reasonable. Based on management's belief the Company wrote-off during the year, 2003 the amount of \$150,000 representing the Company's investment in Marine III Permit. In June 2003 the Marine III Permit expired.

In April 2003, Naphtha Congo received notice from the Congolese Ministry of oil that the republic of the Congo has decided to retrieve the rights of Naphtha Congo Ltd in Marine III, providing as a reason Naphtha Congo's non-performance of the required work program. Under applicable law, the Congolese Government is entitled to request reimbursement in the amount of funds not expended on the required work program. Naphtha Congo received a letter dated May 16, 2003 from the Congolese Government official supervising oil and gas exploration demanding that Naphtha Congo remit an unspecified amount equivalent to the aggregate work obligations that were not undertaken and a penalty of \$294,000.

In December 2003 the Marine 9 Exploration Permit expired.

### EMPLOYEES

As of March 29, 2004, the Company had eight employees at its branch office in Israel and three employees in its office in Houston, Texas.

### RISK FACTORS

In addition to the other information contained in this Annual Report on Form 10-K, investors should consider carefully the following risks. If any of these risks occurs, the Company's business, financial condition or operating results could be adversely affected.

#### OIL AND GAS DRILLING IS A SPECULATIVE ACTIVITY AND IS RISKY.

The Company is engaged in the business of oil and natural gas exploration and the resulting development of productive oil and gas wells. The Company's growth will be materially dependent upon the success of its future drilling

program. Drilling for oil and gas involves numerous risks, including the risk that no commercially productive oil or natural gas reservoirs will be encountered. The cost of drilling, completing and operating wells is substantial and uncertain, and drilling operations may be curtailed, delayed or cancelled as a result of a variety of factors beyond the Company's control, including unexpected drilling conditions, pressure or irregularities in formations, equipment failures or accidents, adverse weather conditions, compliance with governmental requirements and shortages or delays in the availability of drilling rigs or crews and the delivery of equipment. Although the Company believes that its use of 3-D seismic data and other advanced technology should increase the probability of success of its wells and should reduce average finding costs through elimination of prospects that might otherwise be drilled solely on the basis of 2-D seismic data and other traditional methods, drilling remains an inexact and speculative activity. In addition, the use of 3-D seismic data and such technologies requires greater pre-drilling expenditures than traditional drilling strategies and the Company could incur losses as a result

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of such expenditures. The Company's future drilling activities may not be successful and, if unsuccessful, such failure could have an adverse effect on the Company's future results of operations and financial condition. Although the Company may discuss drilling prospects that have been identified or budgeted for, the Company may ultimately not lease or drill these prospects within the expected time frame, or at all. The Company may identify prospects through a number of methods, some of which do not include interpretation of 3-D or other seismic data. The drilling and results for these prospects may be particularly uncertain. The final determination with respect to the drilling of any scheduled or budgeted wells will be dependent on a number of factors, including (i) the results of exploration efforts and the acquisition, review and analysis of the seismic data, (ii) the availability of sufficient capital resources to the Company and the other participants for the drilling of the prospects, (iii) the approval of the prospects by other participants after additional data has been compiled, (iv) economic and industry conditions at the time of drilling, including prevailing and anticipated prices for oil and natural gas and the availability of drilling rigs and crews, (v) the Company's financial resources and results (vi) the availability of leases and permits on reasonable terms for the prospects and (vii) the payment of royalties to lessors. There can be no assurance that these projects can be successfully developed or that the wells discussed will, if drilled, encounter reservoirs of commercially productive oil or natural gas. There are numerous uncertainties in estimating quantities of proved reserves, including many factors beyond the Company's control.

THE OIL AND NATURAL GAS RESERVE DATA INCLUDED IN THIS REPORT ARE ONLY ESTIMATES AND MAY PROVE TO BE INACCURATE.

There are numerous uncertainties inherent in estimating oil and natural gas reserves and their estimated values. The reserve data in this report represent only estimates that may prove to be inaccurate because of these uncertainties. Estimates of economically recoverable oil and natural gas reserves depend upon a number of variable factors, such as historical production from the area compared with production from other producing areas and assumptions concerning effects of regulations by governmental agencies, future oil and natural gas prices, future operating costs, severance and excise taxes, development costs and workover and remedial costs, some or all of these assumptions may in fact vary considerably from actual results. For these reasons, estimates of the economically recoverable quantities of oil and natural gas attributable to any particular group of properties, classifications of such reserves based on risk of recovery, and estimates of the future net cash flows expected therefrom prepared by different engineers or by the same engineers but at different times may vary substantially. Accordingly, reserve estimates may be subject to downward or upward adjustment. Actual production, revenue and expenditures with respect to the Company's reserves will likely vary from estimates, and such variances may be material.

THERE IS A POSSIBILITY THAT THE COMPANY WILL LOSE THE LEASES TO ITS OIL AND GAS PROPERTIES.

The Company's oil and gas revenues are generated through leases to the oil and gas properties or, in the case of Israeli based properties, licenses that, subject to certain conditions, may result in leases being granted. The leases are subject to certain obligations and are renewable at the discretion of various governmental authorities, as such, the Company may not be able to fulfill its obligations under the leases which may result in the modification or cancellation of such leases, or such leases may not be renewed or may be renewed on terms different from the current leases. The modification or cancellation of the Company's leases may have a material impact on the Company's revenues.

COMPETITION IN THE INDUSTRY MAY IMPAIR THE COMPANY'S ABILITY TO EXPLORE, DEVELOP AND COMMERCIALIZE ITS OIL AND GAS PROPERTIES.

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The oil and natural gas industry is very competitive. Competition is particularly intense in the acquisition of prospective oil and natural gas properties and oil and gas reserves. The Company competes with a substantial number of other companies having larger technical staffs and greater financial and operational resources. Many such companies not only engage in the acquisition, exploration, development and production of oil and natural gas reserves, but also carry on

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refining operations, electricity generation and the marketing of refined products. The Company also competes with major and independent oil and gas companies in the marketing and sale of oil and natural gas, and the oil and natural gas industry in general competes with other industries supplying energy and fuel to industrial, commercial and individual consumers. The Company competes with other oil and natural gas companies in attempting to secure drilling rigs and other equipment necessary for drilling and completion of wells. Such equipment may be in short supply from time to time.

THE COMPANY'S BUSINESS MAY BE ADVERSELY AFFECTED BY OIL AND GAS PRICE VOLATILITY.

Historically, natural gas and oil prices have been volatile. These prices rise and fall based on changes in market demand and changes in the political, regulatory and economic climate and other factors that affect commodities markets that are generally outside of the Company's control. Some of the Company's projections and estimates are based on assumptions as to the future prices of natural gas and crude oil.. These price assumptions are used for planning purposes. The Company expects that its assumptions will change over time and that actual prices in the future may differ from its estimates. Any substantial or extended decline in the actual prices of natural gas and/or crude oil may have a material adverse effect on the Company's financial position and results of operations (including reduced cash flow and borrowing capacity), the quantities of natural gas and crude oil reserves that it can economically produce and the quantity of estimated proved reserves that may be attributed to its properties

THE COMPANY HAS NO MEANS TO MARKET ITS OIL AND GAS PRODUCTION WITHOUT THE ASSISTANCE OF THIRD PARTIES.

The marketability of the Company's production depends upon the proximity of its reserves to, and the capacity of, facilities and third party services, including oil and natural gas gathering systems, pipelines, trucking or terminal facilities, and processing facilities. The unavailability or lack of capacity of such services and facilities could impair or delay the production of new wells or the delay or discontinuance of development plans for properties. A shut-in or delay or discontinuance could adversely affect the Company's financial condition. In addition, regulation of oil and natural gas production transportation in the United States or in other countries may affect its ability to produce and market its oil and natural gas on a profitable basis.

THE COMPANY'S NON-OIL AND GAS PROPERTIES MAY PROVE RISKY.

The Company completed the purchase in March 2004 of a luxury cruise liner for approximately \$8 million. The Company also owns real estate properties in the state of Israel. See "Description of Business." While the Company believes that it will be able to exploit commercial opportunities associated with leasing the luxury liner and leasing or developing the real estate, no assurance can be given that the Company will be able to conclude any such agreements on commercially acceptable terms.

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THE COMPANY IS SUBJECT TO RISKS ASSOCIATED WITH OPERATIONS IN ISRAEL.

The Company is involved in oil and gas exploration activities in Israel as operator of certain offshore licenses or otherwise. The Company also purchased significant non-oil and gas real-estate properties in Israel. The Company also maintains a significant presence within Israel. Accordingly, a significant portion of the Company's business is directly affected by prevailing economic, military and political conditions that affect Israel. Any major hostilities involving Israel might have a material adverse effect on the Company's business, financial condition or results of operations.

THE COMPANY IS SUBJECT TO RISKS ASSOCIATED WITH INTERNATIONAL OPERATIONS.

The Company conducts business from its facilities in Israel and the United States. Its international operations and activities subject the Company to a number of risks, including the risk of political and economic instability, difficulty in managing foreign operations, potentially adverse taxes, higher expenses and difficulty in collection of accounts receivable. Although the Company Israeli subsidiary receives most of its operating funds in U.S. dollars, a portion of its payroll and other expenses and certain of its investments are fixed in the currency of Israel. Because the Company's financial results are reported in U.S. dollars, they are affected by changes in the value of the various foreign currencies that the Company uses to make payments in relation to the U.S. dollar.

THE COMPANY'S OPERATIONS MAY BE IMPACTED BY CERTAIN RISKS COMMON IN THE INDUSTRY.

The Company's exploration and drilling operations are subject to various risks common in the industry, including cratering, explosions, fires and uncontrollable flows of oil, gas or well fluids. The drilling operations are also subject to the risk that no commercially productive natural gas or oil reserves will be encountered. The cost of drilling, completing and operating wells is often uncertain, and drilling operations may be curtailed, delayed or canceled as a result of a variety of factors, including drilling conditions, pressure or irregularities in formations, equipment failures or accidents and adverse weather conditions.

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In accordance with industry practice, the Company maintains insurance against some, but not all, of the risks described above. The Company cannot provide assurance that its insurance will be adequate to cover losses or liabilities. Also, it cannot predict the continued availability of insurance at premium levels that justify its purchase.

GOVERNMENT REGULATION AND LIABILITY FOR ENVIRONMENTAL MATTERS MAY ADVERSELY AFFECT THE COMPANY'S BUSINESS AND RESULTS OF OPERATIONS.

Oil and natural gas operations are subject to various federal, state and local government regulations, which may be changed from time to time.. Matters subject to regulation include discharge permits for drilling operations, drilling bonds, reports concerning operations, the spacing of wells, unitization and pooling of properties and taxation. From time to time, regulatory agencies have imposed price controls and limitations on production by restricting the rate of flow of oil and natural gas wells below actual production capacity in order to conserve supplies of oil and natural gas. There are federal, state and local laws and regulations primarily relating to protection of human health and the environment

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applicable to the development, production, handling, storage, transportation and disposal of oil and natural gas, by-products thereof and other substances and materials produced or used in connection with oil and natural gas operations. In addition, the Company may be liable for environmental damages caused by previous owners of property it purchases or leases. As a result, the Company may incur substantial liabilities to third parties or governmental entities. The Company is also subject to changing and extensive tax laws, the effects of which cannot be predicted. The implementation of new, or the modification of existing, laws or regulations could have a material adverse effect on the Company's business.

THE COMPANY'S STOCK PRICE IS VOLATILE AND COULD CONTINUE TO BE VOLATILE.

Investor interest in the Company's common stock may not lead to the development of an active or liquid trading market. The market price of the Company's common stock has fluctuated in the past and is likely to continue to be volatile and subject to wide fluctuations. In addition, the stock market has experienced extreme price and volume fluctuations. The stock prices and trading volumes for the Company's stock has fluctuated widely and may continue to so for reasons that may be unrelated to business or results of operations. General economic, market and political conditions could also materially and adversely affect the market price of the Company's common stock and investors may be unable to resell their shares of common stock at or above their purchase price.

PENNY STOCK REGULATIONS ARE APPLICABLE TO INVESTMENT IN SHARES OF THE COMPANY'S COMMON STOCK.

