

ISRAMCO INC
Form 10-Q
November 09, 2016

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

FORM 10-Q

Check
One

Quarterly report under Section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period ended September 30, 2016

or

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

Commission File Number 0-12500

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

Delaware 13-3145265
(State or other Jurisdiction of Incorporation or Organization) I.R.S. Employer Number

2425 West Loop South, Suite 810, HOUSTON, TX 77027
(Address of Principal Executive Offices)

713-621-5946
(Registrant's Telephone Number, Including Area Code)

Indicate by check whether the registrant: (1) filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definition of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

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

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

As of November 9, 2016, Isramco, Inc, had 2,717,691 outstanding shares of common stock, par value \$0.01 per share.

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Forward Looking Statements

CERTAIN STATEMENTS MADE IN THIS QUARTERLY REPORT ON FORM 10-Q ARE “FORWARD-LOOKING STATEMENTS” WITHIN THE MEANING OF THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995. FORWARD-LOOKING STATEMENTS CAN BE IDENTIFIED BY TERMINOLOGY SUCH AS “MAY”, “WILL”, “SHOULD”, “EXPECTS”, “INTENDS”, “ANTICIPATES”, “BELIEVES”, “ESTIMATES”, “PREDICTS”, OR “CONTINUE” OR THE NEGATIVE OF THESE TERMS OR OTHER COMPARABLE TERMINOLOGY AND INCLUDE, WITHOUT LIMITATION, STATEMENTS BELOW REGARDING EXPLORATION AND DRILLING PLANS, FUTURE GENERAL AND ADMINISTRATIVE EXPENSES, FUTURE GROWTH, FUTURE EXPLORATION, FUTURE GEOPHYSICAL AND GEOLOGICAL DATA, GENERATION OF ADDITIONAL PROPERTIES, RESERVES, NEW PROSPECTS AND DRILLING LOCATIONS, FUTURE CAPITAL EXPENDITURES, SUFFICIENCY OF WORKING CAPITAL, ABILITY TO RAISE ADDITIONAL CAPITAL, PROJECTED CASH FLOWS FROM OPERATIONS, OUTCOME OF ANY LEGAL PROCEEDINGS, DRILLING PLANS, THE NUMBER, TIMING OR RESULTS OF ANY WELLS, INTERPRETATION AND RESULTS OF SEISMIC SURVEYS OR SEISMIC DATA, FUTURE PRODUCTION OR RESERVES, LEASE OPTIONS OR RIGHTS, PARTICIPATION OF OPERATING PARTNERS, CONTINUED RECEIPT OF ROYALTIES, AND ANY OTHER STATEMENTS REGARDING FUTURE OPERATIONS, FINANCIAL RESULTS, OPPORTUNITIES, GROWTH, BUSINESS PLANS AND STRATEGY. BECAUSE FORWARD-LOOKING STATEMENTS INVOLVE RISKS AND UNCERTAINTIES, THERE ARE IMPORTANT FACTORS THAT COULD CAUSE ACTUAL RESULTS TO DIFFER MATERIALLY FROM THOSE EXPRESSED OR IMPLIED BY THESE FORWARD-LOOKING STATEMENTS. ALTHOUGH THE COMPANY BELIEVES THAT EXPECTATIONS REFLECTED IN THE FORWARD-LOOKING STATEMENTS ARE REASONABLE, IT CANNOT GUARANTEE FUTURE RESULTS, PERFORMANCE OR ACHIEVEMENTS. MOREOVER, NEITHER THE COMPANY NOR ANY OTHER PERSON ASSUMES RESPONSIBILITY FOR THE ACCURACY AND COMPLETENESS OF THESE FORWARD-LOOKING STATEMENTS. THE COMPANY IS UNDER NO DUTY TO UPDATE ANY FORWARD-LOOKING STATEMENTS AFTER THE DATE OF THIS REPORT TO CONFORM SUCH STATEMENTS TO ACTUAL RESULTS.

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PART I - Financial Information

ITEM 1. Financial Statements

ISRAMCO INC.

