UBS AG
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January 15, 2019

January 2019

Pricing Supplement

Dated January 11, 2019

Registration Statement No. 333-225551

Filed pursuant to Rule 424(b)(2)

(To Prospectus dated October 31, 2018

and Product Supplement dated October 31, 2018)
Structured Investments

Opportunities in U.S. Equities

Contingent Income Auto-Callable Securities with 6-Month Initial Non-Call Period due January 14, 2022

$375,400 Based on the Performance of the Common Stock of The Procter & Gamble Company

Contingent Income Auto-Callable Securities with 6-Month Initial Non-Call Period (the "securities") offer the opportunity for investors to earn a contingent payment with respect to each determination date on which the closing price of the underlying equity is equal to or greater than 75.00% of the initial price, which we refer to as the downside threshold level. In addition, if the closing price of the underlying equity is equal to or greater than the call threshold level on any determination date (other than the first determination date and the final determination date), the securities will be redeemed early or repaid at maturity, as applicable, for an amount per security equal to the stated principal amount and the contingent payment. However, if on any determination date (other than the first determination date and the final determination date) the closing price of the underlying equity is less than the call threshold level, the securities will not be redeemed early and if that closing price is less than the downside threshold level, you will not receive any contingent payment for that period. As a result, investors must be willing to accept the risk of not receiving any contingent payment. Furthermore, UBS has elected to deliver cash in lieu of shares, and investors will receive less than the stated principal amount if the securities are not redeemed early and the closing price of the underlying equity is less than the downside threshold level on the final determination date, in which case investors will be exposed to the decline in the closing price of the underlying equity and the cash value investors receive at maturity will be significantly less than the stated principal amount of the securities and could be zero. **Accordingly, the securities do not guarantee any return of principal at maturity.** Investors will not participate in any appreciation of the underlying equity. The securities are unsubordinated, unsecured debt obligations issued by UBS AG, and all payments on the securities are subject to the credit risk of UBS AG.

SUMMARY TERMS

Issuer:	UBS AG London Branch
Underlying equity:	Common Stock of The Procter & Gamble Company (Bloomberg Ticker: "PG")
Aggregate principal amount:	$375,400
Stated principal amount:	$10.00 per security

Issue price:	$10.00 per security (see “Commissions and issue price” below)
Pricing date:	January 11, 2019
Original issue date:	January 16, 2019. We expect to deliver each offering of the securities against payment on or about the third business day following the trade date. Under Rule 15c6-1 of the Securities Exchange Act of 1934, as amended, trades in the secondary market generally are required to settle in two business days (T+2), unless the parties to a trade expressly agree otherwise. Accordingly, purchasers who wish to trade the securities in the secondary market on any date prior to two business days before delivery of the securities will be required, by virtue of the fact that each security initially will settle in three business days (T+3), to specify alternative settlement arrangements to prevent a failed settlement of the secondary market trade.
Maturity date:	January 14, 2022, subject to postponement for certain market disruption events and as described under “General Terms of the Securities — Market Disruption Events” and “— Payment Dates — Maturity Date” in the accompanying product supplement.
Early redemption:	If, on any determination date (other than the first determination date and the final determination date), the closing price of the underlying equity is equal to or greater than the call threshold level, the securities will be redeemed early and we will pay the early redemption amount on the first contingent payment date immediately following the related determination date.
Early redemption amount:	The early redemption amount will be an amount equal to (i) the stated principal amount *plus* (ii) the contingent payment with respect to the related determination date.
Contingent payment:	If, on any determination date, the closing price or the final price is equal to or greater than the downside threshold level, we will pay a contingent payment of $0.2013 (equivalent to 8.05% per annum of the stated principal amount) per security on the related contingent payment date. If, on any determination date, the closing price or the final price is less than the downside threshold level, no contingent payment will be made with respect to that determination date.
Determination dates:	April 11, 2019, July 11, 2019, October 11, 2019, January 13, 2020, April 13, 2020, July 13, 2020, October 12, 2020, January 11, 2021, April 12, 2021, July 12, 2021, October 11, 2021 and January 11, 2022, subject to postponement for non-trading days and certain market disruption events (as described under “General Terms of the Securities — Valuation Dates”, “— Final Valuation Date” and “— Market Disruption Events” in the accompanying product supplement). We also refer to January 11, 2022 as the

	final determination date. References in the accompanying product supplement to one or more "valuation dates" shall mean the determination dates for purposes of the market disruption event provisions in the accompanying product supplement.
Contingent payment dates:	With respect to each determination date other than the final determination date, the third business day after the related determination date. The payment of the contingent payment, if any, with respect to the final determination date will be made on the maturity date.
Payment at maturity:	If the final price is **equal to or greater than** the downside threshold level: (i) the stated principal amount *plus* (ii) the contingent payment with respect to the final determination date If the final price is **less than** the downside threshold level: the cash value **UBS has elected to deliver to you cash in lieu of shares, and your payment at maturity for each security will be the cash value.**
Exchange ratio:	The stated principal amount *divided* by the initial price.
Cash value:	The exchange ratio *multiplied* by the final price.
Call threshold level:	$91.77, which is equal to 100.00% of the initial price (as may be adjusted in the case of certain adjustment events as described under "General Terms of the Securities — Antidilution Adjustments for Securities Linked to an Underlying Equity or Equity Basket Asset" and "— Reorganization Events for Securities Linked to an Underlying Equity or Equity Basket Asset" in the accompanying product supplement).
Downside threshold level:	$68.83, which is equal to 75.00% of the initial price (as may be adjusted in the case of certain adjustment events as described under "General Terms of the Securities — Antidilution Adjustments for Securities Linked to an Underlying Equity or Equity Basket Asset" and "—Reorganization Events for Securities Linked to an Underlying Equity or Equity Basket Asset" in the accompanying product supplement).
Initial price:	$91.77, which is equal to the closing price of the underlying equity on the pricing date (as may be adjusted in the case of certain adjustment events as described under "General Terms of the Securities — Antidilution Adjustments for Securities Linked to an Underlying Equity or Equity Basket Asset" and "— Reorganization Events for Securities Linked to an Underlying Equity or Equity Basket Asset" in the accompanying product supplement).
Final price:	The closing price of the underlying equity on the final determination date.
CUSIP / ISIN:	90281B809 / US90281B8090

