SARATOGA RESOURCES INC /TX
Form 10QSB
July 23, 2007

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-QSB

(Mark One)

x

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

For the Quarterly Period ended June 30, 2007

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

For the transition period from ______________ to ________________.

Commission File Number 000-27563

SARATOGA RESOURCES, INC.

(Exact name of small business issuer as specified in charter)

Texas	**76-0314489**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification No.)*
2304 Hancock Drive, Suite 5, Austin, Texas	**78756**
(Address of principal executive offices)	*(Zip Code)*

(512) 478-5717

(Issuer s telephone number)

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

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

State the number of shares outstanding of each of the issuer s classes of common equity, as of the latest practicable date: As of July 20, 2007, the Company had outstanding 7,540,292 shares of its common stock, par value $0.001.

Transitional Small Business Disclosure Format (Check one): Yes ¨ No x

TABLE OF CONTENTS

PART I

ITEM 1. FINANCIAL STATEMENTS

Saratoga Resources, Inc. and Subsidiaries
CONSOLIDATED UNAUDITED BALANCE SHEET
June 30, 2007
(amounts in thousands)

ASSETS

Current assets:			
Cash & equivalents		$	6
Marketable Securities			32
			38
Equipment, net of accumulated depreciation			1
Total assets		$	39

LIABILITIES & STOCKHOLDERS' EQUITY

Current liabilities:			
Accounts payable & accrued liabilities	$		63
Due to related parties			432
Stockholders' equity:			
Common stock			8
Additional paid-in capital			2,569

Accumulated deficit		(3,054)
Other comprehensive income (loss)		21
		(456)
Total liabilities & stockholders equity	$	39

See accompanying notes to consolidated financial statements

3

Saratoga Resources, Inc. and Subsidiaries
CONSOLIDATED UNAUDITED STATEMENTS OF OPERATIONS
For the Three and Six Months Ended June 30, 2007 and 2006
(amounts in thousands, except per share amounts)

	Three Months Ended June 30, 2007	Three Months Ended June 30, 2006	Six Months Ended June 30, 2007	Six Months Ended June 30, 2006
Revenues:				
Gain from Participation Agreement	$ 1	$ 11	$ 6	$ 1
	1	11	6	1
Expenses:				
Participation Agreement expenses	-	-	-	-
General and administrative	2	39	14	55
Interest expense	10	11	25	22
	12	50	39	77
Loss before income taxes	(11)	(39)	(33)	(76)
Net loss	(11)	(39)	(33)	(76)
Unrealized holding gains (losses)	(31)	(59)	(25)	1
Comprehensive income (loss)	$ (42)	$ (98)	$ (58)	$ (75)
Basic and Diluted Loss Per Share	$ (0.01)	$ (0.01)	$ (0.01)	$ (0.01)
Weighted Average number of common shares outstanding	7,540,292	7,540,292	7,540,292	7,540,292

See accompanying notes to consolidated financial statements

Saratoga Resources, Inc. and Subsidiaries
CONSOLIDATED UNAUDITED STATEMENTS OF CASH FLOWS
For the Six Months Ended June 30, 2007 and 2006
(amounts in thousands)

	Six Months Ended June 30, 2007	Six Months Ended June 30, 2006
Cash provided (used) from operating activities:		
Net loss	$ (58)	$ (75)
Depreciation	-	-
Non-cash compensation expense	-	33
Increase in due to related party - accrued interest	25	22
(Increase) decrease in other assets	25	-
Increase (decrease) in accrued liabilities	6	-
	(2)	(20)
Cash provided (used) by investing activities:	-	-
	-	-
Cash provided (used) by financing activities:		
Common stock issued for cash	-	25
Advances from related parties	-	-
	-	25
Net increase (decrease) in cash	(2)	5
Beginning cash	8	2
Ending Cash	$ 6	$ 7

SUPPLEMENTAL DISCLOSURE OF NON-CASH FINANCING ACTIVITIES:

	2007	2006
Due to related party converted to stock	$ -	$ 25
Stock issues for services	$ -	$ 33

See accompanying notes to consolidated financial statements

SARATOGA RESOURCES, INC.

Notes to Financial Statements

June 30, 2007

(Unaudited)

NOTE 1. BASIS OF PRESENTATION

The accompanying unaudited financial statements of Saratoga Resources, Inc., a Texas corporation (the Company) have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-QSB and Item 310(b) of Regulation S-B. 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-KSB for the year ended December 31, 2006.

NOTE 2. ISSUANCES OF COMMON STOCK

During the quarter ended March 31, 2006, the Company issued 4,000,000 shares of common stock to its principal shareholder and officer in exchange for $50,000 paid, $25,000 in cash and $25,000 by forgiveness of existing loans.

ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

Forward-Looking Information

This Form 10-QSB quarterly report of Saratoga Resources, Inc. (the Company) for the six months ended June 30, 2007, 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 the Company expresses 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 following are factors that could cause actual results or events to differ materially from those anticipated, and include, but are not limited to: general economic, financial and business conditions; the Company s ability to minimize expenses; the Company s current dependency on its sole executive officer to continue funding the Company s operations and, to the extent he should ever become unwilling to do so, the Company s ability to obtain additional necessary financing from outside investors and/or bank and mezzanine lenders; and the ability of the Company to generate sufficient revenues to cover operating losses and position it to achieve positive cash flow.

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

Additionally, the following discussion regarding the Company s 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-QSB, as well as the financial statements in Item 7 of Part II of the Company s Form 10-KSB for the fiscal year ended December 31, 2006.

Critical Accounting Policies

The Company s discussion and analysis of its financial condition and results of operations are based upon the Company s financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The Company believes certain critical accounting policies affect its more significant judgments and estimates used in the preparation of its financial statements. A description of the Company s critical accounting policies is set forth in the Company s Form 10-KSB for the year ended December 31, 2006. As of, and for the six months ended June 30, 2007, there have been no material changes or updates to the Company s critical accounting policies.

Current Year Operations and Developments

General

Saratoga Resources, Inc. is an oil and gas exploration and production company. Since the 1996 sale of a majority of the Company s oil and gas producing properties, the Company s operations and operating assets have been limited to (1) ownership of a participation interest in the Red Hawk Fusselman and Red Hawk Mississippian fields, including the Adcock Farms No. 1 well, in Dawson County, Texas, (2) rights in approximately 27 square miles of 3D seismic data in the area including the Company s Dawson County well, (3) a license to approximately 2,000 miles of 2D seismic data in the U.S. gulf coast region, (4) a 50% working interest in a 160 acre leasehold, running through October 2009, in Dawson County, Texas, adjoining the Adcock Farms Prospect, and (5) pursuit of various potential business opportunities, both within and outside of the oil and gas industry.

Overview of Operations

Our operations, and our operating results, are a continuation of the operations previously conducted by our prior parent company, Saratoga Delaware. During 2006 and for the six months for 2007, our operations were exclusively devoted to our ownership of a participation interest in a single oil well, the Adcock Farms No. 1, and efforts relating to acquisitions of business opportunities, both within and outside the oil and gas industry.

The Company continues to operate its oil interest in the Red Hawk Mississippian field. Simultaneously, the Company continued its efforts to further develop its oil interests including possible business acquisitions both within and outside of the oil and gas industry. Management continued to undertake efforts to minimize costs during the period.

The Company changed operators of the Red Hawk, Adcock Farms Lease from Robinson Operating Company to CFO Resources, Inc. (CFO) 5101 N "A" Street #145 Midland, Texas. The change was concurrent with CFO being granted a "Producer's Certificate of Compliance and authorization to transport oil and or casing-head gas from an oil lease or condensate from a gas well by the Railroad Commission of Texas RRC FORM P-4. The Company made the change because it feels it will be better served by an operator that is in closer proximity to its interest in the Midland Basin. The change became effective on April 13, 2007.

Our interest in the Adcock Farms No. 1 are reflected on our financial statements as gain or loss from participation agreement. The gain or loss reported reflects the excess of our allocable portion of revenues over expenses or expenses over revenues, as appropriate. The gain or loss from the participation agreement is a function of production volumes from the well, our interest in the well and the market prices of production sold as well as costs incurred in operating the well.

During late 2005 and throughout 2006 and the first six months of 2007, in addition to operation of our interest in the Adcock Farms No. 1 well, we were actively engaged in efforts to evaluate the potential of our other oil and gas holdings, including retaining a consultant to evaluate our 3D seismic, and in efforts to acquire additional operations and assets. As a result of those efforts, during 2006, we entered into an oil and gas lease, running through October 2009, pursuant to which the Company acquired a 50% working interest in 160 acres in Dawson County, Texas, adjoining our Adcock Farms Prospect. Subject to the results of our ongoing evaluation of drilling prospects of each of our oil and gas holdings and the availability of funds, we intend, during 2007, to undertake efforts to drill one or more wells on our existing acreage.

The financial information included in the following discussion has been rounded to thousands.

Results of Operations

Revenues. During the six months ended June 30, 2007 the Company incurred a net gain of $6,000 from participation in the Adcock Farms #1 well. The Company had a net gain of $1,000 from participation in the well during the 2006 period. The positive change in results attributable to the participation agreement was caused by oil revenues exceeding the cost of down-hole repairs. The repairs were completed and the well was back into production and producing revenue beginning in January 2006.

