

SARATOGA RESOURCES INC /TX
Form 10-Q
May 20, 2009

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES AND EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2009

OR

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

For the transition period from _____ to _____

Commission File Number 0-27563

SARATOGA RESOURCES, INC.

(Exact name of registrant as specified in its charter)

Texas
(State or other jurisdiction of incorporation or organization)

76-0314489
(IRS Employer Identification No.)

7500 San Felipe, Suite 675, Houston, Texas 77063

(Address of principal executive offices)(Zip Code)

(713) 458-1560

(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

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
o No x

As of May 1, 2009, we had 16,685,292 shares of \$0.001 par value Common Stock outstanding.

SARATOGA RESOURCES, INC.

FORM 10-Q

INDEX

| | Page No. |
|---|---------------------|
| PART I FINANCIAL INFORMATION | |
| ITEM 1. Financial Statements (Unaudited) | |
| Consolidated Balance Sheets as of March 31, 2009 and December 31, 2008 (Restated) | 3 |
| Consolidated and Combined Statements of Operations for the three months ended March 31, 2009 and March 31, 2008 | 4 |
| Consolidated and Combined Statements of Cash Flows for the three months ended March 31, 2009 and March 31, 2008 | 5 |
| Notes to Consolidated and Combined Financial Statements | 6 |
| ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations | 14 |
| ITEM 3. Quantitative and Qualitative Disclosures About Market Risk | 21 |
| ITEM 4. Controls and Procedures | 21 |
| PART II OTHER INFORMATION | |
| ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds | 22 |
| ITEM 6. Exhibits | 22 |

PART I - FINANCIAL INFORMATION

ITEM 1.

Financial Statements

SARATOGA RESOURCES, INC.
(DEBTOR AND DEBTOR-IN-POSSESSION)
CONSOLIDATED BALANCE SHEETS
(Unaudited)

| | March 31, | December 31, |
|---|------------------|---------------------|
| ASSETS | 2009 | 2008 |
| | | (Restated) |
| Current assets: | | |
| Cash and cash equivalents | \$ 4,709,447 | \$ 5,677,994 |
| Accounts receivable | 8,065,955 | 7,392,887 |
| Prepaid expenses and other | 826,199 | 1,186,090 |
| Derivative asset | 6,674,251 | 346,058 |
| Total current assets | 20,275,852 | 14,603,029 |
| Property and equipment: | | |
| Oil and gas properties - proved (successful efforts method) | 156,461,408 | 154,449,346 |
| Other | 537,279 | 504,470 |
| | 156,998,687 | 154,953,816 |
| Less: Accumulated depreciation, depletion and amortization | (10,456,161) | (7,018,203) |
| Total property and equipment, net | 146,542,526 | 147,935,613 |
| Derivative asset | 3,174,040 | 9,795,194 |
| Other assets, net | 3,882,324 | 4,078,889 |
| Total assets | \$ 173,874,742 | \$ 176,412,725 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Accounts payable | \$ - | \$ 11,869,017 |
| Revenue and severance tax payable | - | 783,459 |

Edgar Filing: SARATOGA RESOURCES INC /TX - Form 10-Q

| | | |
|--|----------------|----------------|
| Accrued liabilities | - | 1,705,408 |
| Short-term notes payable | 23,866 | 581,836 |
| Current portion of long-term debt - related parties | - | 259,488 |
| Deferred taxes | 7,388,353 | 9,932,348 |
| Total current liabilities | 7,412,219 | 25,131,556 |
| Long-term liabilities: | | |
| Asset retirement obligation | 9,438,820 | 9,124,717 |
| Deferred taxes | 489,847 | - |
| Long-term debt, net of unamortized discount of \$1,680,979 and \$1,740,250, respectively | 108,347,899 | 108,288,628 |
| Long-term debt - related parties | - | 428,057 |
| Total long-term liabilities | 118,276,566 | 117,841,402 |
| Liabilities subject to compromise | 17,973,455 | - |
| Commitment and contingencies (see notes) | | |
| Stockholders' equity: | | |
| Common stock, \$0.001 par value; 100,000,000 shares authorized 16,685,292 and 16,877,792 shares issued and outstanding at March 31, 2009 and December 31, 2008, respectively | 16,685 | 16,878 |
| Additional paid-in capital | 19,728,983 | 19,309,658 |
| Retained earnings | 10,466,834 | 14,113,231 |
| Total stockholders' equity | 30,212,502 | 33,439,767 |
| Total liabilities and stockholders' equity | \$ 173,874,742 | \$ 176,412,725 |

The accompanying notes are an integral part of these financial statements

SARATOGA RESOURCES, INC.**(DEBTOR AND DEBTOR-IN-POSSESSION)****STATEMENT OF OPERATIONS****(Unaudited)**

| | For the Three Months Ended March 31, | |
|--|---|----------------------|
| | 2009 | 2008 |
| | (Successor) | (Predecessor) |
| | (Consolidated) | (Combined) |
| Revenues: | | |
| Oil and gas revenues | \$ 8,527,355 | \$ 17,769,831 |
| Other revenues | 27,659 | 636,597 |
| Total revenues | 8,555,014 | 18,406,428 |
| Operating Expense: | | |
| Lease operating expense | 4,644,398 | 7,359,432 |
| Depreciation, depletion and amortization | 3,437,958 | 1,253,897 |
| Accretion expense | 314,103 | 433,169 |
| General and administrative | 1,934,390 | 2,706,821 |
| Taxes other than income | 1,132,802 | 2,108,902 |
| Total operating expenses | 11,463,651 | 13,862,221 |
| Operating income (loss) | (2,908,637) | 4,544,207 |
| Other income (expense): | | |
| Commodity derivative income (expense), net | 2,840,217 | (5,772,220) |
| Interest income | - | 25,988 |
| Interest expense | (5,184,602) | (1,829,174) |
| Total other income (expense) | (2,344,385) | (7,575,406) |
| Net loss before reorganization expenses and income taxes | (5,253,022) | (3,031,199) |
| Reorganization expenses | 235,000 | - |

Edgar Filing: SARATOGA RESOURCES INC /TX - Form 10-Q

| | | |
|---|----------------|----------------|
| Net loss before income taxes | (5,488,022) | (3,031,199) |
| Income tax provision (benefit): | | |
| Current | (3,419,071) | - |
| Deferred | 1,577,446 | - |
| Net loss | \$ (3,646,397) | \$ (3,031,199) |
| Net loss per share basis and diluted: | \$ (0.22) | \$ - |
| Weighted average number of common shares outstanding basic and diluted: | 16,709,514 | - |