Listing:	The securities will not be listed on any securities exchange.		
Calculation Agent:	UBS Securities LLC		
Commissions and issue price:	**Price to Public**[(1)]	**Fees and Commissions**[(1)]	**Proceeds to Issuer**
Per security	100%	2.00%[(a)] + 0.50%[(b)]	97.50%
Total	$375,400.00	2.50% $9,385.00	$366,015.00

(1) UBS Securities LLC has agreed to purchase from UBS AG the securities at the price to public less a fee of $0.25 per $10.00 stated principal amount of securities. UBS Securities LLC has agreed to resell all of the securities to Morgan Stanley Smith Barney LLC ("Morgan Stanley Wealth Management") at an underwriting discount which reflects:
(a) a fixed sales commission of $0.20 per $10.00 stated principal amount of securities that Morgan Stanley Wealth Management sells and
(b) a fixed structuring fee of $0.05 per $10.00 stated principal amount of securities that Morgan Stanley Wealth Management sells,
each payable to Morgan Stanley Wealth Management by the agent or its affiliates. See "Supplemental information regarding plan of distribution (conflicts of interest)".

The estimated initial value of the securities as of the pricing date is $9.819. The estimated initial value of the securities was determined as of the close of the relevant markets on the date hereof by reference to UBS' internal pricing models, inclusive of the internal funding rate. For more information about secondary market offers and the estimated initial value of the securities, see "Risk Factors — Fair value considerations" and "— Limited or no secondary market and secondary market price considerations" beginning on pages 10 and 11 of this document.

The securities involve risks not associated with an investment in ordinary debt securities. See "Risk Factors" beginning on page 10.

Neither the Securities and Exchange Commission nor any other regulatory body has approved or disapproved of these securities or passed upon the accuracy or adequacy of this document, the accompanying product supplement or the accompanying prospectus. Any representation to the contrary is a criminal offense.

The securities are not bank deposits and are not insured by the Federal Deposit Insurance Corporation or any other governmental agency.

You should read this document together with the accompanying product supplement and the accompanying prospectus, each of which can be accessed via the hyperlinks below, before you decide to invest.

Product supplement dated October 31, 2018   Prospectus dated October 31, 2018

Contingent Income Auto-Callable Securities with 6-Month Initial Non-Call Period due on or about January 14, 2022

$375,400 Based on the Performance of the Common Stock of The Procter & Gamble Company
Additional Information about UBS and the Securities

UBS AG ("UBS") has filed a registration statement (including a prospectus as supplemented by a product supplement) with the Securities and Exchange Commission (the "SEC") for the securities to which this document relates. Before you invest, you should read these documents and any other documents relating to this offering that UBS has filed with the SEC for more complete information about UBS and this offering. You may obtain these documents for free from the SEC website at www.sec.gov. Our Central Index Key, or CIK, on the SEC web site is 0001114446.

You may access these documents on the SEC website at www.sec.gov as follows:

Prospectus dated October 31, 2018:
http://www.sec.gov/Archives/edgar/data/1114446/000119312518314003/d612032d424b3.htm
Product supplement dated October 31, 2018:
http://www.sec.gov/Archives/edgar/data/1114446/000091412118002085/ub47016353-424b2.htm

References to "UBS," "we," "our" and "us" refer only to UBS AG and not to its consolidated subsidiaries. In this document, the "securities" refers to the Contingent Income Auto-Callable Securities with 6-Month Initial Non-Call Period that are offered hereby. Also, references to the "accompanying prospectus" mean the UBS prospectus titled "Debt Securities and Warrants," dated October 31, 2018, and references to the "accompanying product supplement" mean the UBS product supplement titled "Market-Linked Securities Product Supplement", dated October 31, 2018.

You should rely only on the information incorporated by reference or provided in this document, the accompanying product supplement or the accompanying prospectus. We have not authorized anyone to provide you with different information. We are not making an offer of these securities in any state where the offer is not permitted. You should not assume that the information in this document, the accompanying product supplement or the accompanying prospectus is accurate as of any date other than the date on the front of the document.

UBS reserves the right to change the terms of, or reject any offer to purchase, the securities prior to their issuance. In the event of any changes to the terms of the securities, UBS will notify you and you will be asked to accept such changes in connection with your purchase. You may also choose to reject such changes in which case UBS may reject your offer to purchase.

In the event of any discrepancies between this document, the accompanying product supplement and the accompanying prospectus, the following hierarchy will govern: first, this document; second, the accompanying product supplement; and finally, the accompanying prospectus.

Contingent Income Auto-Callable Securities with 6-Month Initial Non-Call Period due on or about January 14, 2022

$375,400 Based on the Performance of the Common Stock of The Procter & Gamble Company
Investment Summary

The Contingent Income Auto-Callable Securities with 6-Month Initial Non-Call Period due January 14, 2022 based on the performance of the common stock of The Procter & Gamble Company, which we refer to as the securities, provide an opportunity for investors to earn a contingent payment, which is an amount equal to $0.2013 (equivalent to 8.05% per annum of the stated principal amount) per security, with respect to each determination date on which the closing price or the final price, is equal to or greater than 75.00% of the initial price, which we refer to as the downside threshold level. The contingent payment, if any, will be payable on the relevant contingent payment date, which is the third business day after the related determination date, except that the contingent payment date for the final determination date will be the maturity date. **It is possible that the closing price of the underlying equity could remain less than the downside threshold level for extended periods of time or even throughout the term of the securities so that you may receive few or no contingent payments.**

If the closing price is equal to or greater than the call threshold level on any of the determination dates other than the first determination date and the final determination date, the securities will be automatically redeemed for an early redemption amount equal to (i) the stated principal amount *plus* (ii) any contingent payment otherwise payable with respect to the related determination date. If the securities have not previously been redeemed early and the final price is equal to or greater than the downside threshold level, the payment at maturity will also be the sum of (i) the stated principal amount and (ii) any contingent payment otherwise payable with respect to the final determination date. If, however, the securities are not redeemed early and the final price is less than the downside threshold level, investors will be exposed to the decline in the closing price of the underlying equity, as compared to the initial price, on a 1 to 1 basis and investors will be entitled to receive the cash value, which will be equal to the exchange ratio multiplied by the final price. The cash value on the final determination date will be less than 75.00% of the stated principal amount of the securities and could be zero. Investors in the securities must be willing to accept the risk of losing a significant portion and, in extreme situations, all of their initial investment and also the risk of not receiving any contingent payments. In addition, investors will not participate in any appreciation of the underlying equity.