Broker-dealer practices in connection with transactions in "penny stocks" are regulated by certain penny stock rules adopted by the Securities and Exchange Commission. Penny stocks generally are equity securities with a price of less than \$5.00 (other than securities registered on certain national securities exchanges or quoted on the Nasdaq system, provided that current prices and volume information with respect to transactions in such securities are provided by the exchange or system). The penny stock rules require a broker-dealer, prior to a transaction in a penny stock not otherwise exempt from the rules, to deliver a standardized risk disclosure document that provides information about penny stocks and the risks in the penny stock market. The broker-dealer also must provide the customer with current bid and offer quotations for the penny stock, the compensation of the broker-dealer and its salesperson in the transaction, and monthly account statements showing the market value of each penny stock held in the customer's account. In addition, the penny stock rules generally require that prior to a transaction in a penny stock the broker-dealer make a special written determination that the penny stock is a suitable investment for the purchaser and receive the purchaser's written agreement to the transaction. These disclosure requirements may have the effect of reducing the level of trading activity in the secondary market for a stock that becomes subject to the penny stock rules. Many brokers will not deal with penny stocks; this restricts the market.

### ITEM 2. PROPERTIES

The Company maintains offices in Houston, Texas. The Company has a lease for office premises (approximately 2,015 square feet) at 11767 Katy Freeway, Houston, TX 77079 expiring in October 2006 with a monthly rental of \$2,400. The Company anticipates that it will be able to extend the lease, or find replacement premises, on commercially reasonable terms.

The Company also leases office space in Israel from Naphtha at 8 Granit St., Petach Tikva. In 2003, the Company paid Naphtha an aggregate of \$197,000 for rental space, office services, secretarial services and computer services. The Company believes that the payment for the above services are reasonable compared to other similar locations.

ITEM 3. LEGAL PROCEEDINGS

The Company, together with Naphtha Congo Ltd., an Israeli and related entity ("Naphtha Congo"), were served in October 2002 in District Court of Harris county, Texas, with summons and complaint by Romfor International Ltd., a contractor ("Contractor") who provided drilling services in the Tilapia permit in the Congo, alleging breach of contract and damages of approximately \$1.5 million and moving for court ordered arbitration. The Contractor and Naphtha Congo entered into a drilling agreement in October 2000 with respect to the Tilapia 1 well. The Company indirectly held, through Naphtha Congo, a 50% participation interest in the Tilapia 1 well.

The Company filed its answer on October 18, 2002, wherein it denied all allegations made and denied that it is a proper party to the suit and moved to dismiss the complaint. On March 20, 2003, the court granted the Company's motion to compel arbitration against Naphtha Congo. Subsequently, the contractor moved for a new trial and, on July 8, 2003, the court denied the contractor's motion for a new trial. On November 3, 2003 the arbitrator's award was forwarded to Naphtha Congo. According to the Arbitrator's award, Naphtha Congo is obliged to pay the contractor the amount of \$693,523 as funds due under the drilling contract and in addition, interest at the rate of 18% per annum.

From time to time, the Company is involved in disputes and other legal actions arising in the ordinary course of business. In management's opinion, none of these other disputes and legal actions is expected to have a material impact on the Company's consolidated financial position or results of operations.

RECENT DEVELOPMENT

On February 10, 2004, the Company initiated a lawsuit in the Superior Court of California, County of Los Angeles, against several named defendants (collectively, the "Defendants"), alleging breach of contract and tort claims in connection with an agreement between the Company and the Defendants to jointly purchase and develop certain parcels of real estate outside Los Angeles. In its lawsuit, the Company is seeking damages in excess of \$50 million. Responses are not due until April 9, 2004.

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

During the fourth quarter of the fiscal year covered by this report, no matter was submitted to a vote of security holders of the Company.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

The number of record holders of the Company's Common Stock on March 29, 2004 was approximately 565, not including an undetermined number of persons who hold their stock in street name. The Company's stock trades under the symbol ISRL.

The high and low daily closing sales prices as reported on the National Association of Securities Dealers Automated Quotations System National Market System are shown in the table below for each quarter during 2003 and 2002.

	Common Stock	
Quarter Ended	High	Low

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2003		
March 31	\$4.43	\$2.35
June 30	\$4.60	\$2.78
September 30	\$4.60	\$3.66
December 31	\$7.74	\$3.95
2002		
March 31	\$4.25	\$3.60
June 30	\$4.20	\$3.25
September 30	\$3.50	\$2.23
December 31	\$3.15	\$1.89

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The Company has not declared or paid any cash dividends on its Common Stock. The Company does not anticipate paying any cash dividends on its Common Stock in the foreseeable future. The Company intends to retain all earnings for use in its business operations and in expansion.

(ii) The following table sets forth certain required information relating to the shares of Common Stock issuable on an aggregated basis under the Company's 1993 Stock Option Plan.

EQUITY COMPENSATION PLAN INFORMATION

Plan Category	Number of securities to be issued upon exercise of outstanding options.	Weighted-average price of outstanding options.	Number of securities remaining available for future issuance.
Equity compensation plans approved by security holders	29,750	\$21.00	20,250
Equity compensation plans not approved by security holders	139,990	\$ 4.28	--
	-----	-----	-----
Total	169,740	\$ 7.21	20,250

ITEM 6. SELECTED FINANCIAL DATA (CONSOLIDATED)

The data presented below with respect to the Company should be read in conjunction with the Consolidated Financial Statements and related Notes thereto of the Company included elsewhere in this Report and Item 7-- "Management's Discussion and Analysis of Financial Condition and Results of Operations." (in Thousands)

2003                      2002                      2001                      2000



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Operator's fees	\$753	\$249	\$234	\$1,
Oil and Gas Sales	\$3,439	\$2,423	\$3,068	\$2,
Interest income	\$760	\$738	\$541	\$1,
Office services to related parties and other	\$939	\$913	\$857	\$1,
Equity in earnings (losses) of investees	\$1,098	\$(440)	\$(177)	\$10
Reimbursement of exploration cost	\$--	\$--	\$--	\$--
Gain from sale of oil and gas properties and equipment	--	--	\$4	\$6
Capital Gai	\$549	--	--	--
Gain (Loss) on marketable securities	\$872	\$(189)	\$(199)	\$(9
Other	\$475	\$49	\$--	\$--
Realized gain on investment in affiliate	\$--	\$--	\$--	\$--
Gain on BG Transaction	--	--	\$--	\$3,
Impairment of oil & gas properties	\$617	--	\$--	\$2,
Impairment of Investment	--	--	\$--	\$40
Exploration costs	\$165	\$1,747	\$204	\$2,
Lease operating expenses and severance				
Taxes	\$872	\$844	\$905	\$63
Depreciation, depletion and				
Amortization	\$621	\$642	\$564	\$44
Operator expense	\$795	\$791	\$696	\$63
General and administrative expenses	\$2,012	\$1,422	\$2,048	\$1,
Interest Expense	\$52	\$210	\$--	\$55
Accretion Expence	\$43	--	--	--

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Income tax expense (benefit)	\$1,188	\$114	\$50
Net Income (loss) before cumulative effect	\$2,520	\$(1,799)	\$(139)
Cumulative effect of change in accounting principles	\$(264)	\$3,516	--
Basic and diluted earnings (loss) per share for:			
Net income (loss) before cumulative effect	\$0.95	\$(0.68)	\$(0.05)
Cumulative effect of accounting change, net	\$(0.10)	1.33	--
Net income (loss)	\$0.85	\$ 0.65	\$(0.05)
Weighted average number of			
common shares outstanding - basic	2,639,853	2,639,853	2,639,853
Weighted average number of			
common shares outstanding - diluted	2,639,853	2,639,853	2,639,853

December 31,

	2003	2002	2001	2000	1999
Balance Sheet Data					
Total assets	\$32,614	\$28,667	\$26,615	\$27,281	\$30,713
Total liabilities	\$ 2,733	\$ 2,175	\$ 1,160	\$ 1,449	\$ 4,537
Shareholders' equity	\$29,881	\$26,492	\$25,455	\$25,832	\$26,176

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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THE FOLLOWING COMMENTARY SHOULD BE READ IN CONJUNCTION WITH THE CONSOLIDATED FINANCIAL STATEMENTS AND RELATED NOTES CONTAINED ELSEWHERE IN THIS FORM 10-K. 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 FORM 10-K.

### OVERVIEW

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

### CRITICAL ACCOUNTING POLICIES

In response to the SEC's Release No. 33-8040 "CAUTIONARY ADVICE REGARDING DISCLOSURE AND CRITICAL ACCOUNTING POLICIES", the Company identified the accounting principles which it believes are most critical to the reported financial status by considering accounting policies that involve the most complex of subjective decisions or assessment.

The Company maintains allowances for doubtful accounts for estimated losses resulting from the inability of customers to make required payments. If the financial condition of customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

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The Company records an investment impairment charge when it believes an investment has experienced a decline in value that is other than is temporary. Future adverse changes in market conditions or poor operating results of underlying investments could result in losses or an inability to recover the carrying value of the investment that may not be reflected in an investment's current carrying value, thereby possibly requiring an impairment charge in the future.

The Company records a valuation allowance to reduce its deferred tax assets to the amount that is more likely than not to be realized. While the Company has considered future taxable income and ongoing prudent and feasible tax planning strategies in assessing the need for the valuation allowance, in the event that the Company were to determine that it would be able to realize its deferred tax assets in the future in excess of its net recorded amount, an adjustment to the deferred tax asset would increase net income in the period such determination was made.

The Company does not participate in, nor has it created, any off-balance sheet special purpose entities or other off-balance sheet financing. In addition, the Company does not enter into any derivative financial instruments.

The Company records a liability for asset retirement obligation at fair value in the period in which it is incurred and a corresponding increase in the carrying amount of the related long live assets.

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### LIQUIDITY AND CAPITAL RESOURCES

The Company finances its operations primarily from cash generated by operations. The Company's operating activities provided net cash of \$1,288,000, \$1,372,000 and \$1,667,000 in 2003, 2002 and 2001, respectively. The availability of cash generated by operations could be affected by other business risks discussed in the "Risk Factors" section of this annual report.

Working capital (current assets minus current liabilities) was \$6,645,000 and \$3,618,000 at December 31, 2003 and 2002, respectively. The increase in working capital is primarily attributable to increased oil and gas prices and value of marketable securities.

Net cash used in investing activities in 2003 was \$476,000 compared to \$4,554,000 in 2002. The cash used in 2002 was primarily attributable to purchases of marketable securities, capitalization of drilling cost expended during 2002 and purchase in June 2002 of non oil and gas producing real estate located in Israel at an aggregate cost of \$1,887,000. The real estate is located in an area that is currently zoned for agricultural purposes. Concurrently with the purchase of the real estate, the Company entered into a lease agreement with an unaffiliated third party to let the entirety of such property for a 24 month period at a monthly rent of \$7,000. The cash used in investing activities in 2003 was primarily attributable to purchase of oil and gas properties.

Capital expenditures for property and equipment were \$676,000 and \$1,617,000 in 2003 and 2002, respectively. Capital expenditures are primarily attributable to purchase of oil and gas properties.

In June 2000, the Company established IsramTec, Inc., a Delaware corporation and wholly-owned subsidiary (hereinafter, "IsramTec") for purposes primarily of identifying and investing in promising high-tech ventures. In July 2000, IsramTec invested approximately \$400,000 in a high tech company. In 2001 and 2002, the Company invested, by way of convertible loans, in such entity additional aggregate amounts of \$171,000 and \$50,000 respectively. In December 2001, the Company determined the original investment to be impaired and, accordingly, charged \$400,000 to impairment expenses. In 2002, the entire amount invested in such entity was converted into equity capital therein. In December 2003, the Company sold part of its equity interests for aggregate consideration of approximately \$609,000.

### RESULTS OF OPERATIONS

YEAR ENDED DECEMBER 31, 2003 COMPARED TO YEAR ENDED DECEMBER 31, 2002.

The Company reported net income before cumulative effect of \$2,520,000 (income of \$0.95 per share) in 2003 compared to a net loss before cumulative effect \$1,799,000 (loss of \$ 0.68 per share) in 2002. The increase in the net income is primarily attributable to an increase in oil and gas price in 2003 and due to the gain in marketable securities and net income of investees.

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

UNITED STATES

OIL AND GAS VOLUME AND REVENUES (IN THOUSANDS)

2003

2002

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Oil Volume Sold (Bbl)	19	21
Gas Volume Sold (MCF)	600	720
Oil Sales (\$)	542	470
Gas Sales (\$)	2,897	1,953
Average Unit Price		
Oil (\$/Bbl) *	28.09	22.54
Gas (\$/MCF) **	4.82	2.71

\* Bbl - Barrel Equivalent to 42 U.S. Gallons

\*\* MCF - 1,000 Cubic Feet

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### THE OFFSHORE LICENSES (ISRAEL)

In each of 2003 and 2002, the Company expended approximately \$88,243 and \$27,000, respectively, in respect of the Offshore Licenses.