The accompanying notes are an integral part of these financial statements

SARATOGA RESOURCES, INC.**(DEBTOR AND DEBTOR-IN-POSSESSION)****STATEMENTS OF CASH FLOWS****(Unaudited)**

| | For the Three Months Ended | |
|---|-----------------------------------|----------------------|
| | March 31, | |
| | 2009 | 2008 |
| | (Successor) | (Predecessor) |
| | (Consolidated) | (Combined) |
| Cash flows from operating activities: | | |
| Net loss | \$ (3,646,397) | \$ (3,031,199) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | |
| Depreciation, depletion and amortization | 3,437,958 | 1,253,897 |
| Accretion expense | 314,103 | 433,169 |
| Amortization of debt issuance costs | 103,045 | - |
| Amortization of debt discount | 59,271 | 850,707 |
| Commodity derivative income | 292,961 | 3,801,922 |
| Stock-based compensation | 419,132 | - |
| Deferred taxes | (1,960,625) | - |
| Changes in operating assets and liabilities: | | |
| (Increase) decrease in accounts receivable | (673,068) | 294,372 |
| (Increase) decrease in prepaid and other assets | 359,891 | (87,605) |
| Increase (decrease) in accounts payable | (258,656) | 3,770,849 |
| Increase in revenue and severance tax payable | 2,670,776 | - |
| Increase in accrued liabilities | 598,020 | 375,237 |
| Decrease in due to related parties | - | (23,706) |
| Net cash provided by operating activities | 1,716,411 | 7,637,643 |
| Cash flows from investing activities: | | |
| Additions to oil and gas property | (2,012,062) | (1,928,876) |
| Additions to other property and equipment | (32,809) | (18,883) |
| Net cash used in investing activities | (2,044,871) | (1,947,759) |

Edgar Filing: SARATOGA RESOURCES INC /TX - Form 10-Q

Cash flows from financing activities:

| | | |
|--|--------------|--------------|
| Distributed capital | - | (588,888) |
| Repayment of short-term notes payable | (557,970) | - |
| Proceeds from debt borrowings | - | 168,131 |
| Repayment of debt borrowings - related party | (82,117) | - |
| Net cash used in financing activities | (640,087) | (420,757) |
| Net increase (decrease) in cash and cash equivalents | (968,547) | 5,269,127 |
| Cash and cash equivalents - beginning of period | 5,677,994 | 4,207,149 |
| Cash and cash equivalents - end of period | \$ 4,709,447 | \$ 9,476,276 |
| Supplemental disclosures of cash flow information: | | |
| Cash paid for income taxes | - | - |
| Cash paid for interest | \$ 3,306,907 | \$ 1,073,324 |

The accompanying notes are an integral part of these financial statements

SARATOGA RESOURCES, INC.

(DEBTOR AND DEBTOR-IN-POSSESSION)

Notes to Financial Statements

March 31, 2009

(Unaudited)

NOTE 1 ORGANIZATION AND BASIS OF PRESENTATION

Organization

Saratoga Resources, Inc. (Saratoga, the Company or the Successor Company) is an independent oil and natural gas company engaged in the production, development, acquisition and exploitation of natural gas and crude oil properties.

On July 14, 2008 (the Acquisition Date), the Company acquired (the Harvest Acquisitions) all of the equity interests in Harvest Oil & Gas, LLC (Harvest Oil) and the Harvest Group, LLC (Harvest Group, and together with Harvest Oil, the Harvest Companies or the Predecessor Companies).

On March 31, 2009, the Company and its principal operating subsidiaries filed voluntary Chapter 11 petitions in the U.S. Bankruptcy Court for the Western District of Louisiana.

Financial Statements Presented

The Harvest Acquisition was accounted for under the purchase method of accounting pursuant to Statements of Financial Accounting Standards (SFAS) 141, Business Combinations. Accordingly, the effect of the Harvest Acquisitions have been included in the Company's consolidated statement of operations subsequent to the Acquisition Date, and the respective assets and liabilities have been recorded at their estimated fair values in the Company's consolidated balance sheet as of the Acquisition Date.

The consolidated financial statements for the Successor Company as of and for the quarter ended March 31, 2009 include the financial statements of Saratoga Resources, Inc., and its subsidiaries, all of which are 100%-owned: Harvest Oil and Gas, LLC, The Harvest Group, LLC, Lobo Operating, Inc. and Lobo Resources, Inc. Intercompany transactions and balances are eliminated in consolidation.

The combined financial statements for the Predecessor Companies for the quarter ended March 31, 2008, include the financial statements of Harvest Oil and Gas, LLC and The Harvest Group, LLC. All significant intercompany balances and transactions have been eliminated.

The accompanying unaudited financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) for interim financial information and with the instructions to Form 10-Q. They do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for a complete financial presentation. In the opinion of management, all adjustments, consisting only of normal recurring adjustments, considered necessary for a fair presentation, have been included in the accompanying unaudited financial statements. Operating results for the periods presented are not necessarily indicative of the results that may be expected for the full year.

These financial statements should be read in conjunction with the financial statements and footnotes, which are included as part of the Company s Form 10-K/A No. 1 for the year ended December 31, 2008.

Accounting for Reorganization

On March 31, 2009, Saratoga and its subsidiaries, all of which are 100%-owned: Harvest Oil and Gas, LLC, The Harvest Group, LLC, Lobo Operating, Inc. and Lobo Resources, Inc. (collectively the Debtors), filed voluntary petitions under Chapter 11 of the U.S. Bankruptcy Code. The accompanying consolidated financial statements of Saratoga have been prepared in accordance with Statement of Position 90-7, Financial Reporting by Entities in Reorganization Under the Bankruptcy Code, and on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. However, as a result of the bankruptcy filings, such realization of assets and satisfaction of liabilities are subject to a significant number of uncertainties. Saratoga's consolidated financial statements do not reflect adjustments that might be required if we (or each of the Saratoga Debtors) are unable to continue as a going concern. SOP 90-7 requires the following for Debtor entities:

Reclassification of unsecured or under-secured pre-petition liabilities to a separate line item in the balance sheet which we have called Liabilities Subject to Compromise (LSTC);

Non-accrual of interest expense for financial reporting purposes, to the extent not paid during bankruptcy and not expected to be an allowable claim. However, unpaid contractual interest is calculated for disclosure purposes.

Adjust any unamortized deferred financing costs and discounts/premiums associated with debt classified as LSTC to reflect the expected amount of the probable allowed claim;

Segregation of reorganization items (direct and incremental costs, such as professional fees, of being in bankruptcy) as a separate line item in the statement of operations outside of income from continuing operations. During the quarter ended March 31, 2009, we incurred \$235,000 of reorganization costs, which reflects cash payments of \$235,000 all of which are related to operating activities;

Evaluation of actual or potential bankruptcy claims, which are not already reflected as a liability on the balance sheet, under SFAS No. 5, Accounting for Contingencies. If valid unrecorded claims, including parent guarantees of subsidiary debt, meeting the SFAS No. 5 criteria are presented to us in future periods, we would accrue for these

amounts, also at the expected amount of the allowed claim rather than at the expected settlement amount.

Disclosure of condensed combined debtor entity financial information, if our consolidated financial statements include material subsidiaries that did not file for bankruptcy protection.

Upon confirmation of our plan of reorganization, and our emergence from Chapter 11 reorganization, fresh-start reporting must be adopted if the reorganization value of our assets immediately before the date of confirmation is less than the total of all post-petition liabilities and allowed claims, and if holders of existing voting shares immediately before confirmation receive less than 50 percent of the voting shares of the emerging entity. Essentially, the reorganization value of the entity, as mutually agreed to by the debtor-in-possession and its creditors, would be allocated to the entity's assets in conformity with the procedures specified by SFAS No. 141(R), Business Combinations.