Contingent Income Auto-Callable Securities with 6-Month Initial Non-Call Period due on or about January 14, 2022

$375,400 Based on the Performance of the Common Stock of The Procter & Gamble Company
Key Investment Rationale

The securities offer the opportunity for investors to earn a contingent payment equal to $0.2013 (equivalent to 8.05% per annum of the stated principal amount) per security, with respect to each determination date on which the closing price or the final price is equal to or greater than 75.00% of the initial price, which we refer to as the downside threshold level. The securities may be redeemed early beginning on the second determination date for an early redemption amount equal to (i) the stated principal amount per security *plus* (ii) the applicable contingent payment and the payment at maturity will vary depending on the final price, as follows:

On any determination date other than the first determination date and the final determination date, the closing price is *equal to or greater than* the call threshold level.

Scenario 1 The securities will be automatically redeemed early for an early redemption amount equal to (i) the stated principal amount *plus* (ii) the contingent payment with respect to the related determination date.

Investors will not participate in any appreciation of the underlying equity from the initial price.
The securities are not automatically redeemed early and the final price is *equal to or greater than* the downside threshold level.

Scenario 2 The payment due at maturity will be (i) the stated principal amount *plus* (ii) any contingent payment with respect to the final determination date.

Investors will not participate in any appreciation of the underlying equity from the initial price.
The securities are not automatically redeemed early and the final price is *less than* the downside threshold level.

Scenario 3 The payment due at maturity will be the cash value.

Investors will lose a significant portion and may lose all of their initial investment in this scenario.
Investing in the securities involves significant risks. You may lose a significant portion and, in extreme situations all of your initial investment. Any payment on the securities, including any repayment of principal, is subject to the creditworthiness of UBS. If UBS were to default on its payment obligations, you may not receive any amounts owed to you under the securities and you could lose all of your initial investment.

The securities will not pay a contingent payment on a contingent payment date (including the maturity date) if the closing price is less than the downside threshold level on the related determination date. The securities will not be subject to an early redemption if the closing price is less than the call threshold level on a determination date (other than the first determination date and the final determination date). If the securities are not redeemed early, you will lose a significant portion and, in extreme situations, all of your initial investment at maturity if the final price is less than the downside threshold level.

Contingent Income Auto-Callable Securities with 6-Month Initial Non-Call Period due on or about January 14, 2022

$375,400 Based on the Performance of the Common Stock of The Procter & Gamble Company
Investor Suitability

The securities may be suitable for you if:

You fully understand the risks of an investment in the securities, including the risk of loss of all of your initial investment.

You can tolerate a loss of a significant portion or all of your initial investment and are willing to make an investment that may have the same downside market risk as an investment in the underlying equity.

You believe the closing price of the underlying equity will be equal to or greater than the downside threshold level on the specified determination dates (including the final determination date).

You understand and accept that you will not participate in any appreciation in the price of the underlying equity and that any potential positive return is limited to the contingent payments specified herein.

You can tolerate fluctuations in the price of the securities prior to maturity that may be similar to or exceed the downside price fluctuations of the underlying equity.

You are willing to invest in the securities based on the contingent payment, the downside threshold level and the call threshold level specified on the cover hereof.

You are willing to forgo any dividends paid on the underlying equity and you do not seek guaranteed current income from this investment.

You are willing to invest in securities that may be redeemed prior to the maturity date and you are otherwise willing to hold such securities to maturity, a term of approximately 3 years, and accept that there may be little or no secondary market.

You are willing to assume the credit risk of UBS for all payments under the securities, and understand that if UBS defaults on its obligations you may not receive any amounts due to you including any repayment of principal.

You understand that the estimated initial value of the securities determined by our internal pricing models is lower than the issue price and that should UBS Securities LLC or any affiliate make secondary markets for the securities, the price (not including their customary bid-ask spreads) will temporarily exceed the internal pricing model price.
The securities may not be suitable for you if:

You do not fully understand the risks of an investment in the securities, including the risk of loss of all of your initial investment.

You require an investment designed to provide a full return of principal at maturity.

You cannot tolerate a loss of a significant portion or all of your initial investment, or you are not willing to make an investment that may have the same downside market risk as an investment in the underlying equity.

You believe that the price of the underlying equity will decline during the term of the securities and is likely to be less than the downside threshold level on the determination dates (including the final determination date).

You seek an investment that participates in the full appreciation in the price of the underlying equity or that has unlimited return potential.

You cannot tolerate fluctuations in the price of the securities prior to maturity that may be similar to or exceed the downside price fluctuations of the underlying equity.

You are unwilling to invest in the securities based on the contingent payment, the downside threshold level or the call threshold level specified on the cover hereof.

You prefer to receive any dividends paid on the underlying equity or you seek guaranteed current income from this investment.

You are unable or unwilling to hold securities that may be redeemed prior to the maturity date, or you are otherwise unable or unwilling to hold such securities to maturity, a term of approximately 3 years, or you seek an investment for which there will be an active secondary market.

You are not willing to assume the credit risk of UBS for all payments under the securities, including any repayment of principal.

Contingent Income Auto-Callable Securities with 6-Month Initial Non-Call Period due on or about January 14, 2022

$375,400 Based on the Performance of the Common Stock of The Procter & Gamble Company
How the Securities Work

The following diagrams illustrate the potential outcomes for the securities depending on (1) the closing price and (2) the final price.

Diagram #1: Determination Dates Other Than the First Determination Date and the Final Determination Date

Diagram #2: Payment at Maturity if No Early Redemption Occurs

For more information about the payout upon an early redemption or at maturity in different hypothetical scenarios, see "Hypothetical Examples" beginning on the following page.