### OIL AND GAS EXPLORATION COSTS

The Company expended in 2003 approximately \$165,000 in oil and gas exploration costs as compared to approximately \$1,747,000 expended in 2002. The exploration cost in 2003 attributable to the investment in Tilapia (Congo) and in respect of the Israeli offshore wells (Nir 2 and Nir 2). The oil and gas exploration costs in 2002 is primarily attributable to the unsuccessful drilling of the Read well in Texas and the unsuccessful drilling in the Marine 9 permit (the Congo).

### OPERATOR'S FEES

In 2003 the Company earned \$ 753,000 in operator fee compared to \$ 249,000 in 2002. The increase is due to the drilling of Nir 2 well.

### OIL AND GAS REVENUES

In 2003 and 2002 the Company had oil and gas revenues of \$3,439,000 and \$2,423,000, respectively. The increase is due mainly to the increase in the oil and gas price during 2003.

### LEASE OPERATING EXPENSES AND SEVERANCE TAXES

Lease operating expenses and severance taxes were incurred primarily in connection with oil and gas fields in the United States. Oil and gas lease operating expenses and severance taxes were \$872,000 and \$844,000 for 2003 and 2002, respectively.

### INTEREST AND DIVIDEND INCOME

Interest income during the year ended December 31, 2003 was \$760,000 compared to 738,000 for the year ended December 31, 2002. The increase in interest income is primarily attributable to interest receivable on marketable securities (Debentures).

### GAIN ON MARKETABLE SECURITIES

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In 2003, the Company recognized net realized and unrealized gain on marketable securities of \$872,000 compared to net realized and unrealized losses on marketable securities of \$189,000 in 2002.

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

### OPERATOR EXPENSES

In 2003 the Company expended \$795,000 in respect of the operator expenses compare to \$791,000 in 2002.

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### GENERAL AND ADMINISTRATIVE EXPENSES

In 2003, the Company incurred \$2,012,000 as general and administrative expenses compared to \$1,422,000 incurred in 2002. The relatively higher amount in 2003 is primarily attributable to bonuses awarded to senior officers and increase in legal fees.

YEAR ENDED DECEMBER 31, 2002 COMPARED TO YEAR ENDED DECEMBER 31, 2001.

The Company reported net loss before cumulative effect of \$1,799,000 (loss of \$0.68 per share) in 2002 compared to a net loss of \$139,000 (loss of \$0.05 per share) in 2001. The increase in net loss in 2002 compared to 2001 is primarily attributable to an increase in exploration costs from \$204,000 in 2001 to \$1,747,000 in 2002 and to a decrease in gas prices in 2002.

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

### UNITED STATES

#### OIL AND GAS VOLUME AND REVENUES (IN THOUSANDS)

	2002	2001
Oil Volume Sold (Bbl)	21	20
Gas Volume Sold (MCF)	720	643
Oil Sales (\$)	470	477
Gas Sales (\$)	1,953	2,591
Average Unit Price		
Oil (\$/Bbl) *	22.54	23.59
Gas (\$/MCF) **	2.71	4.03

\* Bbl - Barrel Equivalent to 42 U.S. Gallons \*\* MCF - 1,000 Cubic Feet

### THE OFFSHORE LICENSES (ISRAEL)

In each of 2002 and 2001, the Company expended approximately \$27,000 and \$5,000, respectively, in respect of the Offshore Licenses.

OIL AND GAS EXPLORATION COSTS

The Company expended in 2002 approximately \$1,747,000 in oil and gas exploration costs as compared to approximately \$204,000 expended in 2001. The increase in oil and gas exploration costs is primarily attributable to the unsuccessful drilling in 2002 of the Read well in Texas and the unsuccessful drilling in the Marine 9 permit (the Congo).

OPERATOR'S FEES

In 2002 the Company earned \$ 249,000 in operator fees, compared to \$ 234,000 in 2001.

OIL AND GAS REVENUES

In 2002 and 2001 the Company had oil and gas revenues of \$2,423,000 and \$3,068,000, respectively. The decrease is due mainly to the decrease in the gas price.

LEASE OPERATING EXPENSES AND SEVERANCE TAXES

Lease operating expenses and severance taxes were incurred primarily in connection with oil and gas fields in the United States. Oil and gas lease operating expenses and severance taxes were \$844,000 and \$905,000 for 2002 and 2001, respectively. The relatively higher amounts in 2001 in lease operating expenses and severance taxes is primarily due to the work-overs performed in connection with producing wells in 2001.

INTEREST AND DIVIDEND INCOME

Interest income during the year ended December 31, 2002 was \$738,000 compared to \$541,000 for the year ended December 31, 2001. The increase in interest income is primarily attributable to interest receivable on marketable securities (Debentures).

GAIN ON MARKETABLE SECURITIES

In 2002, the Company recognized net realized and unrealized losses on marketable securities of \$189,000 compared to net realized and unrealized losses on marketable securities of \$199,000 in 2001.

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

OPERATOR EXPENSES

In 2002 the Company expended \$791,000 in respect of the operator expenses compare to \$696,000 in 2001. The increase in operator expense is primarily attributable to increased office lease payments.

GENERAL AND ADMINISTRATIVE EXPENSES

In 2002, the Company incurred \$1,422,000 as general and administrative expenses compared to \$2,048,000 incurred in 2001. The relatively higher amount in 2001 is primarily attributable to bonuses awarded to senior officers.

CONTRACTUAL OBLIGATIONS

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The Company leases office facilities in Texas and in Israel and certain equipment pursuant to non-cancellable operating lease agreements. Future minimum lease payments pursuant to these leases as of December 31, 2003 were as follows (in thousands).

	Total	2004	2005	2006	2007	2008	Thereafter
	-----	-----	-----	-----	-----	-----	-----
Operating Leases:							
Texas:	83,000	28,000	29,000	26,000	--	--	--

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### RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In January 2003, the FASB issued Interpretation No. 46, Consolidation of Variable Interest Entities, and subsequently revised the Interpretation in December 2003 (FIN 46R). This Interpretation of Accounting Research Bulletin No. 51, Consolidated Financial Statements, addresses consolidation by business enterprises of variable interest entities, which have certain characteristics. As revised, FIN 46R is now generally effective for financial statements for interim or annual periods ending on or after March 15, 2004. We have no identified any variable interest entities. In the event a variable interest entity is identified, we do not expect the requirements of FIN 46R to have a material impact on our consolidated financial statements.

In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Instruments with Characteristics of Both Liabilities and Equity," ("SFAS 150") which establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. SFAS 150 requires that an issuer classify a financial instrument that is within its scope, which may have previously been reported as equity, as a liability (or an asset in some circumstances). This statement is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003 for public companies. The adoption of SFAS No 150 did not have a material impact on our consolidated financial statements.

In July 2003, an issue was bought before the Financial Accounting Standards Board regarding whether or not sontract-based oil and gas mineral rights held by lease or contact ("mineral rights") should be recorded or disclosed as intangible assets. The issue presents a view that these mineral rights are classified assests as defined in SFAS No. 141, "Business Combinations," and therefore, should be classified separately on the balance sheet as intangible assets. SFAS No. 141 and SFAS No. 142, "Goodwill and Other Intangible Assets," became effective for transactions subsequent to June 30, 2001, with the disclosure requirments of SFAS No. 142 required as of January 1, 2002. SFAS No. 141 requires that all business combinations initiated after June 30, 2001 be accounted for using the purchase method and that intangible assets be disaggregated and reported separately from goodwill SFAS No. 142 established new accounting guidelines for both finite lived intangible assets and indefinite lived intangible assets. Under the statement, intangible assets should be separately reported on the face of the balance sheet and accompanied by disclosure in the notes to financial statements. SFAS No. 142 does not apply to

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accounting utilized by the oil and gas industry as prescribed by SFAS No. 19, and is silent about whether or not its disclosure provisions apply to oil and gas mineral rights to an upcoming agenda, which may result in a change in how Isramco classifies these assets.

Should such a change be required the amounts related to business combinations and major asset purchases that would be classified as "intangible mineral interest" are estimated to be \$4,617,333 as of December 31, 2003 and \$4,434,828 as December 31, 2002.

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### ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company is exposed to market risk, including adverse changes in commodity prices.

The Company produces and sells natural gas and crude oil.. As a result, the Company's financial results can be significantly affected if these commodity prices fluctuate widely in response to changing market forces.

### ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The information called for by this Item 8 is included following the "Index to Financial Statements" contained in this Annual Report on Form 10-K.

### ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

### ITEM 9A. CONTROLS AND PROCEDURES

EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES . The Company maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in the Company's Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure based closely on the definition of "disclosure controls and procedures" in Rule 13a-14(c). In designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

As of the end of the period covered by this report, we carried out an evaluation, under the supervision and with participation of management, including our Chief Executive Officer and our Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures. Based on the foregoing, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective.

CHANGES IN INTERNAL CONTROLS OVER FINANCIAL REPORTING . During the quarter ended December 31, 2003, there have been no changes in our internal controls over financial reporting that have materially affected, or are reasonably likely to



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materially affect, these controls.

### PART III

The information called for by items 10, 11, 12 13 and 14 will be contained in the Company's definitive proxy statement which the Company intends to file within 120 days after the end of the Company's fiscal year ended December 31, 2002 and such information is incorporated herein by reference.

#### ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS

The Company has adopted a code of conduct and ethics applicable to all of senior executive officers and senior financial officers, including the Chief Executive Officer. A copy of such code of conduct and ethics is filed as Exhibit 14.1 to this Annual Report on Form 10-K.

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#### GLOSSARY

"Grant Agreement" shall mean the agreement between the Company and the Government of Israel pursuant to which the Government of Israel has provided assistance to the Company in connection with its investment in the Negev 2 Venture by providing a grant of 44.34(cent) for each U.S. dollar (\$1.00) invested and expended by the Company in oil and gas activities in Israel within the framework of the Negev 2 Venture. The Government financing provided for under the Grant is repayable only from funds emanating from commercial production in any payout area and then, only to the extent of 30% of the recipient's share of the net revenue from said payout area, as and when received. The Grant Agreement entitles the Government of Israel, to receive a 12.5% royalty on oil sales, as well as an overriding royalty of 6.5% of the Company's share in the petroleum produced and saved after payout. If there is no commercial discovery of oil, the Company will not be required to repay the grant monies. A grant agreement was also entered into between the Government of Israel and HEI, Donesco, L.P.S. and Mazal Oil.

"Joint Operating Agreement" shall mean the Joint Operating Agreement of the Negev 2 Venture which was signed as of the 30th day of June, 1988, between the participants in the Negev 2 Venture, as amended or as shall be amended from time to time.

"Joint Venture Agreement" shall mean the Joint Venture Agreement of the Negev 2 Venture which was signed as of the 30th of June, 1988 between the participants in the Negev 2 Venture, as amended from time to time.

"Limited Partnership" shall mean Isramco-Negev 2 Limited Partnership, a Limited Partnership founded pursuant to a Limited Partnership Agreement made on the 2nd and 3rd days of March, 1989 (as amended on September 7, 1989, July 28, 1991, March 5, 1992 and June 11, 1992) between the Trustee on part as Limited Partner and Isramco Oil and Gas Ltd., as General Partner on the other part.

"Limited Partnership Agreement" shall mean the Limited Partnership Agreement made the 2nd and 3rd days of March, 1989 (as amended September 7, 1989, July 28, 1991, March 5, 1992 and June 11, 1992), between Isramco Oil and Gas Ltd., as General Partner, and Isramco Management (1988) Ltd. as the Limited Partner.

"Payout" shall mean the defined point at which one party has recovered its prior costs.

"Petroleum" shall mean any petroleum fluid, whether liquid or gaseous, and

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includes oil, natural gas, natural gasoline, condensates and related fluid hydrocarbons, and also asphalt and other solid petroleum hydrocarbons when dissolved in and producible with fluid petroleum.

"Petroleum Exploration" shall mean test drilling; any other operation or search for petroleum, including geological, geophysical, geochemical and similar investigations and tests; and, drilling solely for obtaining geological information.

"Petroleum Production" shall mean the production of petroleum from a petroleum field and all operations incidental thereto, including handling and treatment thereof and conveyance thereof to tankers, a pipe line or a refinery in or in the vicinity of the field.

