SARATOGA RESOURCES INC /TX
Form 10QSB
November 13, 2006

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 September 30, 2006

[ ]

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)

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

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

As of November 10, 2006, 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

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PART I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

Saratoga Resources, Inc. and Subsidiaries
CONSOLIDATED UNAUDITED BALANCE SHEET
September 30, 2006
(amounts in thousands)

ASSETS

Current assets:		
Cash & equivalents	$	7
Marketable Securities		60
		67
Equipment, net of accumulated depreciation		1
Total assets	$	68

LIABILITIES & STOCKHOLDERS' EQUITY

Current liabilities:		
Accounts payable & accrued liabilities	$	54
Due to related parties		396

Stockholders' equity:		
Common stock		8
Additional paid-in capital		2,568
Accumulated deficit		(2,985)
Other comprehensive income (loss)		27
		(382)
Total liabilities & stockholders equity	$	68

See accompanying notes to consolidated financial statements

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Saratoga Resources, Inc. and Subsidiaries
CONSOLIDATED UNAUDITED STATEMENTS OF OPERATIONS
For the Three and Nine Months Ended September 30, 2006 and 2005
(amounts in thousands, except per share amounts)

	Three Months Ended September 30, 2006	Three Months Ended September 30, 2005	Nine Months Ended September 30, 2006	Nine Months Ended September 30, 2005
Revenues:				
Gain from Participation Agreement	$ 9	$ -	$ 10	$ -
Other Income	10	-	10	-
Total Revenue	20	-	20	-
Expenses:				
Participation Agreement expenses	-	-	-	1
General and administrative	8	30	62	61
Interest expense	11	10	33	28
	19	40	95	90
Income (loss) before income taxes	1	(40)	(75)	(90)
Net income (loss)	1	(40)	(75)	(90)
Unrealized holding gains (losses)	(18)	8	(18)	12
Comprehensive income (loss)	$ (17)	$ (32)	$ (93)	$ (78)
Basic and Diluted Loss Per Share	$ (0.002)	$ (0.009)	$ (0.012)	$ (0.022)
Weighted Average number of common shares outstanding	7,540,292	3,465,292	7,540,292	3,465,292

See accompanying notes to consolidated financial statements

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Saratoga Resources, Inc. and Subsidiaries
CONSOLIDATED UNAUDITED STATEMENTS OF CASH FLOWS
For the Nine Months Ended September 30, 2006 and 2005
(amounts in thousands)

	Nine Months Ended September 30,			
	2006		**2005**	
Cash provided (used) from operating activities:				
Net loss	$	(75)	$	(90)
Depreciation		-		-
Non-cash compensation expense		33		-
Increase in due to related party - accrued interest		33		28
(Increase) decrease in other assets		(8)		4
Increase (decrease) in accrued liabilities		(3)		(89)
		(20)		(147)
Cash provided (used) by investing activities:		-		-
				-
Cash provided (used) by financing activities:				
Common stock issued for cash		25		-
Advances from related parties		-		158
		25		158
Net increase in cash		5		11
Beginning cash		2		1
Ending Cash	$	7	$	12

SUPPLEMENTAL DISCLOSURE OF NON-CASH FINANCING ACTIVITIES:

Due to related party converted to stock	$	25	$	-
Stock received in settlement	$	10	$	-
Stock issues for services	$	33	$	-

See accompanying notes to consolidated financial statements

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SARATOGA RESOURCES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

September 30, 2006

(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, 2005.

NOTE 2. ISSUANCES OF COMMON STOCK

During the nine months ended September 30, 2006, the Company issued an aggregate of 4,075,000 shares of common stock as follows:

- 4,000,000 shares issued to principal shareholder and officer in exchange for $50,000 paid, $25,000 in cash and $25,000 by forgiveness of existing loans;
- 50,000 shares issued to 2 directors for services in their capacity as director; and
- 25,000 shares issued to a consultant.

NOTE 3. STOCK BASED COMPENSATION

The Company accounts for stock-based employee compensation arrangements in accordance with provisions of Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations, and complies with the disclosure provisions of SFAS No. 123, "Accounting for Stock-Based Compensation." Under APB 25, compensation expense is based on the difference, if any, on the date of grant between the fair value of the Company's stock and the amount an employee must pay to acquire the stock. The Company accounts for stock and options to non-employees at fair value in accordance with the provisions of SFAS No. 123 and the Emerging Issues Task Force Consensus on Issue No. 96-18.

During the nine months ended September 30, 2006, the Company recorded compensation expense of $33,000 relating to the issuance of shares for services to directors and consultants.

NOTE 4. SETTLEMENT OF CLAIMS OTHER INCOME AND MARKETABLE SECURITIES

In July 2006, the Company, its subsidiary Lobo Energy, Inc. and its principal shareholder settled certain claims against a21, Inc. Pursuant to the settlement, the Company and Lobo Energy received an aggregate of 34,640 shares of common stock of a21, Inc. In connection with the settlement, the Company and Lobo Energy paid their respective portion of the costs associated with the settlement.