Dependence on Oil and Gas Prices

As an independent oil and gas producer, our revenue, profitability and future rate of growth are substantially dependent on prevailing prices for natural gas and oil. Historically, the energy markets have been very volatile, and there can be no assurance that oil and gas prices will not be subject to wide fluctuations in the future. Prices for oil and gas have recently declined materially. Any continued and extended decline in oil or gas prices could have a material adverse effect on our financial position, results of operations, cash flows and access to capital and on the quantities of oil and gas reserves that we can economically produce.

Recent Accounting Pronouncements

In April 2009, the FASB issued FASB Staff Position (FSP) No. FAS 107-1 and Accounting Principles Board (APB) 28-1, Interim Disclosures about Fair Value of Financial Instruments, (FAS 107-1) to amend SFAS No. 107, Disclosures about Fair Value of Financial Instruments and APB 28, Interim Financial Reporting. FAS 107-1 changes the reporting requirements on certain fair value disclosures of financial instruments to include interim reporting periods. FAS 107-1 is effective for interim reporting periods ending after June 15, 2009, with early adoption encouraged. We are currently assessing the impact, if any, that the adoption of this pronouncement will have on our disclosures.

In April 2009, the FASB issued FSP No. FAS 157-4, Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly, (FAS 157-4) to amend SFAS No. 157, Fair Value Measurements, (SFAS 157). FAS 157-4 provides additional guidance for estimating fair value in accordance with SFAS 157 when the volume and level of activity for an asset or liability has significantly decreased. In addition, FAS 157-4 includes guidance on identifying circumstances that indicate a transaction is not orderly. FAS 157-4 is effective for interim and annual reporting periods ending after June 15, 2009. We are currently assessing the impact, if any, that the adoption of this pronouncement will have on our operating results, financial position or cash flows.

In May 2008, the FASB issued Staff Position No. APB 14-1, Accounting for Convertible Debt Instruments That May be Settled in Cash upon Conversion (Including Partial Cash Settlement) (FSP APB 14-1). FSP APB 14-1 states that convertible debt instruments that may be settled in cash upon conversion (including partial cash settlement) are not addressed by paragraph 12 of Accounting Principles Board Opinion No. 14 and that issuers of such instruments should account separately for the liability and equity components of the instruments in a manner that will reflect the entity's nonconvertible debt borrowing rate when interest cost is recognized in subsequent periods. FSP APB 14-1 is effective for financial statements issued for fiscal years beginning after December 15, 2008, and must be applied retrospectively to all periods presented. Adoption of this statement did not have a material effect on our financial statements.

In June 2008, the FASB ratified EITF Issue 07-5, Determining Whether an Instrument (or Embedded Feature) Is Indexed to an Entity's Own Stock (EITF 07-5). Paragraph 11(a) of Statement of Financial Accounting Standard No 133 Accounting for Derivatives and Hedging Activities (SFAS 133) specifies that a contract that would otherwise meet the definition of a derivative but is both (a) indexed to the Company's own stock and (b) classified in stockholders' equity in the statement of financial position would not be considered a derivative financial instrument. EITF 07-5 provides a new two-step model to be applied in determining whether a financial instrument or an embedded feature is indexed to an issuer's own stock and thus able to qualify for the SFAS 133 paragraph 11(a) scope exception. EITF 07-5 is effective for the first annual reporting period beginning after December 15, 2008, and early adoption is prohibited. On January 1, 2009, we adopted EITF 07-5 and the adoption of this statement had no material effect on our financial statements.

In June 2008, the Emerging Issues Task Force (EITF) reached final consensuses on EITF Issue 08-4, Transition Guidance for Conforming Changes to Issue No. 98-5. Certain conclusions reached in EITF Issue No. 98-5, Accounting for Convertible Securities with Beneficial Conversion Features or Contingently Adjustable Conversion Ratios, were nullified in EITF Issue No. 00-27, Application of Issue No. 98-5 to Certain Convertible Instruments. Moreover, some of the conclusions in Issue No. 98-5 and Issue No. 00-27 were superseded by SFAS No. 150, Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity. While the conclusions reached in Issue No. 98-5 were subsequently updated to reflect the issuance of Issue No. 00-27 and SFAS No. 150, the transition guidance in Issue No. 98-5 was not revised. On January 1, 2009, we adopted EITF 08-4. The adoption of this standard did not have a material impact on our financial condition, results of operations, or cash flows.

NOTE 2 CHAPTER 11 BANKRUPTCY AND GOING CONCERN

On March 31, 2009, the Debtors filed for bankruptcy protection under Chapter 11 of the United States Bankruptcy Code. The filings were made in the United States Bankruptcy Court for the Western District of Louisiana in Lafayette (the Bankruptcy Court). The Debtors cases are being jointly administered under Case No. 09-50397. The Debtors will continue to operate their businesses as debtors-in-possession under the jurisdiction of the Bankruptcy Court and in accordance with the applicable provisions of the Bankruptcy Code and orders of the Bankruptcy Court.

The Debtors have been given interim authority for the limited use of cash collateral to pay expenses as set forth on a cash collateral budget through May 2009 and in accordance with applicable provisions of the Bankruptcy Code. The Debtors intend to file a final motion seeking authority for the use of cash collateral beyond this date and it is expected that such authority would be granted.

As of the date of this filing, the Debtors have not filed a Plan of Reorganization.

Due to our Chapter 11 proceedings, the realization of assets and satisfaction of liabilities, without substantial adjustments and/or changes in ownership, are subject to uncertainty. Accordingly, there is substantial doubt about the current financial reporting entity's ability to continue as a going concern.

The accompanying consolidated and combined financial statements do not reflect or provide for the consequences of the Chapter 11 proceedings. In particular, the financial statements do not show (1) as to assets, their realizable value on a liquidation basis or their availability to satisfy liabilities; (2) as to pre-petition liabilities, the amounts that may be allowed for claims or contingencies, or their status and priority; (3) as to shareowners' equity accounts, the effect of any changes that may be made in our capitalization; or (4) as to operations, the effect of any changes that may be made in our business.

NOTE 3 LIABILITIES SUBJECT TO COMPROMISE

As a result of the Chapter 11 Filings, the payment of prepetition indebtedness may be subject to compromise or other treatment under the Debtors' plan of reorganization. Generally, actions to enforce or otherwise effect payment of prepetition liabilities are stayed. Refer to Note 2, Chapter 11 Bankruptcy and Going Concern.

The Debtors have been paying and intend to continue to pay undisputed postpetition claims in the ordinary course of business. In addition, the Debtors may reject prepetition executory contracts and unexpired leases with respect to the Debtors' operations, with the approval of the Court. Damages resulting from rejection of executory contracts and unexpired leases are treated as general unsecured claims and will be classified as liabilities subject to compromise.

SOP 90-7 requires prepetition liabilities that are subject to compromise to be reported at the amounts expected to be allowed, even if they may be settled for lesser amounts. The amounts currently classified as liabilities subject to compromise may be subject to future adjustments depending on Court actions, further developments with respect to disputed claims, determinations of the secured status of certain claims, the values of any collateral securing such claims, or other events.