"Preliminary Permit", "Preferential Right to Obtain a License", "License" shall have the meaning(s) set forth in the Petroleum Law of Israel.

"Trust Agreement" shall mean the Trust Agreement made on the 3rd day of March, 1989 (as amended September 7, 1989, July 28, 1991, March 5, 1992 and June 11, 1992) for the Trust Company of Kesselman and Kesselman.

"Working Interest" shall mean an interest in a Petroleum Asset granting the holder thereof the right to participate pro rata in exploiting the Petroleum Asset for petroleum exploration, development and petroleum production, subject to its pro rata participation in the expenses involved therein after acquiring the Working Interest.

### "Israel Petroleum Law"

The Company's business in Israel is subject to regulation by the State of Israel pursuant to the Petroleum Law, 1952. The administration and implementation of the Petroleum Law is vested in the Minister of National Infrastructure (the "Minister") and an Advisory Council.

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## ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

### (a) Exhibits

- 3.1 Articles of Incorporation of Registrant with all amendments filed as an Exhibit to the S-1 Registration Statement, File No. 2-83574.
- 3.2 Amendment to Certificate of Incorporation filed March 17, 1993, filed as an Exhibit with the S-1 Registration Statement, File No. 33-57482.
- 3.3 By-laws of Registrant with all amendments, filed as an Exhibit to the S-1 Registration Statement, File No. 2-83570.
- 10.1 Oil Marketing Agreement, filed as Exhibit with the S-1 Registration Statement, File No. 2-83574.
- 10.2 Joint Venture Agreement and Joint Operating Agreement dated June 30, 1988 by and among HEI Oil and Gas Limited Partnership, JOEL - Jerusalem Oil Exploration Ltd., Delek Oil Exploration Ltd., Delek, The Israel Fuel Corporation Ltd., the Company, Southern Shipping and Energy (U.K.), Naphtha, Israel Petroleum Company Ltd., Oil Exploration of Pat Ltd., LPS Israel Oil Inc., Donesco

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Venture Fund One, a Limited Partnership and Mazaloil Inc. filed as an Exhibit to Form 8-K for the month of September 1988.

- 10.3 Grant Agreement with the Government of Israel, undated, between the Company and the Government of Israel on behalf of the State of Israel, filed as an Exhibit to Form 10-Q for the Company for the period ending September 30, 1988 and incorporated herein by reference.
- 10.4 Translated from Hebrew, Indemnity Agreement between the Company and Isramco Management (1988) Ltd. dated March \_\_, 1989, filed as an Exhibit to Form 8-K for the month of March 1989 and incorporated herein by reference.
- 10.5 Amendment Agreement to Grant Agreement between the Company and the Government of Israel, filed as an Exhibit to this Post-effective Amendment No. 8 to Form S-1 Registration Statement. File No. 2- 83574.
- 10.6 Translated from Hebrew, Limited Partnership Agreement between Isramco Oil and Gas Ltd. and Isramco Management (1988) Ltd. dated March 2, 1989, filed as an Exhibit to Form 8-K for the month of March 1989 and incorporated herein by reference.
- 10.7 Translated from Hebrew, Trust Agreement between Isramco Management (1988) Ltd. and Kesselman and Kesselman dated March 3, 1989, filed as an Exhibit to Form 8-K for the month of March 1989 and incorporated herein by reference.

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- 10.8 Translated from Hebrew, Indemnity Agreement between the Company and Isramco Management (1988) Ltd. dated March \_\_, 1989, filed as an Exhibit to Form 8-K for the month of March 1989 and incorporated herein by reference.
- 10.9 Equalization of Rights Agreement between Isramco-Negev 2 Limited Partnership and Delek Oil Exploration Ltd. and Delek - The Israel Fuel Corporation Ltd, filed as an Exhibit to Form 8-K for the month of January 1993 dated January 21, 1993 and incorporated herein by reference.
- 10.10 Option Agreement between Isramco Resources Inc. and Delek Oil Exploration Ltd. and Delek - The Israel Fuel Corporation Ltd. filed as an Exhibit to Form 8-K for the month of January 1993 dated January 21, 1993 and incorporated herein by reference.
- 10.11 Agreement by and among Naphtha Congo Ltd., Equital Ltd. and the Company dated September 4, 1997, filed as an Exhibit to Form 8-K for the month of September, 1997 and incorporated herein by reference.
- 10.12 Amendment to Consulting Agreement between Goodrich Global L.T.D. B.V.I. and the Company dated December \_\_, 1997, filed as an Exhibit to Form 8-K for the month of December, 1997 and incorporated herein by reference.
- 10.13 Consulting Agreement between Romulas Investment Ltd. and the Company dated August \_\_, 1997, filed as an Exhibit to Form 8-K for the month of September, 1997 and incorporated herein by

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reference, assigned by Romulas Investment Ltd. on December 31, 1997 to Remarkable Holdings Ltd.

- 10.14 Inventory Services Management Agreement dated December 1997 between the Company and Equital Ltd. filed herewith as Exhibit 10.70.
- 10.15 Consulting Agreement dated as of November 1, 1999 between the Company and Worldtech, Inc.
- 10.16 Agreement dated June 12, 2002 between the Company and Mati Properties and Construction Ltd. and Boaz Avrahami, filed as an Exhibit to the Form 10-Q for the quarter ended June 30, 2002.
- 14.1 Code of Ethics \*
- 31 Certification of Chief Executive and Principal Financial Officer pursuant to Section 302 of Sarbanes-Oxley Act \*
- 32 Certification of Chief Executive and Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley act of 2002. \*
- 99.1 Financial Statements of Isramco Negev 2 Limited Partnership as of December 31, 2003 \*

\* Attached hereto as an exhibit

(b) Reports on Form 8-K

Isramco filed a report on Form 8-K on December 9, 2003 announcing the resignation of its Vice President and the appointment of Mr. Doron Avrahan as its new Vice President.

(c) Financial Statements

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### SIGNATURES

In accordance with Section 13 or 15(d) 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.

/S/ HAIM TSUFF,  
CHAIRMAN OF THE BOARD,  
CHIEF EXECUTIVE OFFICER AND  
PRINCIPAL FINANCIAL OFFICER

Date: August 16, 2004

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## INDEPENDENT AUDITORS' REPORT

To the Shareholders and Board of Directors of Isramco, Inc. and Subsidiaries

We have audited the consolidated balance sheets of Isramco, Inc. and subsidiaries (the "Company") as of December 31, 2003 and 2002, and the related consolidated statements of operations, changes in shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2003. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We did not audit the financial statements of Isramco Oil and Gas, Ltd.; Isramco B.V., Cruquius; or Isramco, Inc. - Israel Branch, which are wholly owned subsidiaries whose combined statements reflect total assets of \$ 11,249,799 and \$ 12,494,523 as of December 31, 2003 and 2002, respectively, and total revenues of \$ 3,422,000 and \$1,728,732 for the years then ended, respectively. Those statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for these subsidiaries, is based solely on the reports of the other auditors.

We conducted our audits in accordance with auditing standards generally accepted in the 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 and reports of the other auditors provide a reasonable basis for our opinion.

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In our opinion, based on our audits and the reports of other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Isramco, Inc. and subsidiaries at December 31, 2003 and 2002, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2003 in conformity with accounting principles generally accepted in the United States.

As discussed in Note A, the Company adopted the provisions of Statement of Financial Accounting Standards No. 143 "Accounting for Asset Retirement Obligations" as of January 1, 2003. Also discussed in Note A, the Company adopted the provisions of Atatement of Financial Accounting Standard No. 142 "Goodwill and Other Intangible Assets in 2002".

/S/ MANN FRANKFORT STEIN & LIPP CPAS, LLP

HOUSTON, TEXAS  
MARCH 5, 2004

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ISRAMCO INC. AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS  
(in thousands except for share information)

	ASSETS
CURRENT ASSETS	
Cash and cash equivalent	
Marketable securities, at market	
Accounts receivable - trade	
Accounts receivable - other	
Prepaid FIT expenses	
Prepaid expenses and other current assets	
TOTAL CURRENT ASSETS	
Property and equipment, net (successful efforts method for oil and gas properties)	
Real Estate	
Marketable securities, at market	
Investment in affiliates	
Deferred tax asset	
Other	
TOTAL ASSETS	

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LIABILITIES AND SHAREHOLDERS' EQUITY

CURRENT LIABILITIES

Accounts payable and accrued expenses

TOTAL CURRENT LIABILITIES

Asset retirement obligations

Deferred tax liability

SHAREHOLDERS' EQUITY

Common stock \$ 0.01 par value; authorized 7,500,000 shares;  
issued 2,669,120 shares; outstanding 2,639,853 shares

Additional paid-in capital

Retained earnings (accumulated deficit)

Accumulated other comprehensive income (loss)

Treasury stock, 29,267 shares at cost

Total shareholders' equity

Total liabilities and shareholders' equity

See notes to the consolidated financial statements.

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

	YEAR	
	-----	
	2003	
	-----	
Revenues and other income :		
Operator fees from related party	\$	753
Oil and gas sales		3,439
Interest income		760
Office services		
To related parties		635
To others		304
Gain on sale of investment		549
Gain from sale oil and gas properties and Equipment		---
Gain on marketable securities		872
Equity in net income of investees		1,098
Other		475
		-----

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Total revenues and other income	8,885	
	-----	
Expenses :		
Interest expense	52	
Accretion expense	43	
Depreciation, depletion and amortization	621	
Lease operation expense and severance taxes	872	
Exploration costs	165	
Operator expense	795	
General and administrative		
To related parties	317	
To others	1,695	
Loss on sale of marketable securities	---	
Equity in net loss of investees	---	
Impairment of oil and gas assets	617	
	-----	
Total expenses	5,177	
	-----	
Income (loss) before income taxes	3,708	
Income taxes (benefit)	1,188	
	-----	
Net income (loss) before cumulative effect of change in accounting principle	2,520	
Cumulative effect of change in accounting principle, net	(264)	
	-----	
Net income (loss)	\$ 2,256	\$
	=====	
Earnings (loss) per share		
Basic and diluted earnings (loss) per share for:		
Net income (loss) before cumulative effect	\$ 0.95	\$
Cumulative effect of accounting change, net	\$ (0.10)	\$
	-----	
Net income (loss)	\$ 0.85	\$
	=====	
Weighted average number of common shares outstanding-basic	2,639,853	
	=====	
Weighted average number of common shares outstanding -diluted	2,639,853	
	=====	

See notes to the consolidated financial statements.

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ISRAMCO INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY  
FOR THE YEARS ENDED DECEMBER 31, 2003, 2002 AND 2001

COMMON STOCK

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	NUMBER OF SHARES	AMOUNT	
		\$ IN THOUSANDS, E	
Balances at December 31, 2000	2,669,120	27	
Comprehensive income:			
Net Income	-	-	
Net unrealized loss on available for sale marketable securities, net of taxes	-	-	
Total comprehensive income			
Balances at December 31, 2001	2,669,120	27	
Comprehensive income:			
Net Income	-	-	
Net unrealized loss on available for sale marketable securities, net of taxes	-	-	
Net realized gain (loss) on foreign exchange rates, net of taxes	-	-	
Total comprehensive income			
Balances at December 31, 2002	2,669,120	\$ 27	\$
Comprehensive income:			
Net Income			
Net unrealized gain on available for sale marketable securities, net of taxes	-	-	
Net realized gain (loss) on foreign exchange rates, net of taxes	-	-	
Total comprehensive income			
Balances at December 31, 2003	2,669,120	\$ 27	\$

(CONTINUED)

	RETAINED EARNINGS (ACCUMULATED DEFICIT)	TREASURY STOCK	SH
Balances at December 31, 2000	(645)	(164)	
Comprehensive income:			
Net Income	(139)	-	
Net unrealized loss on available for sale marketable securities, net of taxes	-	-	

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Total comprehensive income	-----	-----	---
Balances at December 31, 2001	(784)		(164)
Comprehensive income:			
Net Income	1,717		-
Net unrealized loss on available for sale marketable securities, net of taxes	-		-
Net realized gain (loss) on foreign exchange rates, net of taxes	-		-
Total comprehensive income	-----	-----	---
Balances at December 31, 2002	\$ 933	\$	(164) \$
Comprehensive income:			
Net Income	2,256		
Net unrealized gain on available for sale marketable securities, net of taxes	-		-
Net realized gain (loss) on foreign exchange rates, net of taxes	-		-
Total comprehensive income	-----	-----	---
Balances at December 31, 2003	\$ 2,929	\$	(164) \$
	=====	=====	==

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

	YEAR	
	-----	-----
	2003	
	-----	
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	2,256	\$
Adjustments to reconcile net income (loss) to cash provided by operating activities:		
Depreciation, depletion, amortization and provision for impairment	1,238	
Accretion of asset retirement obligation	43	
Dry hole costs	99	
Loss (gain) on marketable securities	(872)	
Gain on sale of investment	(549)	
Gain on sale of oil properties and equipment		
Equity in net loss (income) of investees	(1,098)	
Cumulative effect of an accounting change	264	
Employee stock awards	-	

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Deferred taxes	1,532	
Changes in assets and liabilities:		
Accounts receivables	53	
Prepaid expenses and other current assets	(163)	
Other	-	
Accounts payable and accrued expenses	(1,377)	
Marketable securities-trading	(138)	
	-----	
Net cash provided by operating activities	1,288	
	-----	
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(676)	
Proceeds from sale of oil and gas properties and equipment	-	
Purchase of real estate	-	
Purchase of marketable securities	(3,070)	
Proceeds from BG transaction	---	
Proceeds from sale of marketable securities	3,270	
Purchase of convertible promissory note	-	
Purchase of investment in affiliates	-	
	-----	
Net cash used in investing activities	(476)	
	-----	
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on long-term debt	-	
	-----	
Net cash used in financing activities	-	
	-----	
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	812	
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	1,617	
	-----	
CASH AND CASH EQUIVALENTS AT END OF YEAR	2,429	\$
	=====	=
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
CASH PAID DURING THE YEAR FOR INTEREST	\$ -	\$
	=====	=
CASH PAID DURING THE YEAR FOR TAXES	\$ -	\$
	=====	=

See notes to the consolidated financial statements.