CONSOLIDATED BALANCE SHEETS

(In thousands, except share and per share amounts)

(Unaudited)

	As of September 30, 2016	As of December 31, 2015
ASSETS		
Current Assets:		
Cash and cash equivalents	\$25,826	\$22,078
Accounts receivable, net of allowances for doubtful accounts of \$2,001 and \$1,743	9,378	12,460
Restricted and designated cash	762	185
Inventories	718	871
Prepaid expenses and other	1,718	2,679
Total Current Assets	38,402	38,273
Property and Equipment, at cost – successful efforts method:		
Oil and Gas properties	244,067	243,855
Advanced payment for equipment	440	440
Other	56,695	56,490
Total Property and Equipment	301,202	300,785
Accumulated depreciation, depletion, amortization and impairment	(240,261)	(235,194)
Net Property and Equipment	60,941	65,591
Deferred tax assets and other	37,249	35,496
Deferred financing Costs	329	419
Restricted cash – long term	7,174	7,080
Investments	218	98
Total assets	\$144,313	\$146,957
LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIT)		
Current liabilities:		
Accounts payable and accrued expenses	\$11,271	\$13,122
Bank overdraft	1	350
Short term debt and current maturities of long-term debt, net of discount of \$799 and \$820	8,801	9,602
Payables and accrued interest due to related party	84	63
Accrued Interest	1,000	950
Derivative liability	853	1,171
Total current liabilities	22,010	25,258
Long term debt, net of discount of \$3,152 and \$3,748	97,648	104,252
Other Long-term Liabilities:		
Asset retirement obligations	20,540	19,884

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Derivative liability	1,973	431
Total liabilities	142,171	149,825
Commitments and contingencies		
Shareholders' equity (deficit):		
Common stock \$0.01 par value; authorized 7,500,000 shares; issued 2,746,958 shares; outstanding 2,717,691 shares	27	27
Additional paid-in capital	23,853	23,853
Accumulated deficit	(17,089)	(23,405)
Treasury stock, 29,267 shares at cost	(164)	(164)
Total Isramco, Inc. shareholders' equity	6,627	311
Non controlling interest	(4,485)	(3,179)
Total equity (deficit)	2,142	(2,868)
Total liabilities and shareholders' equity (deficit)	\$144,313	\$146,957

See notes to the unaudited consolidated financial statements.

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

	Three Months Ended September 30		Nine Months Ended September 30		
	2016	2015	2016	2015	
Revenues					
Oil and gas sales	\$ 10,888	\$ 11,230	\$ 29,923	\$ 32,754	
Production services	3,229	5,615	9,528	17,415	
Office services	139	155	432	474	
Gain on divestiture	-	6,554	600	8,378	
Other	166	274	502	656	
Total revenues	14,422	23,828	40,985	59,677	
Operating expenses					
Lease operating expense, transportation and taxes	2,307	3,775	6,969	11,674	
Depreciation, depletion and amortization	1,549	2,643	4,484	7,449	
Impairment of oil and gas assets	-	22,781	583	24,619	
Accretion expense	227	216	668	637	
Production services	3,345	5,778	10,699	16,500	
Loss (gain) from plug and abandonment	-	33	(24) 36	
General and administrative	1,093	1,482	3,353	3,727	
Total operating expenses	8,521	36,708	26,732	64,642	
Operating income (loss)	5,901	(12,880) 14,253	(4,965)
Other expenses					
Interest expense, net	1,235	1,160	3,615	1,248	
Interest expense – related party, net	-	-	-	2,878	
Loss (gain) from derivative contracts, net	(181) 1,734	2,170	2,406	
Capital loss	38	53	55	80	
Total other expenses	1,092	2,947	5,840	6,612	
Income (loss) before income taxes	4,809	(15,827) 8,413	(11,577)
Income tax (expense) benefit	(1,815) 5,379	(3,403) 3,705	
Net income (loss)	\$ 2,994	\$ (10,448) \$ 5,010	\$ (7,872)
Net loss attributable to non-controlling interests	(379) (459) (1,306) (993)
Net income (loss) attributable to Isramco	\$ 3,373	\$ (9,989) \$ 6,316	\$ (6,879)
Earnings (loss) per share – basic:	\$ 1.24	\$ (3.68) \$ 2.32	\$ (2.53)
Earnings (loss) per share – diluted:	\$ 1.24	\$ (3.68) \$ 2.32	\$ (2.53)
Weighted average number of shares outstanding basic:	2,717,691	2,717,691	2,717,691	2,717,691	
Weighted average number of shares outstanding diluted:	2,717,691	2,717,691	2,717,691	2,717,691	