Contingent Income Auto-Callable Securities with 6-Month Initial Non-Call Period due on or about January 14, 2022

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Hypothetical Examples

The below examples are based on the following terms and are purely hypothetical (the actual terms of your security are specified on the cover hereof; amounts may have been rounded for ease of analysis):

Hypothetical Initial Price:	$80.00
Hypothetical Call Threshold Level:	$80.00, which is equal to 100% of the initial price
Hypothetical Downside Threshold Level:	$60.00, which is 75.00% of the initial price
Hypothetical Exchange Ratio*:	0.125, which is the stated principal amount *divided* by the hypothetical initial price
Hypothetical Contingent Payment:	$0.2013 (equivalent to 8.05% per annum of the stated principal amount) per security
Stated Principal Amount:	$10.00 per security

* UBS has elected to pay the cash value if the final price is less than the downside threshold level.

In Examples 1 and 2 the closing price of the underlying equity fluctuates over the term of the securities and the closing price of the underlying equity is equal to or greater than the hypothetical call threshold level of $80.00 on one of the determination dates (other than the first determination date and the final determination date). Because the closing price is equal to or greater than the call threshold level on one of the determination dates (other than the final determination date), the securities are redeemed early following the relevant determination date. In Examples 3 and 4, the closing price on each of the determination dates (other than the final determination date) is less than the call threshold level, and, consequently, the securities are not redeemed early, and remain outstanding until maturity.

	Example 1			**Example 2**		
Determination Dates	**Hypothetical Closing Price**	**Contingent Payment**	**Early Redemption Amount***	**Hypothetical Closing Price**	**Contingent Payment**	**Early Redemption Amount**
#1	$84.00	$0.2013	Not Callable	$64.00	$0.2013	N/A
#2	$88.50	—*	$10.2013	$55.20	$0	N/A
#3	N/A	N/A	N/A	$44.00	$0	N/A
#4	N/A	N/A	N/A	$44.80	$0	N/A
#5	N/A	N/A	N/A	$53.60	$0	N/A
#6	N/A	N/A	N/A	$60.80	$0.2013	N/A
#7	N/A	N/A	N/A	$53.60	$0	N/A
#8	N/A	N/A	N/A	$44.00	$0	N/A
#9	N/A	N/A	N/A	$55.20	$0	N/A
#10	N/A	N/A	N/A	$96.00	—*	$10.2013
#11	N/A	N/A	N/A	N/A	N/A	N/A
Final Determination Date	N/A	N/A	N/A	N/A	N/A	N/A
Payment at Maturity	N/A			N/A		

* The early redemption amount includes the unpaid contingent payment with respect to the determination date on which the closing price is equal to or greater than the call threshold level and the securities are redeemed early as a result.

Contingent Income Auto-Callable Securities with 6-Month Initial Non-Call Period due on or about January 14, 2022

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In **Example 1**, the securities are redeemed early following the second determination date as the closing price on the second determination date is equal to or greater than the call threshold level. Although the closing price on the first determination date is above the call threshold level, the securities are not callable on the first determination date. Following the second determination date, you receive the early redemption amount, calculated as follows:

Stated Principal Amount + Contingent Payment = $10.00 + $0.2013 = $10.2013

In this example, the early redemption feature limits the term of your investment to approximately 6 months and you may not be able to reinvest at comparable terms or returns. If the securities are redeemed early, you will stop receiving contingent payments. When added to the contingent payment of $0.2013 received in respect of the prior determination date, UBS will have paid you a total of $10.4026 per security for a 4.026% total return on the securities

In **Example 2**, the securities are redeemed early following the tenth determination date as the closing price on the tenth determination date is equal to or greater than the call threshold level. As the closing price on the first, sixth and tenth determination date is equal to or greater than the downside threshold level, you receive the contingent payment of $0.2013 with respect to each such determination date. Following the tenth determination date, you receive an early redemption amount of $10.2013, which includes the contingent payment with respect to the tenth determination date.

In this example, the early redemption feature limits the term of your investment to approximately 30 months and you may not be able to reinvest at comparable terms or returns. If the securities are redeemed early, you will stop receiving contingent payments. Further, although the underlying equity has appreciated by 20% from its initial price on the tenth determination date, you only receive $10.2013 per security and do not benefit from such appreciation. When added to the contingent payments of $0.4026 received in respect of prior determination dates, UBS will have paid you a total of $10.6039 per security for a 6.039% total return on the securities.

	Example 3			Example 4		
Determination Dates	Hypothetical Closing Price	Contingent Payment	Early Redemption Amount	Hypothetical Closing Price	Contingent Payment	Early Redemption Amount
#1	$42.40	$0	N/A	$40.80	$0	N/A
#2	$41.60	$0	N/A	$39.20	$0	N/A
#3	$40.00	$0	N/A	$41.60	$0	N/A
#4	$40.80	$0	N/A	$42.40	$0	N/A
#5	$46.40	$0	N/A	$38.40	$0	N/A
#6	$44.80	$0	N/A	$37.60	$0	N/A
#7	$41.60	$0	N/A	$44.00	$0	N/A
#8	$44.00	$0	N/A	$36.00	$0	N/A
#9	$46.40	$0	N/A	$42.40	$0	N/A
#10	$41.60	$0	N/A	$44.00	$0	N/A
#11	$44.80	$0	N/A	$47.20	$0	N/A
Final Determination Date	$40.00	—*	N/A	$72.00	—*	N/A
Payment at Maturity	$5.00			$10.2013		

* The final contingent payment, if any, will be paid at maturity.

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Examples 3 and 4 illustrate the payment at maturity per security based on the final price.

In **Example 3**, the closing price of the underlying equity remains less than the downside threshold level throughout the term of the securities. As a result, you do not receive any contingent payment during the term of the securities and, at maturity, you are fully exposed to the decline in the closing price of the underlying equity. As the final price is less than the downside threshold level, investors will receive the cash value at maturity, calculated as follows:
Cash Value = Exchange Ratio x Final Price

$5.00 = 0.125 x $40.00

In this example, your payment at maturity is significantly less than the stated principal amount. Your total return per security in this example is $5.00 (a 50.00% loss on the securities).

In **Example 4**, the closing price of the underlying equity is less than the downside threshold on each determination date and, as a result, you do not receive any contingent payments during the term of the securities. On the final determination date, the closing price of the underlying equity decreases from the initial price to a final price of $72.00. Although the final price is less than the initial price, because the final price is equal to or greater than the downside threshold level, you receive the stated principal amount plus a contingent payment with respect to the final determination date. Your payment at maturity is calculated as follows:
$10.00 + $0.2013 = $10.2013

In this example, although the final price represents a 10.00% decline from the initial price, you receive the stated principal amount per security plus the contingent payment, equal to a total payment of $10.2013 per security at maturity. Your total return per security in this example is $10.2013 (a 2.013% total return on the securities).