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ISRAMCO INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(NOTE A) -- GENERAL AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

[1] The Company

Isramco Inc. and subsidiaries (the Company) is primarily engaged in the

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acquisition, exploration, operation and development of oil and gas properties. As of December 31, 2003, the Company has oil and gas interest in Texas, Louisiana, Oklahoma, Wyoming, New Mexico, the Republic of Congo, Africa, and

approximately a 0.5% working interest in various properties located in Israel. In addition the company purchased real estate in Israel in 2002.

### [2] Consolidation

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

### [3] Method of Accounting for Oil and Gas Operations

The Company follows the "successful efforts" method of accounting for its oil and gas properties. Under this method of accounting, all property acquisition costs and costs of exploratory and development wells are capitalized when incurred, pending determination of whether the well has found proved reserves. If an exploratory well has not found proved reserves, the costs of the well are charged to expense. The costs of development wells are capitalized whether successful or unsuccessful. Geological and geophysical costs and the costs of carrying and retaining undeveloped properties are expensed as incurred. Management estimates that the salvage value of lease and well equipment will approximately offset the future liability for plugging and abandonment of the related wells. Accordingly, no accrual for such costs has been recorded.

In July 2003, an issue was brought before the Financial Accounting Standards Board regarding whether or not contract-based oil and gas mineral rights held by lease or contract ("mineral rights") should be recorded or disclosed as intangible assets. The issue presents a view that these mineral rights are intangible assets as defined in SFAS No. 141, "Business Combinations," and therefore, should be classified separately on the balance sheet as intangible assets. SFAS No. 141 and SFAS No. 142, "Goodwill and Other Intangible Assets," became effective for transactions subsequent to June 30, 2001, with the disclosure requirements of SFAS No. 142 required as of January 1, 2002. SFAS No. 141 requires that all business combinations initiated after June 30, 2001 be accounted for using the purchase method and that intangible assets be disaggregated and reported separately from goodwill. SFAS No. 142 established new accounting guidelines for both finite lived intangible assets and indefinite lived tangible assets. Under the statement, intangible assets should be separately reported on the face of the balance sheet and accompanied by disclosure in the notes to financial statements. SFAS No. 142 does not apply to accounting utilized by the oil and gas industry as prescribed by SFAS No. 19, and is silent about whether or not its disclosure provisions apply to oil and gas companies. The Emerging Issues Task Force (EITF) has added the treatment of oil and gas mineral rights to an upcoming agenda, which may result in a change in how Isramco classifies these assets.

Should such a change be required, the amounts related to business combinations and major asset purchases that would be classified as "intangible mineral interest" are estimated to be \$4,617,333 as of December 31, 2003 and \$4,434,828 December 31, 2002.

Depletion and depreciation of capitalized costs for producing oil and gas properties is provided using the units-of-production method based upon proved reserves. Depreciation, depletion, amortization and provision for impairment expense for the Company's oil and gas properties amounted to approximately \$1,179,000, \$2,589,000 and \$519,000 for 2003, 2002 and 2001, respectively.

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

### [4] Marketable Securities

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Statement of Financial Accounting Standard No. 115 (SFAS No. 115), Accounting for Certain Investments in Debt and Equity Securities, requires the Company to classify its debt and equity securities in one of three categories: trading, available-for-sale and held-to-maturity. Trading securities are bought and held principally for the purposes of selling them in the near term. Held-to-maturity securities are those securities in which the Company has both the ability and intent to hold the security until maturity. All other securities not included in trading or held-to-maturity are classified as available-for-sale.

Trading and available-for-sale securities are recorded at fair market value. The Company holds no held-to-maturity securities. Unrealized holding gains and losses on trading securities are included in earnings. Unrealized holding gains or losses, net of the related tax effects, on available-for-sale securities are excluded from earnings and are reported net of applicable taxes as accumulated other comprehensive income, a separate component of shareholders' equity, until realized.

### [5] Investment in Affiliates

The Company accounts for its investments in affiliate entities in which it has the ability to exercise significant influence over operating and financial policies using the equity method.

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### [6] Equipment

Equipment, consisting of motor vehicles, office furniture and equipment, is carried at cost less accumulated depreciation, computed on the straight-line method over the estimated useful lives of the assets.

### [7] Translation of Foreign Currencies

Foreign currency is translated in accordance with Statement of Financial Accounting Standards No. 52, which provides the criteria for determining the functional currency for entities operating in foreign countries. The Company has determined its functional currency is the United States (U.S.) dollar since all of its contracts are in U.S. dollars. The financial statements of Oil and Gas and the Israel branch have been remeasured into U.S. dollars as follows: at rates prevailing during the year for revenue and expense items (except depreciation); at year-end rates for assets and liabilities except for fixed assets and prepaid expenses which are translated at the rate in effect at the time of their acquisition. Depreciation is remeasured based on the historical dollar cost of the underlying assets. The net effects of currency translations were not material for any period.

### [8] Earnings Per Share (EPS)

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The Company follows SFAS No. 128, Earnings per Share, for computing and presenting earnings per share, which requires, among other things, dual presentation of basic and diluted loss per share on the face of the statement of operations. Basic EPS is computed by dividing income available to common shareholders by the weighted average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common shares were exercised or converted into common shares or resulted in the issuance of common shares that then shared in the earnings of the entity. For the years ended December 31, 2003, 2002 and 2001, the Company's stock options were anti-dilutive.

### [9] Cash Equivalents

Cash equivalents include short-term investments with original maturities of ninety days or less and are not limited in their use.

### [10] Non-compete Agreements

Non-compete agreements are amortized over the period to be benefitted, generally from three to five years.

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### [12] Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and related notes. Actual results could differ from those estimates.

Oil and gas reserve quantities are the basis for the calculation of depreciation, depletion and impairment of oil and gas properties. An independent petroleum-engineering firm determines the Company's reserve estimates. However, management emphasizes that reserve estimates are inherently imprecise and that estimates of more recent discoveries and non-producing reserves are more imprecise than those for properties with long production histories. At December 31, 2003, approximately 18% of the Company's oil and gas reserves were attributable to non-producing reserves. Accordingly, the Company's estimates are expected to change as future information becomes available.

As mandated under SFAS No. 144, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be disposed of, the Company is required under certain circumstances to evaluate the possible impairment of the carrying value of its long-lived assets. For proved oil and gas properties, this involves a comparison to the estimated future undiscounted cash flows, as described in the paragraph below. In addition to the uncertainties inherent in the reserve estimation process, these amounts are affected by management's estimates for projected prices for oil and natural gas, which have typically been volatile. It is reasonably possible that the Company's oil and gas reserve estimates will materially change in the forthcoming year.

### [13] Impairment of Long-Lived Assets

The Company adopted SFAS No. 144, "ACCOUNTING FOR THE IMPAIRMENT OR DISPOSAL OF LONG-LIVED ASSETS" (SFAS No. 144) as from January 1, 2002. This Statement requires that long-lived assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to undiscounted future cash flows

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expected to be generated by the asset or used in its disposal. If the carrying amount of an asset exceeds its estimated undiscounted future cash flows, an impairment charge is recognized equal to the amount by which the carrying amount exceeds the fair market value of the asset. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell. During 2003 the company recorded impairment charge of \$ 248,000 relating to its proved properties and \$ 81,000 related to the retirement obligation assets.

Unproved oil and gas properties that are individually significant are periodically assessed for impairment value, and a loss is recognized to the extent, if any, that the cost of the property has been impaired. During 2003, the Company recorded an impairment of \$ 288,000 relating to its unproved properties. There are no such impairments recognized during 2002 and 2001.

### [14] Income Taxes

The Company accounts for income taxes using the asset and liability method as prescribed by SFAS No. 109, Accounting for Income Taxes. Deferred tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities, and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. The measurement of deferred tax assets is reduced, if necessary, by a valuation allowance for any tax benefits which, are not expected to be realized. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the period that such tax rate changes are enacted.

### [15] Oil and Gas Revenues

The Company records oil and gas revenues following the entitlement method of accounting for production, in which any excess amounts received above the Company's share is treated as a liability. If less than the Company's share is received, the underproduction is recorded as an asset. The Company's imbalance position was not significant in terms of volumes or values at December 2003 and 2002.

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### [16] Environmental

The Company is subject to extensive federal, state, local and foreign environmental laws and regulations. These laws, which are constantly changing, regulate the discharge of materials into the environment and may require the Company to remove or mitigate the environmental effects of the disposal or release of petroleum or chemical substances at various sites. Liabilities for expenditures of no capital nature are recorded when environmental assessment and/or remediation is probable, and the costs can be reasonably estimated. No significant amounts for environmental liabilities are recorded at December 31, 2003 and 2002.

### [17] STOCK-BASED COMPENSATION

SFAS No. 123, ACCOUNTING FOR STOCK-BASED COMPENSATION, encourages, but does not require, companies to record compensation cost for stock-based employee compensation plans at fair value. In December 2002, the FASB issued SFAS No. 148, ACCOUNTING FOR STOCK-BASED COMPENSATION-TRANSITION AND DISCLOSURE-AN AMENDMENT OF FASB STATEMENT NO. 123, to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. The statement also amends the disclosure requirements of SFAS No. 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based

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compensation and the effect of the method used on reported results.

The Company has chosen to continue to account for stock-based compensation issued to employees using the intrinsic value method prescribed in Accounting Principles Board (APB) Opinion No. 25, ACCOUNTING FOR STOCK ISSUED TO EMPLOYEES, and related interpretations. Accordingly, compensation cost for stock options is measured as the excess, if any, of the quoted market price of the Company's stock at the date of the grant over the amount an employee must pay to acquire the stock.

The fair value of options is calculated using the Black-Scholes option-pricing model. Had the Company adopted the fair value method of accounting for stock based compensation, compensation expense would have been higher, and net loss and net loss attributable to common shareholders would have increased for the periods presented. No change in cash flows would occur. The effects of applying SFAS No. 123 in this pro forma disclosure are not indicative of future amounts.

	Year Ended December 31,		
	2003	2002	2001
Net income (loss) reported.....	\$2,256	\$1,717	\$(139)
Deduct:			
Total stock based employee compensation expense determined under fair value based method for all awards, net of related income tax.....	--	--	--
Pro forma net (loss).....	2,256	1,717	(139)
Net Loss Per Share.....			
Basic-as reported.....	\$ .85	\$ .65	\$(.05)
Basic-pro forma.....	.85	.65	(.05)
Diluted-as reported.....	.85	.65	(.05)
Diluted-pro forma.....	.85	.65	(.05)

### [18] ACCOUNTING CHANGES

Effective January 1, 2003, the Company adopted SFAS No. 143 "Accounting for Asset Retirement Obligations" and recognized a loss of \$264,000 that is included as a cumulative effect of change in accounting principle. Effective January 1, 2002, the Company applied the provisions of Statement SFAS No.142 "Goodwill and Other Intangible Assets". In 2002, the Company performed the transitional impairment evaluation as provided in the said standard. Accordingly, the Company recognized a gain in the amount of \$ 3,516,000 from a negative goodwill that is included as a cumulative effect of a change in accounting principle.