See notes to the unaudited consolidated financial statements.

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ISRAMCO INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands)

(Unaudited)

	Three Months		Nine Months	
	Ended September		Ended September	
	30		30	
	2016	2015	2016	2015
Net income (loss)	\$2,994	\$(10,448)	\$5,010	\$(7,872)
Comprehensive income (loss)	2,994	(10,448)	5,010	(7,872)
Comprehensive loss attributable to non-controlling interests	(379)	(459)	(1,306)	(993)
Comprehensive Income (loss) attributable to Isramco	\$3,373	\$(9,989)	\$6,316	\$(6,879)

See notes to the unaudited consolidated financial statements.

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

	Nine Months Ended September 30,	
	2016	2015
Cash Flows From Operating Activities:		
Net income (loss)	\$5,010	\$(7,872)
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, depletion, amortization and impairment	5,067	32,068
Bad debt expense	258	199
Accretion expense	668	637
Gain on divestiture	(600)	(8,378)
Changes in deferred taxes	(1,753)	(8,755)
Net unrealized loss on derivative contracts	1,224	2,374
Loss on sale of equipment and other	55	80
Amortization of debt cost	707	228
Changes in components of working capital and other assets and liabilities		
Accounts receivable	2,824	5,142
Prepaid expenses, other receivables and other current assets	474	1,472
Due to related party	21	(4,790)
Inventories	153	(216)
Accounts payable and accrued expenses	(1,816)	(3,114)
Net cash provided by operating activities	12,292	9,075
Cash flows from investing activities:		
Addition to property and equipment, net	(547)	(4,691)
Proceeds from sale of oil and gas properties and equipment	600	7,506
Restricted cash and deposit, net	(670)	(6,625)
Proceeds from sale of equipment	77	-
Investment in Apache Flats	(120)	-
Net cash used in investing activities	(660)	(3,810)
Cash flows from financing activities:		
Repayments on loans – related parties, net	-	(94,250)
Borrowings of long term debt	-	115,030
Repayments of long term debt	(6,600)	(1,200)
Borrowings (repayments) of bank overdraft, net	(349)	328
Payments of deferred financing costs	-	(478)
Repayments of short - term debt, net	(935)	(1,279)
Net cash provided by (used in) financing activities	(7,884)	18,151
Net increase in cash and cash equivalents	3,748	23,416
Cash and cash equivalents at beginning of period	22,078	2,027
Cash and cash equivalents at end of period	\$25,826	\$25,443

See notes to the unaudited consolidated financial statements.

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Isramco Inc.

Notes to Consolidated Financial Statements
(Unaudited)

Note 1 - Financial Statement Presentation

Isramco, Inc. and its subsidiaries and affiliated companies (together referred to as “We”, “Our”, “Isramco” or the “Company”) is predominately an independent oil and natural gas company engaged in the exploration, development and production of oil and natural gas properties located onshore in the United States and ownership of various royalty interests in oil and gas concessions located offshore Israel. The Company also operates a production services company that provides well maintenance and workover services, well completion, and recompletion services.

The accompanying unaudited financial statements and notes of Isramco have been prepared pursuant to the rules and regulations of the United States Securities and Exchange Commission (the “Commission”). Pursuant to such rules and regulations, certain disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been omitted. The accompanying financial statements and notes should be read in conjunction with the accompanying financial statements and notes included in Isramco’s Annual Report on Form 10-K for the year ended December 31, 2015.