Investing in the securities involves significant risks. The securities differ from ordinary debt securities in that UBS is not necessarily obligated to repay the full amount of your initial investment. If the securities are not redeemed early, you may lose a significant portion or all of your initial investment. Specifically, if the securities are not redeemed early and the final price is less than the downside threshold level, UBS has elected to deliver to you the cash value, which is expected to be worth significantly less than your stated principal amount resulting in a loss of a significant portion or all of your initial investment.

The securities will not pay a contingent payment if the closing price is less than its downside threshold level on any determination date. The securities will not be subject to an early redemption if the closing price is less than its call threshold level on any determination date.

Any payment to be made on the securities, including any repayment of principal, depends on the ability of UBS to satisfy its obligations as they come due. If UBS were to default on its payment obligations you may not receive any amounts owed to you under the securities and you could lose all of your initial investment.

Contingent Income Auto-Callable Securities with 6-Month Initial Non-Call Period due on or about January 14, 2022

$375,400 Based on the Performance of the Common Stock of The Procter & Gamble Company
Risk Factors

The following is a non-exhaustive list of certain key risk factors for investors in the securities. For further discussion of these and other risks, you should read the section entitled "Risk Factors" in the accompanying product supplement. We urge to consult your investment, legal, tax, accounting and other advisors before you invest in the securities.

The securities do not guarantee the return of any principal and your investment in the securities may result in a loss. The terms of the securities differ from those of ordinary debt securities in that the securities do not guarantee the payment of regular interest or the return of any of the stated principal amount at maturity. Instead, if the securities have not been redeemed early and if the final price is less than the downside threshold level, you will be exposed to the decline in the closing price of the underlying equity, as compared to the initial price, on a 1 to 1 basis and you will receive for each security that you hold at maturity the cash value, which is equal to the exchange ratio multiplied by the final price. The cash value of those shares on the final determination date will be less than 75.00% of the stated principal amount and could be zero.

The contingent payment, if any, is based solely on the closing prices of the underlying equity on the specified determination dates. Whether the contingent payment will be made with respect to a determination date will be based on the closing price or the final price. As a result, you will not know whether you will receive the contingent payment until the related determination date. Moreover, because the contingent payment is based solely on the closing price on a specific determination date or the final price, if that closing price or final price is less than the downside threshold level, you will not receive any contingent payment with respect to that determination date, even if the closing price of the underlying equity was higher on other days during the term of the securities.

You will not receive any contingent payment for any quarterly period where the closing price of the underlying equity on the determination date is less than the downside threshold level. A contingent payment will be made with respect to a period only if the closing price is equal to or greater than the downside threshold level. If the closing price remains less than the downside threshold level on each determination date over the term of the securities, you will not receive any contingent payment.

Higher contingent payments are generally associated with a greater risk of loss. Greater expected volatility with respect to the underlying equity reflects a higher expectation as of the pricing date that the closing price of such stock could close less than its downside threshold level on the final determination date of the securities. This greater expected risk will generally be reflected in a higher contingent payment rate for that security. "Volatility" refers to the frequency and magnitude of changes in the price of the underlying equity. However, while the contingent payment rate was set on the pricing date, a stock's volatility can change significantly over the term of the securities. The closing price of the underlying equity for your securities could fall sharply, which could result in the loss of all or a substantial portion of your initial investment.

The securities are subject to the credit risk of UBS AG, and any actual or anticipated changes to our credit ratings or credit spreads may adversely affect the market value of the securities. Investors are dependent on UBS AG's ability to pay all amounts due on the securities, and therefore investors are subject to our credit risk and to changes in the market's view of our creditworthiness. Any actual or anticipated decline in our credit ratings or increase in the credit spreads charged by the market for taking our credit risk is likely to affect adversely the market value of the securities. If we were to default on our payment obligations, you may not receive any amounts owed to you under the securities and you could lose a significant portion or all of your initial investment.

Single equity risk. The closing price of the underlying equity can rise or fall sharply due to factors specific to that underlying equity and the issuer of such underlying equity (the "underlying equity issuer"), such as stock price volatility, earnings, financial conditions, corporate, industry and regulatory developments, management changes and decisions and other events, as well as general market factors, such as general stock market volatility and levels, interest rates and economic and political conditions. You, as an investor in the securities, should make your own investigation into the underlying equity issuer and the underlying equity for your securities. For additional

information regarding the underlying equity, please see "Information about the Underlying Equity" below and the underlying equity issuer's SEC filings referred to in this section. **We urge you to review financial and other information filed periodically by the underlying equity issuer with the SEC.**

Fair value considerations.

- **The issue price you pay for the securities exceeds their estimated initial value.** The issue price you pay for the securities exceeds their estimated initial value as of the pricing date due to the inclusion in the issue price of the underwriting discount, hedging costs, issuance costs and projected profits. As of the close of the relevant markets on the pricing date, we have determined the estimated initial value of the securities by reference to our internal pricing models and the estimated initial value of the securities is set forth in this pricing supplement. The pricing models used to determine the estimated initial value of the securities incorporate certain variables, including the price, volatility and any dividends paid on the underlying equity, prevailing interest rates, the term of the securities and our internal funding rate. Our internal funding rate is typically lower than the rate we

would pay to issue conventional fixed or floating rate debt securities of a similar term. The underwriting discount, hedging costs, issuance costs, projected profits and the difference in rates will reduce the economic value of the securities to you. Due to these factors, the estimated initial value of the securities as of the pricing date is less than the issue price you pay for the securities.

- **The estimated initial value is a theoretical price and the actual price that you may be able to sell your securities in any secondary market (if any) at any time after the pricing date may differ from the estimated initial value.** The value of your securities at any time will vary based on many factors, including the factors described above and in "—Single equity risk" above and is impossible to predict. Furthermore, the pricing models that we use are proprietary and rely in part on certain assumptions about future events, which may prove to be incorrect. As a result, after the pricing date, if you attempt to sell the securities in the secondary market, the actual value you would receive may differ, perhaps materially, from the estimated initial value of the securities determined by reference to our internal pricing models. The estimated initial value of the securities does not represent a minimum or maximum price at which we or any of our affiliates would be willing to purchase your securities in any secondary market at any time.