### (19) Reclassifications

Certain amounts in prior financial statements have been reclassified to conform to the 2003 financial statements presentation.

### [19] New Pronouncements

In May 2002, the FASB issued Statement of Financial Accounting Standards No. 145 ("SFAS 145"), "Rescission of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13, and Technical Corrections".. This Statement rescinds FASB Statements No. 4, Reporting Gains and Losses from Extinguishment of Debt, and an amendment of Statement No. 4 and FASB Statement No. 64, Extinguishments of Debt Made to Satisfy Sinking-Fund Requirements. This Statement also rescinds FASB Statement No. 44, Accounting for Intangible Assets of Motor Carriers. This



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Statement amends FASB Statement No. 13, Accounting for Leases, to eliminate an inconsistency between the required accounting for sale-leaseback transactions and the required accounting for certain lease modifications that have economic effects that are similar to sale-leaseback transactions. SFAS 145 is effective for fiscal years beginning after May 15, 2002. The Company's management does not expect the adoption of SFAS 145 to have a material effect on the Company's financial condition and results of operations.

In June 2002, the Financial Accounting Standard Board (FASB) issued SFAS 146, ACCOUNTING FOR COSTS ASSOCIATED WITH EXIT OR DISPOSAL ACTIVITIES which nullifies EITF 94-3, LIABILITY RECOGNITION FOR CERTAIN EMPLOYEE TERMINATION BENEFITS AND OTHER EXIT COSTS TO EXIT AN ACTIVITY (INCLUDING CERTAIN COSTS INCURRED IN A RESTRUCTURING). The principal difference between Statement 146 and Issue 94-3 relates to its requirements for recognition of a liability for a cost associated with an exit or disposal activity. Statement 146 requires that a liability for a cost associated with an exit or disposal activity be recognized when

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the liability is incurred. Under Issue 94-3, a liability for an exit cost as defined in Issue 94-3 was recognized at the date of an entity's commitment to an exit plan. SFAS 146 is required to be adopted for exit or disposal activities initiated after December 31, 2002.

On December 31, 2002, the FASB issued Accounting for Stock-Based Compensation ("SFAS No. 148") amending FASB No. 123, to provide alternative methods of transition to the fair value method of accounting for stock-based employee compensation. The three methods provided in SFAS No 148 include (1) the prospective method which is the method currently provided for in SFAS No. 123, (2) the retroactive restatement method which would allow companies to restate all periods presented and (3) the modified prospective method which would allow companies to present the recognition provisions of all outstanding stock based employee compensation instruments as of the beginning of the fiscal year of adoption. In addition, SFAS No. 148 amends the disclosure provisions of SFAS No. 123 to require disclosure in the summary of significant accounting policies of the effects of an entity's accounting policy with respect to stock-based employee compensation on reported net income and earnings per share in annual and interim financial statements. FASB No. 148 does not amend SFAS No. 123 to require companies to account for their employee stock-based awards using the fair value method. However, the disclosure provisions are required for all companies with stock-based employee compensation, regardless of whether they utilize the fair method of accounting described in SFAS No. 123 or the intrinsic value method described in APB Opinion No. 25, Accounting for Stock Issued to Employees. The Company does not intend on adopting the fair value method of accounting for stock-based compensation of SFAS123 and accordingly SFAS 148 is not expected to have a material impact on the Company's reported results of operations or financial position in 2003.

In January 2003, the FASB issued Interpretation No. 46, Consolidation of Variable Interest Entities, and subsequently revised the Interpretation in December 2003 (FIN 46R). This Interpretation of Accounting Research Bulletin No. 51, Consolidated Financial Statements, addresses consolidation by business enterprises of variable interest entities, which have certain characteristics. As revised, FIN 46R is now generally effective for financial statements for interim or annual periods ending on or after March 15, 2004. We have no identified any variable interest entities. In the event a variable interest entity is identified, we do not expect the requirements of FIN 46R to have a material impact on our consolidated financial statements.

In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Instruments

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with Characteristics of Both Liabilities and Equity," ("SFAS 150") which establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. SFAS 150 requires that an issuer classify a financial instrument that is within its scope, which may have previously been reported as equity, as a liability (or an asset in some circumstances). This statement is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003 for public companies. The adoption of SFAS No 150 did not have a material impact on our consolidated financial statements.

(NOTE B) - Transactions with Affiliates and Related Parties

The Company acts as operator for joint ventures with related parties in Israel engaged in the exploration of oil and gas for which it receives operating fees equal to the larger of 6% of the actual direct costs or minimum monthly fees of \$6,000 per license.

Operator fees earned and related operator expenses are as follows:

	YEAR ENDED DECEMBER 31,		
	2003	2002	2001
	----- \$ IN THOUSANDS -----	----- \$ IN THOUSANDS -----	----- \$ IN THOUSANDS -----
Operator fees:			
Nir 2	559	-	-
Med Ashdod Lease	56	55	54
GAL C	-	27	-
Marine North	-	23	72
Marine Center	66	72	72
Marine South	72	72	36
	-----	-----	-----
	753	249	234
	=====	=====	=====
Operator expenses	795	791	696
	=====	=====	=====

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In August 1997 the Company entered into a Consulting Agreement with Romulas Investment Ltd. (which Agreement has been assigned to Remarkable Holdings Ltd.), a company which is wholly owned and controlled by Daniel Avner, the Vice President of the Company. Pursuant to this Agreement, the Company agreed to pay the Consultant the sum of \$7,500 per month plus expenses. In February 1999, the Consulting Agreement was amended to increase the monthly compensation payable thereunder to \$15,000 and pursuant to the amendment, the reimbursement of expenses was disallowed. The Consulting Agreement was extended until July 2004. On December 9, 2003, following the resignations of Daniel Avner from his position as Vice President, the Consulting Agreement was terminated.

On December 9, 2003, the company entered into a Consulting Agreement with Doron Avraham, the new Vice President of the Company. Pursuant to this Agreement the

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Company agreed to pay the Consultant the sum of \$ 15,000 Per month, in addition to reimbursement of all business expenses. The Consulting Agreement is in effect through November 30, 2004.

The Company paid Naphtha \$ 6,500 per month for rent, office, secretarial and computer services from July 1998 through April 30, 2000 , \$9,125 per month from May 1, 2000 and \$15,760 per month from January 1, 2002 for such services. The company paid Naphtha a sum of \$197,000 for the year 2003 and a sum of \$ 192,000 for 2002. A subsidiary of the Company is the general partner of Isramco-Negev 2 Limited Partnership from which it received management fees and expense reimbursements of \$480,000 for each of the years ended December 31, 2003, 2002.

In May of 1996 the Company entered into a Consulting Agreement with Goodrich Global L.T.D. B.V.I., a company owned and controlled by Haim Tsuff, the Chairman of the Board of Directors and Chief Executive Officer of the Corporation. Pursuant to this Consulting Agreement which had a term of two years, the Company agreed to pay the sum of \$144,000 per annum in installments of \$12,000 per month, in addition to reimbursing all reasonable business expenses incurred during the term in connection with the performance of services on behalf of the Company. In April 1997 the consulting compensation was increased to \$240,000 per annum in installments of \$20,000 per month and in December 1997 the term was extended to May 31,2001. The Consulting Agreement was extended in 2001 and is in effect through May 31, 2004. In the event that the Company shall terminate the services provided by Mr. Tsuff, he shall be entitled to receive a lump sum severance payment equal to the balance of the unpaid consulting fee due for the remaining term of the agreement.

In November of 1999 the Company entered into a Consulting Agreement with Worldtech Inc., a Mauritius company of which Jakob Maimon, the President of the Company, is a director. Pursuant to this Consulting Agreement, which is in effect through May 31, 2004, the Company agreed to pay the sum of \$240,000 per annum in installments of \$20,000 per month, in addition to reimbursing all reasonable business expenses incurred during the term in connection with the performance of services on behalf of the Company. In the event that the Company terminates the services provided by Mr. Maimon, he shall be entitled to receive a lump sum severance payment equal to the balance of the unpaid consulting fee due for the remaining term of the agreement.

In November, 2001 the Company awarded bonuses of \$125,000 to the chairman of the board, \$125,000 to the president and \$75,000 to the vice president.

In December 2003 the company awarded bonuses of \$125,000 to the chairman of the board and \$125,000 to the president.

On January 1, 2001 the Company retained the services of I.O.C. Israel Oil Company LTD in connection with the operation of Jay Petroleum LLC and Jay Management Company LLC (a wholly owned subsidiaries of the Company). The Company agreed to pay I.O.C. the sum of \$240,000 for the year 2001 and \$120,000 for each of the years 2002 and 2003.

(NOTE C) - Investments in Affiliate

A wholly owned subsidiary of the Company is the General Partner in the Isramco Negev 2 Limited Partnership. The daily management of the Limited Partnership vests with the General Partner, however, matters involving the rights of

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the Limited Partnership unit holders, are subject to supervision of the Supervisor, appointed to supervise the Limited Partnership activities, and in

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some instances the approval of the Limited Partnership unit holders. The Company's General Partner's interest in the Limited Partnership is 0.05% which is accounted for by the equity method of accounting due to its ability to exercise significant influence.

At December 31, 2003 and 2002, the Company also owned 283,171,196 units (6.65% of the issued Partnership units) of the Isramco Negev 2 Limited Partnership with a cost of \$5,018,000. This investment is also accounted for under the equity method of accounting.

Summarized financial information of Isramco Negev 2 Limited Partnership is as follows (amounts in thousands):

AS OF DECEMBER 31,

Balance Sheet	2003	2002
	-----	-----
Current Assets	\$114,900	\$ 95,000
Other Assets	1,700	4,000
	-----	-----
Total Assets	\$116,600	\$ 99,000
	=====	=====
Current Liabilities	\$ 100	-
Equity	\$116,500	99,000
	-----	-----
Total liabilities and equity	\$116,600	\$ 99,000
	=====	=====

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Year Ended December 31,

Statement of Operations	2003	2002	2001
	-----	-----	-----
Income	\$ 19,700	\$ 1,000	\$ 8,000
Expenses	\$ 8,500	3,000	7,000
	-----	-----	-----
Net income (loss)	\$ 11,200	\$ (2,000)	\$ 1,000
	=====	=====	=====

At December 31, 2003 and 2002 the Company also owned 7,877,248 units (24.72% of the issued Partnership units) of the I.N.O.C Dead Sea Limited Partnership with a cost of \$ 1,270,067. This investment is also accounted for under the equity method of accounting.

Summarized financial information of I.N.O.C. Dead Sea Limited Partnership is as follows (amount in thousand - unaudited):

AS OF DECEMBER 31,

Balance Sheet	2003	2002
	-----	-----

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Current Assets	\$ 11,330	\$ 9,300
Other Assets	-	600
	-----	-----
Total Assets	\$ 11,330	\$ 9,900
	=====	=====
Current Liabilities	\$ 60	-
Equity	\$ 11,270	\$ 9,900
	-----	-----
Total liabilities and equity	\$ 11,330	\$ 9,900
	=====	=====

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Statement of Operations	Year Ended December 31,		
	2003	2002	2001
	-----	-----	-----
Income	\$ 2,070	\$ 680	\$ 620
Expenses	\$ 1,400	1,900	1,058
	-----	-----	-----
Net income (loss)	\$ 670	\$ (1,220)	\$ (438)
	=====	=====	=====

(NOTE D) - Marketable Securities

At December 31, 2003, 2002 and 2001, the Company had net unrealized gains (losses) on marketable securities of \$524,000, \$ (371,000) and (179,000), respectively.

Trading securities, which are primarily traded on the Tel-Aviv Stock Exchange, consists of the following:

	DECEMBER 31, 2003		CO
	COST	MARKET VALUE	
	----	-----	---
Debentures and Convertible Debentures	2,423,000	3,170,000	\$2,95
Equity securities	1,201,000	735,000	59
Investment Trust Funds	157,000	159,000	
	\$3,781,000	\$4,064,000	\$3,54
	-----	-----	=====

Available-for-sale securities, which are primarily traded on the Tel-Aviv Stock Exchange and on OTC, consist of the following:

DECEMBER 31, 2003

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COST -----	MARKET VALUE -----
\$8,068,000 -----	\$8,572,000 -----

CO  
-----  
\$8,17  
-----

Sales of marketable securities resulted in realized gains (losses) of \$95,000, \$3,000 and (\$3,000) for the years ended December 31, 2003, 2002 and 2001 respectively. Amounts reclassified from accumulated other comprehensive income into earnings associated with the particular marketable securities were \$51,000 for the year ended December 31, 2003. There were no reclassifications from accumulated other comprehensive income into earnings for the year ending December 31, 2002.