Certain reclassifications have been made to the prior periods to conform to the current period presentation.

The accompanying unaudited interim financial statements furnished in this report reflect all adjustments that are, in the opinion of management, necessary to fairly present Isramco’s results of operations and cash flows for the nine month periods ended September 30, 2016 and 2015 and Isramco’s financial position as of September 30, 2016.

Use of Estimates

In preparing financial statements in accordance with accounting principles generally accepted in the United States, management makes informed judgments and estimates that affect the reported amounts of assets, liabilities, revenues, and expenses. Management evaluates its estimates and related assumptions regularly, including those related to the value of properties and equipment; proved reserves; intangible assets; asset retirement obligations; litigation reserves; environmental liabilities; liabilities, and costs; income taxes; and fair values. Changes in facts and circumstances or additional information may result in revised estimates, and actual results may differ from these estimates.

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

Concentrations of Credit Risk

Financial instruments, which potentially expose Isramco to concentrations of credit risk, consist primarily of interest rate swaps, cash equivalents, trade and joint interest accounts receivable. Isramco’s customer base includes several of the major United States oil and gas operating and production companies as well as major power companies in Israel. Although Isramco is directly affected by the well-being of the oil and gas production industry, management does not believe a significant credit risk existed as of September 30, 2016. Isramco continues to monitor and review credit exposure of its marketing counter-parties.

Isramco entered into certain swap and cap agreements with Deutsche Bank AG London Branch to hedge the risk of interest rate volatility. See Note 3 for details.

Our production services segment customers include major oil and natural gas production companies and independent oil and natural gas production companies. We perform ongoing credit evaluations of our customers and usually do not require material collateral. We maintain reserves for potential credit losses when necessary. Our results of operations and financial position should be considered in light of the fluctuations in demand experienced by oilfield service companies as changes in oil and gas producers' expenditures and budgets occur. These fluctuations can impact our results of operations and financial position as supply and demand factors directly affect utilization and hours which are the primary determinants of our net cash provided by operating activities.

Isramco 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.

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Risk Management Activities

The Company follows Accounting Standards Codification (ASC) 815, Derivatives and Hedging. From time to time, the Company may hedge a portion of its forecasted oil and natural gas production or may hedge interest rates on variable interest rate loans. Derivative contracts entered into by the Company have consisted of transactions in which the Company hedges the variability of cash flow related to a forecasted transaction. The Company has elected not to designate any of its positions for hedge accounting. Accordingly, the Company records the net change in the mark-to-market valuation of these positions, as well as payments and receipts on settled contracts, in “Net loss (gain) on derivative contracts” in the consolidated statements of operations. Currently, the Company has no derivative contracts in place to hedge against fluctuations in oil and natural gas prices.

Fair Value

Fair value accounting applies to reported balances that are required or permitted to be measured at fair value under existing accounting pronouncements. Fair value measurements are determined based on the assumptions that market participants would use in pricing the asset or liability. As a basis for considering market participant assumptions in fair value measurements, these accounting requirements establish a fair value hierarchy that distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity (observable inputs that are classified within Levels 1 and 2 of the hierarchy) and the reporting entity’s own assumptions about market participant assumptions (unobservable inputs classified within Level 3 of the hierarchy).

Level 1 inputs utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that we have the ability to access.

Level 2 inputs are inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs might include quoted prices for similar assets and liabilities in active markets, as well as inputs that are observable for the asset or liability (other than quoted prices), such as interest rates, foreign exchange rates, and yield curves that are observable at commonly quoted intervals.

Level 3 inputs are unobservable inputs for the asset or liability, and are typically based on an entity’s own assumptions, as there is little, if any, related market activity.

In instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety. Our assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the asset or liability. We utilize the fair value hierarchy in our accounting for interest rate swaps (Level 2).