Liabilities subject to compromise consist of the following at March 31, 2009:

| | |
|---|---------------|
| Accounts payable | \$ 11,610,365 |
| Revenue and severance tax payable | 3,454,235 |
| Accrued interest | 1,711,302 |
| Accrued liabilities | 592,125 |
| Notes payable related parties | 605,428 |
| Total liabilities subject to compromise | \$ 17,973,455 |

NOTE 4 HARVEST ACQUISITION

On July 14, 2008, the Company acquired (the Harvest Acquisitions) all of the equity interests in Harvest Oil & Gas, LLC (Harvest Oil) and the Harvest Group, LLC (Harvest Group, and together with Harvest Oil, the Harvest Companies or the Predecessor Companies).

The following table presents pro forma data that reflects revenue, income from continuing operations, net income and income per share for the quarters ended March 31, 2009 and 2008 as if the Harvest Acquisition had occurred at the beginning of the periods.

| Pro-Forma Information | Three Months Ended March 31, | |
|----------------------------------|-------------------------------------|----------------|
| | 2009 | 2008 |
| Oil and gas revenue | \$ 8,527,355 | \$ 17,769,831 |
| Income (loss) from operations | (2,908,637) | 4,544,207 |
| Net income (loss) | \$ (3,646,397) | \$ (3,031,199) |
| Basic and diluted loss per share | \$ (0.22) | \$ (0.18) |

NOTE 5 STOCK-BASED COMPENSATION EXPENSE

During the quarter ended March 31, 2009, the Company issued 7,500 shares of common stock for services of consultants and directors and granted stock options to purchase 75,000 shares of common stock. Stock based compensation expense attributable to the issuance of shares and grants of options during the quarter totaled \$16,986.

Additionally, the Company realized \$402,146 of stock-based compensation expense during the quarter ended March 31, 2009, which expense was attributable to grants made during 2008 with the associated expense being recognized over the service period. At March 31, 2009, unamortized stock-based compensation not yet recorded totaled \$485,229.

The following table summarizes information about restricted share activity for the quarter ended March 31, 2009:

| | Number of | Weighted Average |
|--------------------------------|-------------------|-------------------------|
| | Restricted | Grant Date Fair |
| | Shares | Value per Share |
| Outstanding at January 1, 2009 | 832,000 | \$ 2.55 |
| Granted | - | - |
| Forfeited | (200,000) | 2.55 |
| Vested | (320,000) | 2.55 |
| Outstanding at March 31, 2009 | 312,000 | \$ 2.55 |

| | | Weighted-Average | | Aggregate |
|---|----------------|-------------------------|------|------------------|
| | Options | Exercise Price | | Intrinsic |
| | | | | Value |
| The following table summarizes information about stock option activity for the quarter ended March 31, 2009 | | | | |
| Outstanding at January 1, 2009 | - | \$ | - | \$ - |
| Granted | 75,000 | | 0.36 | 13,500 |
| Exercised | - | | - | - |
| Forfeited | - | | - | - |
| Outstanding at March 31, 2009 | 75,000 | \$ | 0.36 | \$ 13,500 |
| Exercisable at March 31, 2009 | 75,000 | \$ | 0.36 | \$ 13,500 |

The following table summarizes information about stock warrant activity for the quarter ended March 31, 2009:

| | | Weighted-Average | | Aggregate |
|--------------------------------|----------------|-------------------------|------|------------------|
| | Options | Exercise Price | | Intrinsic |
| | | | | Value |
| Outstanding at January 1, 2009 | 1,085,516 | \$ | 0.07 | \$ 510,523 |
| Granted | 5,000 | | 1.50 | - |
| Exercised | - | | - | - |
| Forfeited | - | | - | - |
| Outstanding at March 31, 2009 | 1,090,516 | \$ | 0.08 | \$ 510,523 |
| Exercisable at March 31, 2009 | 1,090,516 | \$ | 0.08 | \$ 510,523 |

The following table reflects share-based compensation recorded by the Company for the three months ended March 31, 2009 and 2008:

| | Three Months Ended | |
|--|---------------------------|-------------|
| | March 31, | |
| | 2009 | 2008 |
| Share-based compensation expense included in reported net income | \$ 419,132 | \$ - |
| Earnings per share effect of share-based compensation expense | \$ (0.03) | \$ - |

NOTE 6 COMMON STOCK

Equity Issuances

During the quarter ended March 31, 2009, the Company issued 5,000 shares of common stock for services of a director and 2,500 shares of common stock to a consultant for services. The grant-date value of these shares was \$2,700.

During the quarter ended March 31, 2009, 200,000 shares of restricted common stock were forfeited and cancelled. In addition, 320,000 shares of restricted stock vested during the quarter.

Stock Options

During the quarter ended March 31, 2009, stock options to purchase 75,000 shares of common stock, with a grant-date value of \$13,386, were granted to directors. The options are exercisable at \$0.36 per share for a term of ten years.

Earnings Per Share

Potentially dilutive securities excluded from the computation of weighted average diluted shares of common stock because the impact of these potentially dilutive securities were antidilutive totaled 1,165,516 and 0 shares for the three months ended March 31, 2009 and 2008, respectively.

A reconciliation of the components of basic and diluted net income per common share is presented in the tables below:

| | For the Year Ended March 31, 2009 | | |
|---|--|--------------------|------------------|
| | | Weighted | |
| | | Average | |
| | | Common | |
| | Income | Shares | Per Share |
| | (Loss) | Outstanding | |
| Basic: | | | |
| Income (loss) attributable to common stock | \$ (3,646,397) | 16,709,514 | \$ (0.22) |
| Effective of Dilutive Securities: | | | |
| Stock options and other | - | - | |
| Diluted: | | | |
| Income (loss) attributable to common stock, including assumed conversions | \$ (3,646,397) | 16,709,514 | \$ (0.22) |

NOTE 7 COMMODITY DERIVATIVE INSTRUMENTS

During the quarters ended March 31, 2009 and 2008, respectively, the Successor Company recognized a realized gain of \$3,133,178 in the Statement of Operations and the Predecessor Company recognized a realized loss of \$1,970,298. During the quarters ended March 31, 2009 and 2008, respectively, the Successor Company had an unrealized loss of \$292,961 and the Predecessor Company had an unrealized loss of \$3,801,922 as the result of market-to-market valuations.