(NOTE E) - Other assets - Investment in a high-tech company.

In July 2000, the Company invested approximately \$400,000 in a high-tech company through the purchase of 5% convertible promissory note issued by such company, convertible at the discretion of the Company, under certain conditions, into equity capital of the company. On December 31, 2001 the Company determined the investment to be impaired and recorded an impairment charge for the full amount of the note.

The Company invested, by way of a convertible loan in such high-tech company approximately \$50,000 and \$171,000 during 2002 and 2001 respectively. During 2002 the company converted the loans into equity capital.

The Company sold 203,000 shares of Eyeblast for \$609,000 recognizing a gain of \$549,000 in December of 2003.

(NOTE F) - Oil and Gas Properties

	UNPROVED -----	PROVED -----	TOTAL -----	CAPITALIZED ----- COSTS -----
Balance - December 31, 2000	\$277,000	\$4,012,000		\$4,289,000
Acquisition costs	--	1,599,000		1,599,000
Development costs	--	624,000		624,000
Balance - December 31, 2001	\$277,000	\$6,235,000		\$6,512,000

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	UNPROVED -----	PROVED -----	TOTAL -----	CAPITALIZED ----- COSTS -----
Acquisition costs	194,000	443,000		637,000
Development costs	-----	(694,000)		(694,000)
Balance - December 31, 2002	\$471,000 =====	\$5,984,000 =====		\$6,455,000 =====
Acquisition costs	--	292,000		292,000

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Development costs	(150,000)	384,000	234,000
	-----	-----	-----
Balance - December 31, 2003	\$321,000	\$6,660,000	\$6,981,000

ANNUAL RATES OF DEPRECIATION ARE AS FOLLOWS:

Office equipment and furniture	7%--20%
Motor vehicles	15%--30%

A summary of property and equipment is as follows:

	2003	2002
	----	----
Unproved properties	--	\$471,000
Oil and gas properties	6,981,000	5,984,000
Retirement obligation assets	449,000	--
Transportation equipment	142,000	142,000
Office equipment	133,000	111,000
	-----	-----
	7,705,000	6,708,000
Less accumulated depletion, depreciation, amortization and provision for impairment	4,441,000	3,203,000
	-----	-----
	3,264,000	\$3,505,000
	=====	=====

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(NOTE G) - EPS COMPUTATION

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

	FOR THE YEAR ENDED DECEMBER			
	2003		2002	
	----	----	----	----
	INCOME	SHARES	INCOME	SHARES
	-----	-----	-----	-----
Earnings per common share-basic	\$ 2,256,000	2,639,853	\$ 1,717,000	2,639,853
Effect of dilutive securities:				
Stock options			--	
Earnings per common share-Diluted	\$ 2,256,000	2,639,853	\$ 1,717,000	2,639,853

(NOTE H) - STOCK OPTION

The 1993 stock option plan (the 1993 Plan) was approved at the Annual General Meeting of Shareholders held on August 13, 1993. At December 31, 2002, 2001 and 2000, 50,000 shares of common stock are reserved under the 1993 Plan. Options granted under the 1993 Plan might be either incentive stock options under the Internal Revenue Code or options which do not qualify as incentive

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stock options. Options are granted for a period of up to ten years from the grant date. The exercise price for an incentive stock option may not be less than 100% of the fair market value of the Company's common stock on the date of grant. The options granted under this plan were fully vested at grant date. The administrator may set the exercise price for a nonqualified stock option.

Summary of the status of the Company's stock options is presented below:

	WEIGHTED-AVERAGE -----	
1993 Plan:	OPTIONS -----	EXERCISE PRICE -----
Outstanding at December 31, 2000	29,750	\$21.00
Granted	--	--
Expired	--	--
Outstanding at December 31, 2001	29,750	\$21.00
Granted	--	--
Expired	--	--
Outstanding at December 31, 2002	29,750	\$21.00
Granted	--	--
Expired	(24,250)	--
Outstanding at December 31, 2003	5,500	\$10.45

As of December 31, 2003, 5,500 options were outstanding and exercisable at a price of \$10.45 and a weighted average remaining contractual life of .5 years. During 1994, the Company granted 2,500 options to an employee pursuant to the 1993 Plan exercisable through March 2004 at an exercise price of \$ 19.1. During 1995 the Company granted 3,000 options to a director under the 1993 Plan exercisable through July 2005 at an exercise price of \$5.06 per share.

	WEIGHTED-AVERAGE -----	
Consultants and others:	OPTIONS -----	EXERCISE PRICE -----
Outstanding at December 31, 2000	2,000	\$23.00
Granted	--	--
Expired	--	--
Outstanding at December 31, 2001	2,000	\$23.00
Granted	--	--
Expired	--	--
Outstanding at December 31, 2002	2,000	\$23.00
Granted	--	--
Expired	(2,000)	--
Outstanding at December 31, 2003	--	--

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No stock options were granted during 2003. Shares of common stock reserved for future issuance are:

Options granted under the 1993 Plan	5,500
Options available for grant under the 1993 Plan	20,250
Options granted to directors	139,990
	-----
Total	165,740
	=====

Pursuant to requirements of SFAS No. 123, the weighted average fair market value



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of options granted during 2000 was \$3.57 per share. The weighted average closing bid prices for the Company's stock at the date the options were granted during 2000 was \$5.13 per share. The fair market value pursuant SFAS No. 123 of each option granted is estimated on the date of grant using the Black-Scholes options-pricing model. The model assumes expected volatility of 76 %, risk-free interest rate of 6.51% for grants during 2000, an expected life of 5 years and no dividend yield. Actual value realized, if any, is dependant on the future performance of the Company's common stock and overall stock market conditions. There is no assurance the value realized by an optionee will be at or near the value estimated by the Black-Scholes model.

The Company applies Accounting Principles Bulletin Opinion No. 25 and related interpretations in accounting for its options. Accordingly, compensation expense of \$118,000 has been recognized for its stock option grants to its directors during 2000.

NOTE I) -- INCOME TAXES

Income (loss) before income taxes from U.S. and foreign results of operations is as follows:

	2003 ----	YEAR ENDED DECEMBER ----- 2002 ----
U.S.	\$ 1,022,000	\$ (203,000)
Foreign	2,426,000	\$ (1,710,000)
	-----	-----
Total	\$ 3,448,000 =====	\$ (1,913,000) =====

Total income tax expense (benefit) for each of the years ended December 31, 2002, 2001 and 2000 were allocated as follows:

	2003 ----	2002 ----
Income taxes (benefit)	\$ 1,188,000	\$ (114,000)
Shareholders' equity for unrealized holding gains (loses) on marketable securities	80,000	(43,000)
	-----	-----
Total	\$ 1,268,000 =====	\$ (157,000) =====

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Income tax expense (benefit) attributable to income from continuing operations consist of:

YEAR ENDED DECEMBER

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	2003 -----	2002 -----
Current:		
State	17,000	6,000
Federal	1,171,000	(315,000)
Foreign	--	
Deferred federal	--	195,000
	-----	-----
Total	\$ 1,188,000 =====	\$ (114,000) =====

The deferred tax assets (liabilities) as of December 31, 2003 and 2002 are as follows:

	2003 -----
Net unrealized depreciation (appreciation) of marketable securities	\$ (130,000)
Basis differences in property and equipment	356,000
Losses carry forward	
Other timing differences	(1,655,000)
	-----
Total	(1,169,000)
Valuation allowance	----- (\$1,169,000) =====

The Company has determined that a valuation allowance of \$362,000 was required for deferred tax assets for 2002. A valuation allowance for such assets was not required at December 31, 2001. This determination considered, among other things, estimated future cash flows from proved reserves and the market value of securities and expected resulting taxable income.

Reconciliation between the actual income tax expense and income taxes computed by applying the U.S. Federal income tax rate to income before income taxes is as follows:

	2003 -----	2002 -----
Computed at U.S. statutory rates	(35.0)%	(35.0)%
State income taxes, net of federal benefit	0.5%	(3.1)%
Adjustment to valuation allowance	--	18.9%
Other	1.05%	13.2%
	-----	-----
	(34.45)%	(6.0)%

(NOTE J) -- Concentrations of Credit Risk

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Financial instruments, which potentially expose the Company to concentrations of credit risk, consist primarily of trade accounts receivable. The Company's customer base includes several of the major United States oil and gas operating and production companies. Although the Company is directly affected by the well-being of the oil and gas production industry, management does not believe a significant credit risk exists at December 31, 2003.

The Company maintains deposits in banks, which may exceed the amount of federal deposit insurance available. Management periodically assesses the financial condition of the institutions and believes that any possible deposit loss is minimal.

A significant portion of the Company's cash and cash equivalents is invested in marketable securities. Substantially, all marketable securities owned by the Company are held by banks in Israel and Switzerland.

(NOTE K) -- Commitments and Contingencies

### COMMITMENTS:

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The Company leases corporate office facilities under a 3-year operating lease expiring October 2006 at a monthly rental of \$ 2,400 with an escalation to \$2500 on November 2005. The Company shares office space with Jay Petroleum, L.L.C. and Jay Management L.L.C., affiliates, under an informal sublease agreement. The Company is also responsible for its prorata share of the operating expenses that exceed a certain threshold.

At December 31, 2003, future minimum lease payments under non-cancelable operating leases are approximately \$ 83,000.

Further annual minimum lease payments are follows:

	Year Ending December 31,
2004	28,000
2005	29,000
2006	26,000
	-----
	83,000

### CONTINGENCIES:

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

The Company, together with Naphtha Congo Ltd., as Israeli and related entity ("Naphthat Congo"), were served in October 2002 in District Court of Harris County, Texas, with summons and complaint by Romfar International Ltd., a contractor ("Contractor") who provided drilling services in the Tilapia permit million and movig for court ordered arbitration. The Contractor and Naphtha Tilapia 1 well. The Company indirectly held, through Naphtha Congo, a 50% participation interest in the Tilapia 1 well.

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The Company filed its answer on October 18, 2002, where it denied all allegations made and denied that it is a proper party to the suit and moved to dismiss the complaint. On March 20, 2003, the court granted the Company's motion to compel arbitration against Naphtha Congo. Subsequently, the contractor's motion for a new trial and on July 8, 2003, the court denied the contractor's motion for a new trial. On November 3, 2003, the arbitrator's award was forwarded to Naphtha Congo. According to the Arbitrator's award, Naphtha Congo is obliged to pay the contractor the amount of \$693,523 as funds due under the drilling contract and in addition, interest at the rate of 18% per annum. The Company extinguished this obligation on November 19, 2003.

(NOTE L) - Geographical Segment Information

The Company's operations involve a single operating segment--the exploration, development, production and transportation of oil and natural gas. Its current oil and gas activities are concentrated in the United States, Israel, and the Republic of Congo, Africa. Operating in foreign countries subjects the Company to inherent risks such as a loss of revenues, property and equipment from such hazards as exploration, nationalization, war and other political risks, risks of increases of taxes and governmental royalties, renegotiation of contracts with government entities and changes in laws and policies governing operations of foreign-based companies.