Consolidation

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

Impairment

We review our property and equipment in accordance with Accounting Standards Codification (ASC) 360, Property, Plant, and Equipment (ASC 360). ASC 360 requires us to evaluate property and equipment as an event occurs or circumstances change that would more likely than not reduce the fair value of the property and equipment below the carrying amount. If the carrying amount of property and equipment is not recoverable from its undiscounted cash

flows, then we would recognize an impairment loss for the difference between the carrying amount and the current fair value. Further, we evaluate the remaining useful lives of property and equipment at each reporting period to determine whether events and circumstances warrant a revision to the remaining depreciation periods. During the nine months ended September 30, 2016, the Company recognized impairment on the oil and gas properties in the amount of \$583,000.

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Asset Retirement Obligation

ASC 410, Asset Retirement and Environmental Obligations (ASC 410) requires that the fair value of an asset retirement cost, and corresponding liability, should be recorded as part of the cost of the related long-lived asset and subsequently allocated to expense using a systematic and rational method. The Company records asset retirement obligations to reflect the Company's legal obligations related to future plugging and abandonment of its oil and natural gas wells and gas gathering systems. The Company estimates the expected cash flow associated with the obligation and discounts the amounts using a credit-adjusted, risk-free interest rate. At least annually, the Company reassesses the obligation to determine whether a change in the estimated obligation is necessary. The Company evaluates whether there are indicators that suggest the estimated cash flows underlying the obligation have materially changed. Should those indicators suggest the estimated obligation may have materially changed on an interim basis (quarterly), the Company will accordingly update its assessment.

Commitments and Contingencies

As is common within the oil and natural gas industry, we have entered into various commitments and operating agreements related to the exploration and development of and production from proved oil and natural gas properties. It is our belief that such commitments will be met without a material adverse effect on our financial position, results of operations or cash flows.

Aggregate maturities of contractual obligations at September 30, 2016 are due in future years as follows (in thousands):

Principal Payments on Long-term debt:

2016	2,400
2017	9,600
2018	18,900
2019	21,900
2020	17,100
2021	14,700
2022	14,400
2023	11,400
Total	\$ 110,400

Note 2 - Supplemental Cash Flow Information

The Israeli taxing authority withheld taxes of \$5,154,000 and \$5,050,000 during the nine months ended September 30, 2016 and 2015 respectively.

Cash payments for interest were \$2,859,000 and \$7,530,000 for the nine months ended September 30, 2016 and 2015 respectively.

The consolidated statement of cash flows for the nine months ended September 30, 2016 excludes the following non-cash transactions:

- Increase in property and equipment of \$1,000 due to additional asset retirement obligation.
- Termination of \$487,000 short-term insurance financing reduced prepaid insurance.

The consolidated statement of cash flows for the period ended September 30, 2015 excludes the following non-cash transactions:

Retirement of asset retirement obligations in the amount of \$1,035,000 included in the gain on sale of oil and gas properties.

Oil and gas property of \$1,347,000 removed from accounts payable due to title dispute.

Insurance premiums financed through issuance of short term debt of \$1,954,000.

Equipment of \$84,000 included in accounts payable.

Increase in property and equipment of \$27,000 due to additional asset retirement obligation.

Increase in debt discount of \$235,000 deducted from loan proceeds.

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Note 3 - Financial Instruments and Fair Value

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

On June 16, 2015, Tamar Royalties LLC ("Tamar Royalties"), a wholly owned subsidiary of the Company, engaged in an interest rate swap agreement ("IRS Agreement") with the Deutsche Bank AG London Branch ("DBAG"). An interest rate swap is an agreement between two parties (known as counterparties) where one stream of future interest payments is exchanged for another based on a specified notional principal amount. Interest rate swaps often exchange fixed interest payments for floating interest payments that are linked to interest rates.