- **Our actual profits may be greater or less than the differential between the estimated initial value and the issue price of the securities as of the pricing date.** We may determine the economic terms of the securities, as well as hedge our obligations, at least in part, prior to the pricing date. In addition, there may be ongoing costs to us to maintain and/or adjust any hedges and such hedges are often imperfect. Therefore, our actual profits (or potentially, losses) in issuing the securities cannot be determined as of the pricing date and any such differential between the estimated initial value and the issue price of the securities as of the pricing date does not reflect our actual profits. Ultimately, our actual profits will be known only at the maturity of the securities.

Limited or no secondary market and secondary market price considerations.

- **There may be little or no secondary market for the securities.** The securities will not be listed or displayed on any securities exchange or any electronic communications network. UBS Securities LLC and its affiliates intend, but are not required to make a market for the securities and may stop making a market at any time. If you are able to sell your securities prior to maturity, you may have to sell them at a substantial loss. Furthermore, there can be no assurance that a secondary market for the securities will develop. The estimated initial value of the securities does not represent a minimum or maximum price at which we or any of our affiliates would be willing to purchase your securities in any secondary market at any time.

- **The price at which UBS Securities LLC and its affiliates may offer to buy the securities in the secondary market (if any) may be greater than UBS' valuation of the securities at that time, greater than any other secondary market prices provided by unaffiliated dealers (if any) and, depending on your broker, greater than the valuation provided on your customer account statements.** For a limited period of time following the issuance of the securities, UBS Securities LLC or its affiliates may offer to buy or sell such securities at a price that exceeds (i) our valuation of the securities at that time based on our internal pricing models, (ii) any secondary market prices provided by unaffiliated dealers (if any) and (iii) depending on your broker, the valuation provided on customer account statements. The price that UBS Securities LLC may initially offer to buy such securities following issuance will exceed the valuations indicated by our internal pricing models due to the inclusion for a limited period of time of the aggregate value of the underwriting discount, hedging costs, issuance costs and theoretical projected trading profit. The portion of such amounts included in our price will decline to zero on a straight line basis over a period ending no later than the date specified under "Supplemental information regarding plan of distribution (conflicts of interest)." Thereafter, if UBS Securities LLC or an affiliate makes secondary markets in the securities, it will do so at prices that reflect our estimated value determined by reference to our internal pricing models at that time. The temporary positive differential relative to our internal pricing models arises from requests from and arrangements made by UBS Securities LLC with the selling agents of structured debt securities such as the securities. As described above, UBS Securities LLC and its affiliates are not required to make a market for the

securities and may stop making a market at any time. The price at which UBS Securities LLC or an affiliate may make secondary markets at any time (if at all) will also reflect its then current bid-ask spread for similar sized trades of structured debt securities. UBS Securities LLC reflects this temporary positive differential on its customer statements. Investors should inquire as to the valuation provided on customer account statements provided by unaffiliated dealers.

o **Price of securities prior to maturity.** The market price of the securities will be influenced by many unpredictable and interrelated factors, including the price of the underlying equity; the volatility of the underlying equity; the dividend rate paid on the underlying equity; the time remaining to the maturity of the securities; interest rates in the markets; geopolitical conditions and economic, financial, political, force majeure and regulatory or judicial events; the creditworthiness of UBS and the then current bid-ask spread for the securities.

Contingent Income Auto-Callable Securities with 6-Month Initial Non-Call Period due on or about January 14, 2022

$375,400 Based on the Performance of the Common Stock of The Procter & Gamble Company

- **Impact of fees and the use of internal funding rates rather than secondary market credit spreads on secondary market prices.** All other things being equal, the use of the internal funding rates described above under "—Fair value considerations" as well as the inclusion in the issue price of the underwriting discount, hedging costs, issuance costs and any projected profits are, subject to the temporary mitigating effect of UBS Securities LLC's and its affiliates' market making premium, expected to reduce the price at which you may be able to sell the securities in any secondary market.

Investors will not participate in any appreciation in the closing price of the underlying equity and will not have the same rights as holders of the underlying equity. Investors will not participate in any appreciation in the closing price of the underlying equity from the initial price, and the return on the securities will be limited to the contingent payment that is paid with respect to each determination date on which the closing price or the final price is equal to or greater than the downside threshold level. It is possible that the closing price of the underlying equity could be less than the downside threshold level on most or all of the determination dates so that you will receive few or no contingent payments. If you do not earn sufficient contingent payments over the term of the securities, the overall return on the securities may be less than the amount that would be paid on a conventional debt security of the issuer of comparable maturity. Investors in the securities will not have voting rights or rights to receive dividends or other distributions or any other rights with respect to the underlying equity.

There can be no assurance that the investment view implicit in the securities will be successful. It is impossible to predict whether the closing price of the underlying equity will rise or fall. The closing price of the underlying equity will be influenced by complex and interrelated political, economic, financial and other factors that affect the underlying equity. You should be willing to accept the downside risks of owning equities in general and the underlying equity in particular, and to assume the risk that, if the securities are not redeemed early, you may lose a significant portion or all of your initial investment.

Early redemption risk. The term of your investment in the securities may be limited to as short as approximately three months by the early redemption feature of the securities. If the securities are redeemed early, you will receive no more contingent payments and may be forced to invest in a lower interest rate environment and may not be able to reinvest the proceeds from an investment in the securities at a comparable return for a similar level of risk.