The Company's oil and gas business is subject to operating risks associated with the exploration, and production of oil and gas, including blowouts, pollution and acts of nature that could result in damage to oil and gas wells, production facilities or formations. In addition, oil and gas prices have fluctuated substantially, in recent years as a result of events, which were outside of the Company's control. Financial information, summarized by geographic area, is as follows (in thousands):

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	UNITED STATES -----	ISRAEL -----
2003		
Sales and other operating revenue	\$ 3,582	\$ 1,549
Costs and operating expenses	(1,960)	(820)
	-----	-----
Operating profit (loss)	\$ 1,622	\$ 729
Interest income and other corporate revenues		
Net gain in investee and gain on marketable securities		
General corporate expenses		
Interest expense		
Capital gain		
Other income		
Accretion expenses		
Income taxes		
Net income		
Identifiable assets at December 31, 2003	\$ 2,987	\$ 81
Net property and equipment		

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Cash and corporate assets  
Total assets at December 31, 2003

	GEOGRAPHIC S -----	
	UNITED STATES -----	ISRAEL -----
2002		
Sales and other operating revenue	\$ 2,563	\$ 1,022
Costs and operating expenses	(2,021)	(817)
Operating profit (loss)	243	205
Interest income and other corporate revenues		
loss on marketable securities and net loss in investee		
General corporate expenses		
Interest expense		
Income taxes		
Net loss		
Identifiable assets at December 31, 2002	\$ 3,178	\$ 177
Cash and corporate assets		
Total assets at December 31, 2002		

	GEOGRAPHIC S -----	
	UNITED STATES -----	ISRAEL -----
2001		
Sales and other operating revenue	\$ 3,171	\$ 988
Costs and operating expenses	(1,451)	(723)
Operating profit (loss)	\$ 1,720	\$ 265
Interest income and other corporate revenues		
General corporate expenses		
Loss on marketable securities and net loss in investee		
Income taxes		
Net loss		
Identifiable assets at December 31, 2001		
Net property and equipment	\$ 3,850	\$ 180
Cash and corporate assets		
Total assets at December 31, 2001		

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(NOTE M) - Asset Retirement Obligations

We recognize the fair value of a liability for an asset retirement obligation in the period at which time the asset was placed in service. The associated asset retirement costs are capitalized as part of the carrying amount of the asset. The fair value of a liability for an asset retirement obligation is the amount which that liability could be settled in a current transaction between willing parties. The Company uses the expected cash flow approach for calculating asset retirement obligations. The liability is discounted using the credit-adjusted

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risk-free interest rate in effect when the liability is initially recognized. The changes in the liability for an asset retirement obligation due to the passage of time are measured by applying an interest method of allocation to the amount of the liability at the beginning of the period. This amount is recognized as an increase in the carrying amount of the liability and as accretion expense classified as an operating item in the statement of operations.

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

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

Asset retirement obligations, as of December 31, 2002	\$	-
Liabilities upon adoption of SFAS No. 143 on January 1, 2003		650
Liabilities incurred		73
Liabilities settled		-
Accretion expense		43
Revisions in estimated cash flows		-
		-----
Asset retirement obligations, as of December 31, 2003	\$	766
		=====

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

	YEAR ENDED DECEMBER 31,	
	2002	2001
	-----	-----
Net income (loss):		
As reported	\$ 1,717	\$ (139)
Pro forma	1,663	(186)
Net income (loss) per share, as reported:		
Basic & diluted	\$ .65	\$ (.05)
Net income (loss) per share, pro forma:		
Basic & diluted	\$ .63	\$ (.07)

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

AS OF DECEMBER 31,

	2002	2001
	-----	-----

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Asset retirement obligations, beginning of year	\$ 613	\$ 482
Liabilities incurred	\$ -	\$ 96
Accretion expense	\$ 37	\$ 35
	-----	-----
Asset retirement obligations, end of year	\$ 650	\$ 613
	=====	=====

(NOTE N) - Subsequent Event

In March 2004, the Company completed the purchase of a luxury cruise liner for aggregate consideration of \$8,050,000. The vessel, a Bahamas flagged ship, contains 270 passenger cabins spread out over nine decks. The Company has secured commercial bank loans for approximately \$7.5 million of the purchase price, to be secured by a lien on the vessel, marketable securities and a company guarantee. The Company is currently in discussions with several luxury cruise operators for the purpose of commercially leasing the vessel as a luxury cruise liner. No assurance can be given that the Company will be able to conclude any leasing arrangement on commercially acceptable terms.

SUPPLEMENTARY OIL AND GAS INFORMATION

For the years ended December 31, 2003, 2002 and 2001 (unaudited)

The following supplemental information regarding the oil and gas activities of the Company is presented pursuant to the disclosure requirements promulgated by the Securities and Exchange Commission and SFAS No. 69, Disclosures About Oil and Gas Producing Activities. Capitalized costs relating to oil and gas activities and costs incurred in oil and gas property acquisition, exploration and development activities for each year are shown below.

CAPITALIZED COST OF OIL AND GAS PRODUCING ACTIVITIES (IN THOUSANDS)

	2003		2002	
	UNITED STATES	CONGO	UNITED STATES	CONGO
	-----	-----	-----	-----
Unproved properties not being amortized		150	194	\$ 1
Proved property being amortized	6,352	--	5,504	
Accumulated depreciation, depletion amortization and impairment	(3,338)	(150)	(2,526)	
	-----	-----	-----	-----
Net capitalized costs	\$3,014	--	\$3,172	\$ 1
	=====	=====	=====	=====

COSTS INCURRED IN OIL AND GAS PROPERTY ACQUISITION, EXPLORATION, AND DEVELOPMENT ACTIVITIES (IN THOUSANDS)

	2003		2002	
	UNITED STATES	CONGO	UNITED STATES	CONGO
	-----	-----	-----	-----

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Property acquisition costs--proved and unproved properties	\$ 260		\$ --	\$ --
Exploration costs	22	54	833	833
Development costs	393		500	500
	-----	-----	-----	-----

(Israel exploration costs in 2003-\$ 88; 2002-27\$ 2001 - \$5)

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RESULTS OF OPERATIONS FOR OIL AND GAS PRODUCING ACTIVITIES (IN THOUSANDS)

	2003		2002	
	UNITED STATES	CONGO	UNITED STATES	CONGO
	-----	-----	-----	-----
Oil and gas sales	\$3,439	--	\$2,423	--
Lease operating expense and severance taxes	(872)	--	(844)	--
Depreciation, depletion, amortization and provision for impairment	(1,088)	(150)	(589)	(150)
Exploration costs	(22)	(54)	(833)	(833)
	-----	-----	-----	-----
Income (Loss) before tax provision	1,457	(204)	155	(833)
Provision for income taxes	--	71	--	2
	-----	-----	-----	-----
Results of operations	\$1,457	\$(133)	\$ 155	\$(833)
	=====	=====	=====	=====

OIL AND GAS RESERVES

Oil and gas proved reserves can not be measured exactly. The engineers interpreting the available data, as well as price and other economic factor base reserve estimates on many factors related to reservoir performance, which require evaluation. The reliability of these estimates at any point in time depends on both the quality and quantity of the technical and economic data, the production performance of the reservoirs as well as extensive engineering judgment. Consequently, reserve estimates are subject to revision, as additional data become available during the producing life of a reservoir. When a commercial reservoir is discovered, proven reserves are initially determined based on limited data from the first well or wells. Subsequent data may better define the extent of the reservoir and additional production performance, well tests and engineering studies will likely improve the reliability of the reserve estimate. The evolution of technology may also result in the application of improved recovery techniques such as supplemental or enhanced recovery projects, or both, which have the potential to increase reserves beyond those envisioned during the early years of a reservoir's producing life.

The following table represents the Company's net interest in estimated quantities of proved developed and undeveloped reserves of crude oil, condensate, natural gas liquids and natural gas and changes in such quantities at December 31, 2003, 2002 and 2001, and for the years then ended. Net proved reserves are



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the estimated quantities of crude oil and natural gas which geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions. Proved developed reserves are proved reserve volumes that can be expected to be recovered through existing wells with existing equipment and operating methods. Proved undeveloped reserves are proved reserve volumes that are expected to be recovered from new wells on undrilled acreage or from existing wells where a significant expenditure is required for recompilation. All of the Company's proved reserves are in the United States. The Company's oil and gas reserves are priced at \$ 30.56 per barrel and \$ 5.16 per Mcf, respectively, at December 31, 2003.

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	OIL BBLs	GAS MCF
December 31, 2000	182,036	5,559,366
Revisions of previous estimates	(19,580)	118,727
Acquisition of minerals in place	47,689	190,345
Sales of minerals in place	--	--
Net discoveries and extensions	--	--
Production	(19,835)	(656,169)
December 31, 2001	190,310	5,212,269
Revisions of previous estimates	(7,525)	(572,723)
Acquisition of minerals in place	--	--
Sales of minerals in place	--	--
Net discoveries and extensions	--	--
Production	(20,852)	(720,072)
December 31, 2002	161,933	3,919,474
Revisions of previous estimates	55,261	(317,234)
Acquisition of minerals in place	--	--
Production	(19,294)	(599,000)
December 31, 2003	197,900	3,003,240

The Company's proved reserves are as follows:

	DEVELOPED		UNDEVELOPED	
	OIL BBLs	GAS MCF	OIL BBLs	GAS
December 31, 2003	197,900	3,003,240	--	516
December 31, 2002	161,933	3,919,474	--	138
December 31, 2001	190,310	5,212,269	--	
Interest in proved reserves of unconsolidated affiliates				
December 31, 2003	--	1,979,000		

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December 31, 2002	--	1,979,000
December 31, 2001	--	1,979,000

### STANDARDIZED MEASURE OF DISCOUNTED FUTURE NET CASH FLOW

The standardized measure of discounted future net cash flows relating to the Company's proved oil and gas reserves is calculated and presented in accordance with Statement of Financial Accounting Standards No. 69. Accordingly, future cash inflows were determined by applying year-end oil and gas prices to the Company's estimated share of the future production from proved oil and gas reserves.

Future production and development costs were computed by applying year-end costs to future years. Applying year-end statutory tax rates to the estimated net future cash flows derived future income taxes. A prescribed 10% discount factor was applied to the future net cash flows.

In the Company's opinion, this standardized measure is not a representative measure of fair market value. The standardized measure is intended only to assist financial statement users in making comparisons among companies.

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	2003	2002
	-----	-----
Future cash inflows	\$ 21,705,930	\$ 20,637,745
Future development costs	(160,780)	(189,877)
Future production costs	(7,472,950)	(6,131,777)
	-----	-----
Future net cash flows	14,091,190	14,862,770
Future income tax expenses	(4,791,004)	(4,904,714)
Annual 10% discount rate	(4,650,009)	(4,082,803)
	-----	-----
Standardized measure discounted future net cash flows	\$ 4,650,177	\$ 5,875,253
	=====	=====

### CHANGES IN STANDARDIZED MEASURE OF DISCOUNTED FUTURE NET CASH FLOWS

The principal sources of change in the standardized measure of discounted future net cash flows for the years ended December 31, 2003, 2002 and 2001 were as follows:

	2003	2002
	-----	-----
Beginning of the year	\$ 5,875,253	\$ 4,377,001
Sales and transfers of oil and gas produced, net of production costs	--	--
Sales of reserves in place	--	--
Net changes in prices and production costs	(1,341,179)	1,498,252
Net changes in income taxes	(113,710)	--
Changes in estimated future development costs,		

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net of current development costs	--	48,303	
Acquisition of minerals in place	--	--	\$
Revision of previous estimates	--	--	
Changes in production rate and other	--	--	
Accretion of discount	--	--	
End of year	4,650,177	5,875,253	\$
	=====	=====	

Selected Quarterly Financial Data (amounts in thousands, except per share data)  
(Unaudited):

	QUARTER ENDED		
	MARCH 31	JUNE 30	SEPTEMBER 30
	2003	2003	2003
	----	----	----
Total Revenues	\$ 1,974	\$ 2,942	\$ 1,928
Net Income (loss) before taxes	\$ 852	\$ 1,906	\$ 826
Cumulative effect of an accounting change	(264)	-	
Net Income (loss)	\$ 588	\$ 1,906	\$ 808
Earnings (loss) per Common Share			
-Basic and Diluted	\$ 0.22	\$ 0.72	\$ 0.31

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	QUARTER ENDED		
	MARCH 31	JUNE 30	SEPTEMBER 30
	2002	2002	2002
	----	----	----
Total Revenues	\$ 1,076	\$ 1,021	\$ 1,047
Net Income (loss) before taxes	\$ (160)	\$ (1,834)	\$ (60)
Cumulative effect of an accounting change	\$ 3,516	--	--
Net Income	\$ 3,356	\$ (1,370)	\$ (60)
Earnings (loss) per Common Share			
-Basic and Diluted	\$ 1.27	\$ (0.52)	\$ (0.02)

	QUARTER ENDED		
	MARCH 31	JUNE 30	SEPTEMBER 30
	2001	2001	2001
	----	----	----
Total Revenues	\$ 1,475	\$ 1,555	\$ 1,002
Net Income (loss) before taxes	\$ 352	\$ 767	\$ (277)
Net Income	\$ 195	\$ 524	\$ (177)

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Earnings (loss) per Common Share			
-Basic and Diluted	\$ 0.07	\$ 0.20	\$ (0.07)

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