As of March 31, 2009, the following natural gas derivative instruments were outstanding:

| Period | NYMEX Contract Price Per MMBtu | | | | | |
|--------|--------------------------------|------------------------------------|------------------------|-------------------------------------|------------------------|--|
| | Fixed-Price Swaps | | Put Options | | Call Options | |
| | MMBtu | Weighted Average Fixed Price | Volume in MMBtus | Weighted Average Strike Price | Volume in MMBtus | Weighted Average Strike Price |
| 2009 | 478,235 | \$ 7.57 | 146,931 | \$ 6.66 | - | - |
| 2010 | 397,880 | \$ 7.58 | 143,100 | \$ 6.50 | - | - |
| 2011 | 241,089 | \$ 6.85 | 131,175 | \$ 6.50 | - | - |

As of March 31, 2009, the Company had entered into the following crude oil derivative instruments:

| Period | NYMEX Contract Price Per Bbl | | | | | |
|--------|------------------------------|---------------------------------------|-----------------------|--|----------------------|--|
| | Fixed-Price Swaps | | Put Options | | Call Options | |
| | MBls | Weighted Average Fixed Price | Volume in MMBls | Weighted Average Strike Price | Volume in MBls | Weighted Average Strike Price |
| 2009 | 156,283 | \$ 101.37 | 34,361 | \$ 56.20 | 28,995 | \$ 75.00 |
| 2010 | 149,186 | \$ 117.63 | 26,484 | \$ 50.00 | - | - |
| 2011 | 110,826 | \$ 150.15 | 26,484 | \$ 50.00 | - | - |

At March 31, 2009, the Company recognized an asset of \$9,848,291 related to the estimated fair value of these derivative instruments.

The following table provides fair value measurement information within the hierarchy for Saratoga's commodity derivative instruments at March 31, 2009:

| | Fair Value Measurement Classification | | | Total |
|--|---------------------------------------|---------------------|--------------|-------|
| | Quoted Prices in Active | Significant | | |
| | | Other Observable | Significant | |
| | | | Unobservable | |
| | | | | |

| | Markets | Inputs | Inputs | | |
|---|------------------|------------------|------------------|--------------|--|
| | (Level 1) | (Level 2) | (Level 3) | | |
| Assets (liabilities): | | | | | |
| Oil and gas derivative option contracts | \$ - | \$ 1,243,516 | \$ - | \$ 1,243,516 | |
| Oil and gas derivative swap contracts | - | 8,604,775 | - | 8,604,775 | |
| Total | \$ - | \$ 9,848,291 | \$ - | \$ 9,848,291 | |

The estimated fair value of crude oil and natural options and price swaps contracts was based upon forward commodity price curves based on quoted market prices.

NOTE 8 ASSET RETIREMENT OBLIGATIONS

The Company accounts for plugging and abandonment costs in accordance with SFAS 143, *Accounting for Asset Retirement Obligations*.

The Company maintains an escrow agreement that has been established for the purpose of assuring maintenance and administration of a performance bond which secures certain plugging and abandonment obligations assumed by the Company in the acquisition of oil and gas properties from the Predecessor Companies over certain fields.

At March 31, 2009 and December 31, 2008, the amount of the escrow account totaled \$1,580,198, respectively and is shown as other assets.

A reconciliation of the beginning and ending aggregate carrying amount of asset retirement obligations are as follows:

| | |
|------------------------------|--------------|
| Balance at December 31, 2008 | \$ 9,124,717 |
| Accretion expense | 314,103 |
| Additions | - |
| Revisions | - |
| Settlements | - |
| Balance at March 31, 2009 | \$ 9,438,820 |

NOTE 9 COMMITMENTS AND CONTINGENCIES

As noted above and in the Company's Form 10-K/A No. 1 for the year ended December 31, 2008, during the quarter ended March 31, 2009, the Company received notices of default on its term debt facility with Wayzata Investment Partners and its revolving credit facility with Macquarie Bank Limited. Following receipt of such notices of default and unsuccessful efforts to resolve the same, the Company and its subsidiaries filed voluntary petitions under Chapter 11 in the U.S. Bankruptcy Court. While the Company continues to operate its business as debtor-in-possession, there is no assurance that the Company will be able successfully operate, or finance its operations, while in bankruptcy or that the Company will be able to emerge from bankruptcy with its business and capital structure substantially intact.

The Company is involved in litigation with a former customer of the Harvest Companies regarding payment for oil and gas products marketed by that customer. The Company has fully reserved for amounts owed by the customer and any outcome regarding this matter will not have an adverse effect on the Company's financial position or results of operations.

In connection with the acquisition of the Harvest Companies, the Company, by agreement, assumed certain plugging and abandonment, reclamation, restoration, and clean up liabilities and obligations related thereto. To secure these liabilities, the Company maintains \$9,675,360 million at March 31, 2009 in letters of credit with Macquarie. The letters of credit are secured by the various oil and gas properties maintained by the Company.

ITEM 2.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Forward-Looking Information

This Form 10-Q quarterly report of Saratoga Resources, Inc. (the Company) for the three months ended March 31, 2009, contains certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, which are intended to be covered by the safe harbors created thereby. To the extent that there are statements that are not recitations of historical fact, such statements constitute forward-looking statements that, by definition, involve risks and uncertainties. In any forward-looking statement, where we express an expectation or belief as to future results or events, such expectation or belief is expressed in good faith and believed to have a reasonable basis, but there can be no assurance that the statement of expectation or belief will be achieved or accomplished.

The actual results or events may differ materially from those anticipated and as reflected in forward-looking statements included herein. Factors that may cause actual results or events to differ from those anticipated in the forward-looking statements included herein include the Risk Factors described in Item 1A of our Form 10-K/A No. 1 for the year ended December 31, 2008.

Readers are cautioned not to place undue reliance on the forward-looking statements contained herein, which speak only as of the date hereof. We believe the information contained in this Form 10-Q to be accurate as of the date hereof. Changes may occur after that date, and we will not update that information except as required by law in the normal course of its public disclosure practices.

Additionally, the following discussion regarding our financial condition and results of operations should be read in conjunction with the financial statements and related notes contained in Item 1 of Part 1 of this Form 10-Q, as well as the Risk Factors in Item 1A and the financial statements in Item 7 of Part II of our Form 10-K/A No. 1 for the fiscal year ended December 31, 2008.

Note Regarding Bankruptcy Filing

The accompanying consolidated and combined financial statements have been prepared assuming that the Company will continue as a going concern. As discussed elsewhere in this report, the Company filed a voluntary petition for reorganization under Chapter 11 of the US Bankruptcy Code on March 31, 2009, which raises substantial doubt about its ability to continue as a going concern. The consolidated and combined financial statements do not include any

adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classification of liabilities that may result from the outcome of this uncertainty. The following discussion should be read in light of the foregoing.

Note Regarding Financial Statements Presented

As noted in the Company's Form 10-K/A No. 1 for the year ended December 31, 2008, prior to the Company's July 14, 2008 acquisition of Harvest Oil & Gas LLC and The Harvest Group, LLC (together, the Harvest Companies or the Predecessor Companies), the Company had minimal operations. The consolidated financial statements for the Company (also referred to following the acquisition of the Harvest Companies, as the Successor Company) at and for the quarter ended March 31, 2009 include the financial statements of Saratoga Resources, Inc., and its subsidiaries, all of which are 100%-owned: Harvest Oil and Gas, LLC, The Harvest Group, LLC, Lobo Operating, Inc. and Lobo Resources, Inc.

The combined financial statements for the Predecessor Companies for the quarter ended March 31, 2008, include the financial statements of Harvest Oil and Gas, LLC and The Harvest Group, LLC.

2009 Developments

Notices of Default.