The receipt of shares of a21 in the settlement was recorded net of associated costs, as Other Income and the shares were recorded as marketable securities valued at $10,392 based on the closing market value at the date of issuance.

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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 nine months ended September 30, 2006, 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, 2005.

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, 2005. As of, and for the nine months ended, September 30, 2006, there have been no material changes or updates to the Company s critical accounting policies.

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Current Year Operations and Developments

During the nine months ended September 30, 2006, the Company continued to operate its oil interest in the Red Hawk Mississippian field. The Company continues its efforts to further develop its oil interest 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.

A work-over of the Adcock Farms No. 1 well was necessary in the first quarter of 2005 due to a down-hole equipment failure in February 2005. This resulted in an interruption in production and an increase in operating overhead. The equipment was repaired and production returned to its previous levels with no indication of decline. In May 2005, production again declined indicating that additional work would be needed as the production tubing was not holding pressure. The work-over was completed and the well was back in production in January 2006. The Company is currently evaluating its approximately 27 square miles of 3D seismic data and has engaged a third party consultant to evaluate the oil reserves and the development potential of the geologic structure in both the Mississippian and Fussellman formations. The Company is also increasing its efforts to acquire oil and gas assets through acquisitions and drilling opportunities. Management believes that previous production levels can be achieved or surpassed, however, management can give no assurances that such production levels will occur.

In order to fund overhead during the nine months ended September 30, 2006, the Company s principal shareholder and sole officer contributed an additional $25,000 to the Company and converted $25,000 of existing loans in exchange for an aggregate of 4,000,000 shares of common stock.

In order to enhance the Company s efforts to evaluate and pursue drilling and acquisition opportunities, during June 2006, the Company appointed an additional independent director and appointed, as a consultant, an advisory director. In connection with the appointment of the new director and advisory director, the Company issued 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.

In July 2006, the Company, its subsidiary Lobo Energy, Inc. and its principal shareholder settled certain claims against a21, Inc. Pursuant to the settlement, the Company and Lobo Energy received an aggregate of 34,640 shares of common stock of a21, Inc. In connection with the settlement, the Company and Lobo Energy paid their respective portion of the costs associated with the settlement.

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

Results of Operations

Revenues. During the nine months ended September 30, 2006 the Company realized a net gain of $10,000 from participation in the Adcock Farms #1 well. The Company had a net loss of $1,000 from participation in the well during the 2005 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 increased from $61,000 during the nine months ended September 30, 2005 to $62,000 during the same period in 2006. The increase in general and administrative expense was 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. The prior year period included additional accounting and legal expenses incurred by the Company in bringing its SEC filings current.

Interest Expense. Interest expense on the loans from shareholder increased from $28,000 for the nine months ended September 30, 2005 to $33,000 for the nine months ended September 30, 2006. The increase in interest expense was attributable to the continuing accrual of interest on advances from the Company s principal shareholder, which was partially offset by conversion of $25,000 of advances to equity during the period.

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Other Income. Other income of $10,000 during the nine months ended September 30, 2006 related to the settlement of certain claims with a21 pursuant to which the Company received shares of a21 common stock. Other income recorded reflected the fair value of the shares received in the settlement net of associated costs.

Unrealized Holding Gains. At September 30, 2006, the Company had $60,000 of securities holdings classified as available-for-sale securities .

The Company had unrealized losses on its available-for-sale securities of $18,000 during the nine months ended September 30, 2006. Those unrealized losses are included in Other Comprehensive Income (Loss).

Financial Condition

Liquidity and Capital Resources.

The Company had a cash balance of $7,000 and a working capital deficit of $383,000 at September 30, 2006 as compared to a cash balance of $2,000 and a working capital deficit of $373,000 at December 31, 2005. Included in current assets and the calculation of working capital are available for sale securities in the amount of $60,000 at September 30, 2006 and $67,000 at December 31, 2005.

The change in cash and working capital balances was attributable to the receipt of shares in the a21 settlement, the receipt of $25,000 in cash and the reduction of $25,000 in debt owed to our majority shareholder for the purchase of 4,000,000 shares of our unregistered common stock, partially offset by the operating loss during the period and unrealized losses on available for sale securities.

The Company, at and for the period ended September 30, 2006, 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 September 30, 2006, the Company had long-term debt of $396,000 owed to the Company s principal shareholder as compared to $386,000 at December 31, 2005. 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 conversion of $25,000 of loans to equity offset by additional interest accrued on the loans of $33,000.

Capital Expenditures and Commitments

During the nine months ended September 30, 2006, the Company made no capital expenditures and, at September 30, 2006, 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 September 30, 2006.

Inflation

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

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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 September 30, 2006. 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 September 30, 2006, 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.

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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.

SARATOGA RESOURCES, INC.

By /s/ Thomas Cooke

Thomas Cooke

CEO, President and

Principal Financial Officer

Date: November 13, 2006