As previously disclosed on the Company's Form 8-K filed May 22, 2015, Tamar Royalties entered into a \$120,000,000 credit facility with Deutsche Bank, which facility is discussed further in Note 4 "Long-Term Debt and Interest Expense". Under the terms of this facility, Tamar Royalties, is required to hedge at least seventy-five percent (75%) of the outstanding balance under this Facility against fluctuations in LIBOR, with at least thirty seven and one-half percent (37.5%) of the outstanding balance being hedged through swaps. The notional value of these hedges corresponds to the amortization schedule covering the facility and previously disclosed in the aforementioned Form 8-K. Accordingly, on June 16, 2015, Tamar Royalties and DBAG entered into the IRS agreement whereby the company hedged \$119,250,000 of the \$120,000,000 initial borrowing as follows:

- (a) Tamar Royalties hedged 37.5% of the perpetual outstanding balance under the facility, being an initial notional amount of \$45,000,000, with a fixed rate swap whereby the Company will pay DBAG a fixed interest rate of 4.63%, and DBAG will pay the Company a monthly floating interest rate of USD-LIBOR-BBA plus a spread of 2.75%.
- (b) Tamar Royalties hedged the remaining 62.5% of the perpetual outstanding balance less \$750,000, being an initial notional amount of \$74,250,000, against fluctuations in LIBOR by capping the fluctuations in LIBOR at 1.50%. Pursuant to the IRS agreement, the Company will pay DBAG a fixed interest rate of 0.91%, and the Bank will pay the Company the greater of (i) USD-LIBOR-BBA minus a cap strike of 1.5% and (ii) zero.

As a result of these financial instruments, the Company recorded a net loss from derivative contracts in the amount of \$2,170,000 consisting of \$1,224,000 of unrealized loss and \$946,000 in cash settlements for the nine months ended September 30, 2016.

Financial Instruments as of September 30, 2016 and December 31, 2015 consisted of the following (in thousands):

Financial Instrument	Fair Value Input Level	September 30, 2016		December 31, 2015	
		Carrying Value	Fair Value	Carrying Value	Fair Value
ST Liabilities:					
Interest rate swaps	Level 2	\$ (853)	\$ (853)	\$ (1,171)	\$ (1,171)

LT Liabilities:

Interest rate swaps	Level 2	(1,973)	(1,973)	(431)	(431)
		\$(2,826)	\$(2,826)	\$(1,602)	\$(1,602)

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Level 2 Financial Instruments

Our interest rate swaps are measured at fair value using Level 2 inputs. The fair of our interest rate swaps is based on the net present value of expected future cash flows related to both variable and fixed-rate legs of the swap agreement. This measurement is computed using the forward London Interbank Offered Rate (“LIBOR”) yield curve, a market-based observable input.

Note 4 - Long-Term Debt and Interest Expense

Long-term debt as of September 30, 2016 and December 31, 2015 consisted of the following (in thousands):

	As of September 30, 2016	As of December 31, 2015
Bank loan		
Principal amount	\$ 110,400	\$ 117,000
Less: unamortized discount and debt costs	(3,951)	(4,568)
Total long-term debt	106,449	112,432
Less: current maturities, net of current unamortized discount	(8,801)	(8,180)
Long-term debt, net of current maturities	\$ 97,648	\$ 104,252

Bank Loan and Credit Facility

The Deutsche Bank Facility

On May 18, 2015, Tamar Royalties, a newly formed, wholly-owned, special purpose subsidiary of the Company, entered into a term loan credit agreement (the “DB Facility”) with Deutsche Bank Trust Company Americas (“Deutsche Bank”), as facility agent for the lenders and as collateral agent for the secured parties, and with the lenders party thereto. The DB Facility provides for borrowings in the amount of \$120,000,000 on a committed basis and is secured by, among other things, an overriding royalty interest in the Tamar Field, a natural gas field in the Mediterranean Sea, equal to 1.5375%, but is subject to increase to 2.7375% upon the Tamar project payout (the “Royalty Interest”). In connection with the DB Facility, and pursuant to a royalties sale and contribution agreement, the Company contributed the Royalty Interest to Tamar Royalties in exchange for all of the ownership units of Tamar Royalties. Pursuant to the terms of its governing documents, Tamar Royalties will be managed by N.M.A. Energy Resources Ltd, a related party of the Company, and an independent manager, Donald J. Puglisi.

Pursuant to the terms of the DB Facility, Tamar Royalties borrowed \$120,000,000 in its