Wayzata Investment Partners (Wayzata), the lender under our term loan facility (the Wayzata Credit Agreement) issued a notice of default, dated February 26, 2009, wherein it alleged nine non-monetary breaches of the Wayzata Credit Agreement, or events of default. Wayzata, in its notice of default, did not exercise any of its rights under the Wayzata Credit Agreement, but expressly reserved the right to do so. We disputed Wayzata s notice of default as premature and based on incomplete data and failure to take into account various developments and circumstances.

Macquarie Bank Limited (Macquarie), the lender under our revolving credit facility (the Macquarie Credit Agreement) also issued a notice of default dated February 26, 2009, which was expressly based on Wayzata s Notice of Default. The Macquarie notice of default was triggered by cross default provisions in the Macquarie Credit Agreement defining an event of default as an event or condition occurring which permits the holder of any material debt to accelerate that obligation. Macquarie stated in its notice of default that it was not initiating any action to exercise its rights and remedies available, though its right to do so were expressly reserved. As a result of the Macquarie notice of default, Macquarie rejected our requests to access additional credit available under the Macquarie Credit Agreement, which restriction of credit potentially impaired our ability to continue our development program. We disputed the Macquarie notice of default.

Chapter 11 Filing.

Following the receipt of the referenced notices of default from Wayzata and Macquarie, we entered into discussions with Wayzata seeking an amicable resolution and forbearance in order to cure the alleged covenant defaults and to access available credit under our Macquarie Credit Agreement to continue pursuit of our ongoing drilling, workover and recompletion program. Despite management s efforts, management and our board of directors determined that a bankruptcy court reorganization would offer the best means of addressing our existing debt structure and realization of the long term anticipated benefits of our drilling, workover and recompletion program. To that end, on March 31, 2009, we, and our principal operating subsidiaries, filed voluntary Chapter 11 petitions in the U.S. Bankruptcy Court for the Western District of Louisiana in Lafayette (the Bankruptcy Court).

We intend, subject to the Bankruptcy Courts approval, to continue to operate our business and manage our properties as debtors in possession. While we believe that we have sufficient cash to operate our business in the immediate term, upon filing of the bankruptcy petitions, we began discussions with our senior secured lender, and other potential lenders, for new debtor-in-possession (DIP) financing to supplement existing working capital. At March 31, 2009, we had cash on hand of approximately \$4.7 million.

We intend to use the Chapter 11 process to resolve issues with our lenders and to develop our holdings, continue to grow our production and revenues and reduce our operating expenses pending resolution of issues with our lenders. There is no assurance, however, that we will be able to successfully operate, or finance our operations, in bankruptcy or that we will be able to emerge from bankruptcy with our properties in tact or our current ownership structure.

Our case is being jointly administered under Case No. 09-50397. We will continue to operate our businesses as debtors-in-possession under the jurisdiction of the Bankruptcy Court and in accordance with the applicable provisions of the Bankruptcy Code and orders of the Bankruptcy Court.

We have been given interim authority for the limited use of cash collateral to pay expenses as set forth on a cash collateral budget through May 2009 and in accordance with applicable provisions of the Bankruptcy Code. We intend to file a final motion seeking authority for the use of cash collateral beyond this date and it is expected that such authority would be granted.

As of the date of this filing, we have not filed a Plan of Reorganization.

Drilling and Development Activities

During the quarter ended March 31, 2009, we continued our plan to further develop the assets acquired in the Harvest Acquisition. During the quarter, we successfully completed workovers on 5 well in the Grand Bay Field. Because of constraints on access to borrowings under revolving credit facility with Macquarie following the giving of the Wayzata notice of default, further development activities were placed on hold as of March 31, 2009, no wells were being drilled at March 31, 2009 and completion of a developmental well drilled during the fourth quarter of 2008 was pending.

In addition to the recompletion, workover and developmental drilling work undertaken during the quarter ended March 31, 2009, full field studies in the Grand Bay and Vermilion 16 fields continued and were ongoing at March 31, 2009.

At and for the quarter ended March 31, 2009, we had approximately 107 wells in production, including 106 wells in Louisiana and one well in Texas.

Critical Accounting Policies

On March 31, 2009, Saratoga and its subsidiaries, all of which are 100%-owned: Harvest Oil and Gas, LLC, The Harvest Group, LLC, Lobo Operating, Inc. and Lobo Resources, Inc. (collectively the Debtors), filed voluntary petitions under Chapter 11 of the U.S. Bankruptcy Code. The accompanying consolidated financial statements of Saratoga have been prepared in accordance with Statement of Position 90-7, Financial Reporting by Entities in Reorganization Under the Bankruptcy Code, and on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. However, as a result of the bankruptcy filings, such realization of assets and satisfaction of liabilities are subject to a significant number of uncertainties. Saratoga's consolidated financial statements do not reflect adjustments that might be required if we (or each of the Saratoga Debtors) are unable to continue as a going concern. SOP 90-7 requires the following for Debtor entities:

Reclassification of unsecured or under-secured pre-petition liabilities to a separate line item in the balance sheet which we have called Liabilities Subject to Compromise (LSTC);

Non-accrual of interest expense for financial reporting purposes, to the extent not paid during bankruptcy and not expected to be an allowable claim. However, unpaid contractual interest is calculated for disclosure purposes.

Adjust any unamortized deferred financing costs and discounts/premiums associated with debt classified as LSTC to reflect the expected amount of the probable allowed claim;

Segregation of reorganization items (direct and incremental costs, such as professional fees, of being in bankruptcy) as a separate line item in the statement of operations outside of income from continuing operations;

Evaluation of actual or potential bankruptcy claims, which are not already reflected as a liability on the balance sheet, under SFAS No. 5, Accounting for Contingencies. If valid unrecorded claims, including parent guarantees of subsidiary debt, meeting the SFAS No. 5 criteria are presented to us in future periods, we would accrue for these amounts, also at the expected amount of the allowed claim rather than at the expected settlement amount.

Disclosure of condensed combined debtor entity financial information, if our consolidated financial statements include material subsidiaries that did not file for bankruptcy protection.

Upon confirmation of our plan of reorganization, and our emergence from Chapter 11 reorganization, fresh-start reporting must be adopted if the reorganization value of our assets immediately before the date of confirmation is less than the total of all post-petition liabilities and allowed claims, and if holders of existing voting shares immediately before confirmation receive less than 50 percent of the voting shares of the emerging entity. Essentially, the reorganization value of the entity, as mutually agreed to by the debtor-in-possession and its creditors, would be allocated to the entity's assets in conformity with the procedures specified by SFAS No. 141, Business Combinations.

Results of Operations*Three Months Ended March 31, 2009 Compared to Three Months Ended March 31, 2008*

As noted above, the results of operations discussed below are comprised of the consolidated results reported by the Successor Company during the 2009 quarter and the combined results of the Predecessor Companies during the 2008 quarter.