General and Administrative Expenses. General and administrative expense decreased from $55,000 during the six months ended June 30, 2006 to $14,000 during the same period in 2007. The decrease in general and administrative expense was attributable to a decrease in legal and auditing fees from $20,000 for the six months ended June 30, 2006 to $13,000 for the first six months in 2007. Both years fees were incurred by the Company in complying with SEC filing requirements. In addition, during the 2006 period we incurred general and administrative expense attributable to the issuance of an aggregate of 75,000 shares of common stock as compensation for the services of the Company s 2 independent directors and its advisory director. These services were valued at $33,000.

Interest Expense. Interest expense on the loans from shareholder increased from $22,000 for the six months ended June 30, 2006 to $25,000 for the six months ended June 30, 2007. The increase in interest expense was attributable to the continuing accrual of interest on advances from the Company s principal shareholder.

Unrealized Holding Gains. At June 30, 2007, the Company had $32,000 of securities holdings classified as available-for-sale securities .

The Company had unrealized losses on its available-for-sale securities of $25,000 during the six months ended June 30, 2007. Those unrealized gains are included in Other Comprehensive Income (Loss).

Financial Condition

Liquidity and Capital Resources.

The Company had a cash balance of $6,000 and a working capital deficit of $457,000 at June 30, 2007 as compared to a cash balance of $8,000 and a working capital deficit of $400,000 at December 31, 2006. Included in current assets and the calculation of working capital are available for sale securities in the amount of $32,000 at June 30, 2007 and $57,000 at December 31, 2006.

The Company, at and for the period ended June 30, 2007, had limited capital resources and limited operating revenues to support its overhead. The Company is, and was, dependent upon its principal shareholder to provide financing to support operations and ongoing cost control measures to minimize negative cash flow. Unless that shareholder continues to provide financing the Company will be required to substantially limit its activities and may be unable to sustain its operations.

Long-Term Debt

At June 30, 2007, the Company had long-term debt of $432,000 owed to the Company s principal shareholder as compared to $408,000 at December 31, 2006. Loans from the Company s principal shareholder bear interest at 12.5% and are to be repaid from proceeds from operations as they become available. The change in long-term debt was attributable to the additional interest accrued on the loans.

Capital Expenditures and Commitments

During the six months ended June 30, 2007, the Company made no capital expenditures and, at June 30, 2007, the Company had no capital commitment obligations.

Off-Balance Sheet Arrangements

The Company had no off-balance sheet arrangements or guarantees of third party obligations at June 30, 2007.

Inflation

The Company believes that inflation has not had a significant impact on its operations since inception.

ITEM 3. CONTROLS AND PROCEDURES

Disclosure controls and procedures are controls and other procedures that are designed to ensure that information required to be disclosed in company reports filed or submitted under the Securities Exchange Act of 1934 (the Exchange Act) is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in company reports filed under the Exchange Act is accumulated and communicated to management, including the Company s Chief Executive Officer and Chief Financial Officer (the Certifying Officers), as appropriate to allow timely decisions regarding required disclosure.

As required by Rules 13a-15 and 15d-15 under the Exchange Act, the Certifying Officers carried out an evaluation of the effectiveness of the design and operation of the Company s disclosure controls and procedures as of June 30, 2007. Their evaluation was carried out with the participation of other members of the Company s management. Based upon their evaluation, the Certifying Officers concluded that the Company s disclosure controls and procedures were effective.

The Company s internal control over financial reporting is a process designed by, or under the supervision of, the Certifying Officers and effected by the Company s Board of Directors, management and other personnel, to provide reasonable assurance regarding the reliability of the Company s financial reporting and the preparation of the Company s financial statements for external purposes in accordance with generally accepted accounting principles. Internal control over financial reporting includes policies and procedures that pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the Company s assets; provide reasonable assurance that transactions are recorded as necessary to permit preparation of the Company s financial statements in accordance with generally accepted accounting principles, and that the Company s receipts and expenditures are being made only in accordance with the authorization of the Company s Board of Directors and management; and provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company s assets that could have a material effect on its financial statements. There has been no change in the Company s internal control over financial reporting that occurred in the quarter ended June 30, 2007, that has materially affected, or is reasonably likely to affect, the Company s internal control over financial reporting.

PART II OTHER INFORMATION

ITEM 6. EXHIBITS

Exhibit

Number

Description

31.1

Certification of Chief Executive Officer, pursuant to Rule 13a-14(a) of the Exchange Act, as enacted by Section 302 of the Sarbanes-Oxley Act of 2002.

31.2

Certification of Chief Financial Officer, pursuant to Rule 13a-14(a) of the Exchange Act, as enacted by Section 302 of the Sarbanes-Oxley Act of 2002.

32.1

Certification of Chief Executive Officer and Chief Financial Officer, pursuant to 18 United States Code Section 1350, as enacted by Section 906 of the Sarbanes-Oxley Act of 2002.

Signatures

In accordance with Section 13 or 15(d) of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

(Registrant) SARATOGA RESOURCES, INC.

By: /s/ Thomas Cooke

Thomas Cooke

CEO and President

Date: July 23, 2007