Accounts receivable	
	664,216
	12,026,933
	(5,252,765)

Prepaids and other	
	(726,492)
	21,095
	(1,214,106)
Accounts payable	
	3,533,122
	(1,536,043)
	(596,719)
Revenue and severance tax payable	
	5,357,499
	(2,011,788)

3,670,338

Accrued liabilities

11,466,178

1,565,856

(1,116,005)

Due to related parties

-

-

55,666

Net cash provided by operating activities	16,981,364
	10,502,017
	10,114,083
Cash flows from investing activities:	

Additions to oil and gas property	
	(5,027,729)
	(619,027)
	(4,957,082)
Acquisition of Harvest Companies	
	-
	2,030,440
	-
Additions to other property and equipment	
	(32,810)

-

(14,362)

Other assets

(316,711)

(284,731)

(243,512)

Net cash provided (used) in investing activities

(5,377,250)

1,126,682

(5,214,956)

Cash flows from financing activities:

Distributed capital

-

-

(3,811,194)

Proceeds from short-term notes payable

1,349,405

-

-

Repayments of short-term notes payable

(895,599)

(418,189)

(2,232,082)

Proceeds from debt borrowings

-

4,345,878

-

Proceeds from debt borrowings - related party

-

735,166

-

Repayment of debt borrowings - related party

(82,117)

(482,942)

-

Debt issuance cost

	-
	(2,107,750)
	-
Settlement of commodity hedges recorded in purchase accounting	
	2,010,360
	-
	-

Net cash provided (used) in financing activities	
	2,382,049
	2,072,163
	(6,043,276)
Net increase (decrease) in cash and cash equivalents	
	13,986,163
	13,700,862

(1,144,149)

Cash and cash equivalents - beginning of period

5,677,994

26,859

4,207,149

Cash and cash equivalents - end of period	$ 19,664,157	$ 13,727,721	$ 3,063,000

Supplemental disclosures of cash flow information:

Cash paid for income taxes	$ -	$ -	$ -
Cash paid for interest	$ 3,306,907	$ 4,302,953	$ 2,209,272

Non-cash investing and financing activities:

Common stock issued in connection with Harvest acquisition	$ -	$ 12,495,000	$ -
Note payable issued in connection with Harvest acquisition	$ -		

$	105,683,000
$	-

The accompanying notes are an integral part of these unaudited financial statements

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SARATOGA RESOURCES, INC.

(DEBTOR AND DEBTOR-IN-POSSESSION)

Notes to Financial Statements

September 30, 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 ga 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 Acquisitions were accounted for under the purchase method of accounting pursuant to standards on business combinations. Accordingly, the effects 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 and nine months ended September 30, 2009 and as of and for the period from July 15, 2008 to September 30, 2008 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 periods from July 1, 2008 to the Acquisition Date and from January 1, 2008 to the Acquisition Date, include the financial statements of Harvest Oil and Harvest Group. 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 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 FASB ASC 852, *Reorganizations* 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 it (or each of the Debtors) is unable to continue as a going concern. FASB ASC 852 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 and nine months ended September 30, 2009, we incurred $2,362,556 and $3,174,894, respectively, of reorganization costs, which reflects cash payments of $2,362,556 and $3,174,894, respectively, 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 FASB ASC 450, Contingencies. If valid unrecorded claims, including parent guarantees of subsidiary debt, meeting the criteria set out in the above guidance are presented in future periods, Saratoga 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 the consolidated financial statements include material subsidiaries that did not file for bankruptcy protection.

Upon confirmation of Saratoga s plan of reorganization, and emergence from Chapter 11 reorganization, fresh-start reporting must be adopted if the reorganization value of Saratoga s 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 FASB ASC 805, Business Combinations.

Dependence on Oil and Gas Prices

As an independent oil and gas producer, Saratoga s 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 declined materially from September 30, 2008 to September 30, 2009. Any continued and extended decline in oil or gas prices could have a material adverse effect on Saratoga s financial position, results of operations, cash flows and access to capital and on the quantities of oil and gas reserves that Saratoga can economically produce.

Recently Adopted Accounting Pronouncements

In September 2009, the Company adopted *The FASB Accounting Standards Codification (ASC or Codification) and the Hierarchy of Generally Accepted Accounting Principles (GAAP)* which establishes the Codification as the sole source for authoritative U.S. GAAP and will supersede all accounting standards in U.S. GAAP, aside from those issued by the SEC. The adoption of the Codification did not have an impact on the Company s results of operations, cash flows or financial position. Since the adoption of the Accounting Standards Codification (ASC) the Company s notes to the consolidated financial statements will no longer make reference to Statement of Financial Accounting Standards (SFAS) or other U.S. GAAP pronouncements.

In August 2009, the FASB issued Update No. 2009-05, Fair Value Measurements and Disclosures (ASU 2009-05). ASU 2009-05 amends Subtopic 820-10, Fair Value Measurements and Disclosures, to provide guidance on the fair value measurement of liabilities. ASU 2009-05 provides clarification for circumstances in which a quoted price in an active market for the identical liability is not available. ASU 2009-05 is effective for interim and annual periods beginning after August 26, 2009. The Company adopted the provisions of ASU 2009-05 for the period ended September 30, 2009. There was no impact on the Company s results of operations, cash flows or financial position.

In June 2009, the Company adopted the standards on subsequent events. This pronouncement establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. The Company evaluated all events or transactions that occurred after September 30, 2009 up through November 23, 2009, the date the Company issued these financial statements. Adoption of the standard did not have a material effect on the Company s financial statements.

In June 2009, the Company adopted new guidance which requires disclosures about fair value of financial instruments in interim as well as annual financial statements. See Note 7 *Commodity Derivative Instruments* for more details.

In June 2009, the Company adopted new accounting guidance related to fair value measurements. This pronouncement provided additional guidance for estimating fair value in accordance with FASB ASC 820, *Fair Value Measurements and Disclosures*, when the volume and level of activity for an asset or liability has significantly decreased. In addition, it included guidance on identifying circumstances that indicate a transaction is not orderly. Adoption of this pronouncement did not have a material effect on the Company s financial statements.

In January 2009, the Company adopted new accounting guidance that requires the issuer of certain convertible debt instruments that may be settled in cash on conversion to separately account for the debt and equity components in a manner that reflects the issuer s non-convertible debt borrowing rate when interest cost is recognized in subsequent periods. Adoption of this statement did not have a material effect on the Company s financial statements.

In January 2009, the Company adopted new accounting guidance for determining whether an instrument or an embedded feature is indexed to the Company s own stock. This guidance 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. It also 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 scope exception. The adoption of this statement had no material effect on the Company s financial statements.