Oil and Gas Revenue

Oil and gas revenue for the quarter ended March 31, 2009 decreased to \$8,527,355 from \$17,769,831 in the 2008 quarter. The decrease in revenue was primarily attributable to lower hydrocarbon prices during the first quarter of 2009 and a 7.9% decrease in production volumes. The following table discloses the net oil and natural gas production volumes, sales, and average sales prices for the quarters ended March 31, 2009 and 2008:

| | 2009 | 2008 |
|---------------------------------|-------------|-------------|
| Oil and gas production (Mmcfe) | 1,336 | 1,451 |
| Oil and gas revenues (in 000 s) | \$ 8,527 | \$ 17,770 |
| Price per Mcfe | \$ 6.38 | \$ 12.25 |

Average daily production for the 2009 and 2008 quarters was approximately 14,842 MMcfe and 15,943 MMcfe, respectively.

The decline in average prices realized from the sale of oil and gas reflected the sharp worldwide economic decline that began during the second half of 2008 and continued to cause depressed oil and gas prices during the first quarter of 2009.

Operating Expenses

Operating expenses increased to \$11,463,651 for the first quarter of 2009 from \$13,862,221 in the 2008 quarter. The following table sets forth the components of operating expenses for the 2009 and 2008 quarters:

| | 2009 | 2008 |
|--|---------------|---------------|
| Lease operating expense | \$ 4,644,398 | \$ 7,359,432 |
| Depreciation, depletion and amortization | 3,437,958 | 1,253,897 |
| Accretion expense | 314,103 | 433,169 |
| General and administrative expenses | 1,934,390 | 2,706,821 |
| Production and severance taxes | 1,132,802 | 2,108,902 |
| | \$ 11,463,651 | \$ 13,862,221 |

As more fully described below, the decrease in operating expenses was attributable to decreases in lease operating expenses, general and administrative expenses and production and severance taxes partially offset by increased depreciation, depletion and amortization resulting from an increase in basis of the oil and gas properties relating to the Harvest Acquisition and subsequent developmental activities.

As a result of the Company's bankruptcy filing on March 31, 2009, commencing in the second quarter of 2009 and continuing during the pendency of the bankruptcy case, the Company anticipates that its operating expenses will reflect additional general and administrative costs associated with operations while in bankruptcy. That increase in expenses may be offset in part by reduced operating expenses attributable to a possible curtailment in the scope of operations during the bankruptcy and ongoing cost cutting efforts of the Company.

Lease Operating Expenses

Lease operating expenses for the 2009 quarter decreased to \$4,644,398, or \$3.48 per Mcfe, from \$7,359,432 in the 2008 quarter, or \$5.07 per Mcfe. During the quarter ended March 31, 2008, the Predecessor had an oil spill in the South Atchafalaya Bay which contributed to an increase in lease operating expenses during that period. Operating costs in our fields are relatively high due to water handling, the need for gas lift to maintain oil production and due to the need for marine transportation in the shallow water, bay environment. We are actively engaged in field management efforts to reduce our lease operating expenses on a per Mcfe basis.

Depreciation, Depletion and Amortization (DD&A)

Depreciation, depletion and amortization for the 2009 quarter increased to \$3,437,958 from \$1,253,897 in the 2008 quarter. The increase in DD&A was attributable to the acquisition of the Harvest Companies during the third quarter 2008 and development programs during the fourth quarter 2008 and first quarter of 2009 which increased the basis of the oil and gas properties. DD&A is computed on the units-of-production method separately on each individual property and includes the accrual of future plugging and abandonment costs.

General and Administrative Expenses and Other

General and administrative expense for the 2009 quarter decreased to \$1,934,390 from \$2,706,821 in the 2008 quarter. The decrease was attributed to an allowance for doubtful accounts that was established during the quarter ended March 31, 2008 relating to revenues that were not received. During the quarter ended March 31, 2009, we incurred \$235,000 of reorganization costs, which reflects cash payments for professional and other fees incurred in connection with the Chapter 11 case.

Production and Ad Valorem Taxes

Production and Ad Valorem Taxes for the 2009 quarter decreased to \$1,132,802 from \$2,108,902 in the 2008 quarter. The decrease is due to the decrease in oil and gas revenues during the 2009 quarter.

Other Income (Expense), Net

Edgar Filing: SARATOGA RESOURCES INC /TX - Form 10-Q

Net other income (expenses) totaled \$2,344,385 of expenses for the 2009 quarter and \$7,575,406 of expenses for 2008 quarter. The following table sets forth the components of net other income (expenses) for the 2009 and 2008 quarters:

| | 2009 | | 2008 |
|---------------------------------------|----------------|----|-------------|
| Commodity derivative income (expense) | \$ 2,840,217 | \$ | (5,772,220) |
| Interest income | - | | 25,988 |
| Interest expense | (5,184,602) | | (1,829,174) |
| | \$ (2,344,385) | \$ | (7,575,406) |

As more fully described below, the changes in other income (expense), net, was principally attributable to a steep decline in commodity pricing during the first quarter of 2009 as compared to the first quarter of 2008 which resulted in commodity derivative income during the 2009 quarter and a commodity derivative expense during the 2008 quarter. The increase in interest expense during 2009 was attributable to the debt financing for the Harvest Acquisitions.

Commodity Derivative Income (Expense)

Commodity derivative income increased to a gain of \$2,840,217 for the 2009 quarter from an expense of \$5,772,220 for the 2008 quarter. Pursuant to the terms of the Wayzata Credit Agreement and the Revolving Credit Agreement, we have entered into certain derivative contracts and entered into additional derivative contracts to reduce the impact of changes in the prices of oil and natural gas. The commodity derivative income (expense) during the 2009 and 2008 quarters reflects the extreme volatility of crude oil and natural gas prices during 2008 and 2009, in particular, substantially higher pricing during the 2008 quarter, exceeding the forward hedge prices of the Predecessor Companies, and the sharp drop in oil and gas prices during the fourth quarter of 2008 and continuing during the first quarter of 2009 that resulted in forward hedge prices exceeding oil and natural gas prices during the current quarter.

Interest Income (Expense), Net

Interest income (expense), net, reflects interest incurred on debt under the Wayzata Credit Agreement and the Revolving Credit Agreement. Net interest expense increased to \$5,184,602 in the 2009 quarter from \$1,829,174 in the 2008 quarter. The increase in net interest expense was attributable to the incurrence of approximately \$110 million of debt in connection with the Harvest Acquisitions.

Income Tax Provision

Our income tax benefit increased to \$1,841,625 in the 2009 quarter from \$0 in the 2008 quarter. The income tax benefit for the 2009 quarter was attributable to the Successor Company reporting taxes as a c-corporation following the Harvest Acquisition which was previously operated as a limited liability company.

The effective tax rate for the 2009 quarter was 34%. Our effective tax rates were different than our federal statutory tax rate due to state income taxes associated with income from various locations in which we have operations. Estimates of future taxable income can be significantly affected by changes in oil and natural gas prices, the timing, amount, and location of future production and future operating expenses and capital costs.

Financial Condition

Liquidity and Capital Resources

Our principal requirements for capital are to fund our day-to-day operations and exploration, development and acquisition activities and to satisfy our contractual obligations, primarily for the repayment of debt and any amounts owing during the period related to our hedging positions. We expect to fund our operations and capital expenditures and satisfy our debt service obligations through operating cash flow, borrowings under our Revolving Credit Agreement and cash on hand.

However, as noted, Wayzata has alleged certain financial covenant defaults that we dispute. As a result of Wayzata's notice of default, Macquarie has provided a notice of default and has denied our requests to draw additional borrowings under our Revolving Credit Agreement. As a result of such notices of default and our inability to arrive at a mutually acceptable forbearance agreement with Wayzata and Macquarie, on March 31, 2009, we filed petitions for protection under Chapter 11. Pending our establishment of a DIP financing facility, we will not have access to further borrowing which may result in curtailment of certain planned operations.

We had a cash balance of \$4,709,447 at March 31, 2009 as compared to a cash balance of \$5,677,994 at December 31, 2008. Liabilities subject to compromise at March 31, 2009 totaled \$16,143,149.

Net cash flow from operations was \$1,716,411 for the quarter ended March 31, 2009 compared to \$7,637,643 for the quarter ended March 31, 2008. The change in cash flows from operations was primarily attributable to decrease in commodity prices during the quarter ended March 31, 2009.

Net cash used in investing activities was \$2,044,871 for the quarter ended March 31, 2009 compared to \$1,947,759 for the quarter ended March 31, 2008. The change in cash used in investing activities was primarily attributable to additions to oil and gas properties.

Net cash flow used in financing activities totaled \$640,087 for the quarter ended March 31, 2009 compared to \$420,757 used in financing activities for the quarter ended March 31, 2008. The change in cash flows from financing activities was primarily attributable to repayments of our short-term notes payable and related party notes payable during the quarter ended March 31, 2009.

We have incurred substantial indebtedness in connection with the Harvest Acquisitions, including amounts borrowed under our Wayzata Credit Agreement and our Revolving Credit Agreement. At March 31, 2009, we had \$108.3 million of indebtedness outstanding, consisting of \$95.9 million (includes debt discount of \$1.7 million) under the Wayzata Credit Agreement and \$12.5 million under the Revolving Credit Agreement.

We believe that our cash flows from operations and cash on hand are sufficient to support our liquidity needs for 2009 and beyond. However, with the steep drop in oil and natural gas prices during the second half of 2008 and the unavailability of borrowings under our Revolving Credit Facility, we do not believe that our operations and available resources will support our planned exploration, development and acquisition activities during 2009 and, accordingly, we plan to defer our planned activities in that regard until market conditions improve and are undertaking cost cutting efforts to improve profitability and cash flow. Further, while we believe that our current operating cash flows will be adequate to support existing operations and service existing indebtedness, reduced revenues and profitability resulting from lower oil and natural gas prices have resulted in our lenders providing the previously described notices of noncompliance with certain financial covenants under our existing credit facilities. While we are attempting to restructure or refinance our debt under our Chapter 11 case, there is no assurance that we will be able to arrive at a satisfactory arrangement to restructure our current debt in which case we may be required to seek additional financing to refinance that debt or risk liquidation of our assets on terms that will likely not be in the best interests of our shareholders. We have no commitments to provide capital or financing if needed to retire our existing indebtedness and, given the current condition of the capital and credit markets, there is no assurance that any such capital or financing will be available on acceptable terms, or at all, if needed.

Debt

Outstanding debt at March 31, 2009, totaling \$108.3 million, consisted of (1) \$97.5 million less debt discount of \$1.7 million owing to Wayzata under the Wayzata Credit Agreement, (2) \$12.5 million owing to Macquarie under the Revolving Credit Agreement.

Letters of credit totaling approximately \$9.7 million were outstanding at March 31, 2009 and reduce amounts available to be drawn under the Revolving Credit Agreement.

Capital Expenditures and Commitments

During the quarter ended March 31, 2009, the Company's capital expenditures totaled \$2,044,871. Capital expenditures related to the Company's drilling, development, recompletion and workover program.

In light of the our pending Chapter 11 case, the current economic outlook and commodity prices, we intend to limit our 2009 capital expenditures to a level that can be funded with cash flow from operations. Subject to the availability of DIP financing, we may, however, expand our capital expenditures based on improvements in commodity prices and the general economic outlook. Our capital budget for the last three quarters of 2009, which at this time is expected to be approximately \$7.0 million, will focus on those projects that we believe will generate and lay the foundation for production growth. We have the operational flexibility to react quickly with our capital expenditures to changes in our cash flows from operations. Actual levels of capital expenditures in any year may vary significantly due to many factors, including the extent to which properties are acquired, drilling results, oil and gas prices, industry conditions and the prices and availability of goods and services.

Risk Management Activities *Commodity Derivative Instruments*

Due to the volatility of oil and natural gas prices and requirements under our Revolving Credit Agreement, we periodically enter into price-risk management transactions (e.g., swaps, and floors) for a portion of our oil and natural gas production. In certain cases, this allows us to achieve a more predictable cash flow, as well as to reduce exposure from price fluctuations. The commodity derivative instruments apply to only a portion of our production, and provide only partial price protection against declines in oil and natural gas prices, and may partially limit our potential gains from future increases in prices. None of these instruments are used for trading purposes.

In accordance with the terms of our Revolving Credit Agreement, we have entered into commodity derivative agreements. At March 31, 2009, commodity derivative instruments were in place covering approximately 46% of our projected crude oil and natural gas sales over the next 3 years. See Note 7 *Commodity Derivative Instruments* to our consolidated and combined financial statements for further information.

Off-Balance Sheet Arrangements

We had no off-balance sheet arrangements or guarantees of third party obligations at March 31, 2009.

Inflation

We believe that inflation has not had a significant impact on our operations since inception.

ITEM 3.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There have been no material changes to the Quantitative and Qualitative Disclosures about Market Risk described in our annual report on Form 10-K/A No. 1 for the year ended December 31, 2008.

ITEM 4.

CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Under the supervision and the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation as of March 31, 2009 of the effectiveness of the design and operation of our disclosure controls and procedures, as such term is defined under Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934, as amended. Based on this evaluation, our principal executive officer and our principal financial officer concluded that our disclosure controls and procedures were effective as of March 31, 2009.

Changes in Internal Control over Financial Reporting

No change in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934) occurred during the quarter ended March 31, 2009 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II

ITEM 2.

UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

During the quarter ended March 31, 2009, the Company issued 5,000 shares of common stock to a director as consideration for services as chairman of the Audit Committee and 2,500 shares of common stock to a consultant for services. Also, during the quarter ended March 31, 2009, the Company granted ten year stock options to acquire an aggregate of 75,000 shares of common stock at \$0.36 per share to the Company's three non-employee directors for service in such capacity.

The securities described above were issued pursuant to the exemption from registration provided by Section 4(2) of the Securities Act of 1933.

ITEM 6.

EXHIBITS

| Exhibit No. | Description |
|--------------------|---|
| 31.1 | Certification of CEO pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| 31.2 | Certification of CFO pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| 32.1 | Certification of CEO Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |
| 32.2 | Certification of CFO Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on behalf by the undersigned thereunto duly authorized.

SARATOGA RESOURCES, INC.

Dated: May 20, 2009

By: /s/ Thomas F. Cooke
Thomas F. Cooke
Chairman and Chief Executive
Officer

Dated: May 20, 2009

By: /s/ Edward Hebert
Edward Hebert
Vice President Finance