Recently Issued Accounting Pronouncements

In June 2009, the FASB issued SFAS No. 166, *Accounting for Transfers of Financial Assets, an amendment of FASB Statement No. 140*, or SFAS 166. This standard has not yet been integrated into the Codification and will remain authoritative until integrated. SFAS 166 prescribes the information that a reporting entity must provide in its financial reports about a transfer of financial assets; the effects of a transfer on its financial position, financial performance, and cash flows; and a transferor s continuing involvement in transferred financial assets. Specifically, among other aspects, SFAS 166 amends Statement of Financial Standard No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*, or SFAS 140, by removing the concept of a qualifying special-purpose entity from SFAS 140 and removes the exception from applying FIN 46(R) to variable interest entities that are qualifying special-purpose entities. It also modifies the financial-components approach used in SFAS 140. SFAS 166 is effective for transfer of financial assets occurring on or after January 1, 2010. Saratoga has not determined the effect that the adoption of SFAS 166 will have on its financial position or results of operations but the effect will generally be limited to future transactions. Historically, Saratoga has not had any material transfer of financial assets.

In June 2009, the FASB issued SFAS No. 167, *Amendments to FASB Interpretation No. 46(R),* or SFAS 167. This standard has not yet been integrated into the Codification and will remain authoritative until integrated. SFAS 167 amends FASB Interpretation No. 46, *Consolidation of Variable Interest Entities (revised December 2003) an interpretation of ARB No. 51*, or FIN 46(R), to require an enterprise to determine whether it s variable interest or interests give it a controlling financial interest in a variable interest entity. The primary beneficiary of a variable interest entity is the enterprise that has both (1) the power to direct the activities of a variable interest entity that most significantly impact the entity s economic performance and (2) the obligation to absorb losses of the entity that could potentially be significant to the variable interest entity or the right to receive benefits from the entity that could potentially be significant to the variable interest entity. SFAS 167 also amends FIN 46(R) to require ongoing reassessments of whether an enterprise is the primary beneficiary of a variable interest entity. SFAS 167 is effective for all variable interest entities and relationships with variable interest entities existing as of January 1, 2010. Saratoga has not determined the effect that the adoption of SFAS 167 will have on its financial position or results of operations.

In December 2008, the SEC issued Release No. 33-8995, Modernization of Oil and Gas Reporting, which amends the oil and gas disclosures for oil and gas producers contained in Regulations S-K and S-X, as well as adding a section to Regulation S-K (Subpart 1200) to codify the revised disclosure requirements in Securities Act Industry Guide 2, which is being phased out. The goal of Release No. 33-8995 is to provide investors with a more meaningful and comprehensive understanding of oil and gas reserves. Energy companies affected by Release No. 33-8995 will be required to price proved oil and gas reserves using the unweighted arithmetic average of the price on the first day of each month within the 12-month period prior to the end of the reporting period, unless prices are defined by contractual arrangements, excluding escalations based on future conditions. SEC Release No. 33-8995 is effective December 31, 2009 for periodic filers. The Company is currently evaluating the impact of Release No. 33-8995 on its financial position, 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, Lafayette Division (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 were granted interim authority by the Bankruptcy Court for the limited use of cash collateral to pay expenses pursuant to cash collateral budgets through September 2009 and in accordance with applicable provisions of the Bankruptcy Code. In October 2009, the Bankruptcy Court granted final authority to use cash collateral.

On July 29, 2009, the Bankruptcy Court extended the exclusive period for 30 days, until September 28, 2009, for the Debtors to file a plan of reorganization. The Debtors filed a Plan of Reorganization on August 17, 2009 and subsequently filed a First Amended and Second Amended Plan of Reorganization on September 11, 2009 and October

6, 2009, respectively. The exclusive period was extended for 30 days after September 28, 2009 and was further extended until December 1, 2009 in order for the Debtors to obtain confirmation of the plan of reorganization. A hearing on approval of the Plan of Reorganization was held beginning on November 12, 2009. On November 16, 2009, an agreement in principle was reached between the Debtors, Wayzata and Macquarie pursuant to which the Debtors would prepare and file a further amended consensual Plan of Reorganization, which plan would involve, among other things, refinancing the existing Wayzata debt and increasing the availability under the Macquarie revolving credit facility. Confirmation of the amended consensual Plan of Reorganization is subject to completion and filing of the amended plan, preparation and approval of documentation and final confirmation of the plan by the Bankruptcy Court. A hearing has been scheduled for November 30, 2009 to consider confirmation of the amended consensual plan.

Due to the Chapter 11 proceedings, the realization of assets and satisfaction of liabilities of the Debtors, 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 the Debtors capitalization; or (4) as to operations, the effect of any changes that may be made in the Debtors 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.

FASB ASC 852, *Reorganizations* 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 September 30, 2009:

Accounts payable	$ 11,912,739
Revenue and severance tax payable	2,144,046
Accrued interest	1,711,302
Accrued liabilities	1,365,019
Notes payable related parties	605,428
Total liabilities subject to compromise	$ 17,738,534

NOTE 4 MINERAL ROYALTY AUDIT

In October 2009, the Louisiana Department of Mineral Resources notified the Company of the completion of audits of royalty payments from Harvest Oil and Harvest Group for the period from September 2005 to March 2009. Pursuant to the notifications, the Department of Mineral Resources asserted deficiencies in royalty payments totaling $1,368,194. Additionally, the Department of Mineral Resources estimated interest and penalties owing of approximately $772,894. Saratoga is reviewing the asserted royalty deficiencies and, based on its review, may contest the asserted deficiencies. Saratoga also intends to review potential claims against the former owners of Harvest Oil

and Harvest Group arising from underpayments determined to have occurred during periods prior to Saratoga s acquisition of the Harvest Companies.

The full amount of the asserted deficiency in royalty payments is included in lease operating expense for the September 30, 2009 quarter and nine month periods and the estimated interest and penalties are included in interest expense for the same periods. At September 30, 2009, Saratoga recorded as liabilities subject to compromise $2,141,088 attributable to the asserted deficiencies in royalties.

NOTE 5 STOCK-BASED COMPENSATION EXPENSE

During the nine months ended September 30, 2009, the Company issued 12,500 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 nine month ended September 30, 2009 totaled $802,360.

Additionally, the Company realized $111,108 and $802,360, respectively, of stock-based compensation expense during the quarter and nine months ended September 30, 2009, which expense was attributable to grants made during 2008 with the associated expense being recognized over the service period. At September 30, 2009, unamortized stock-based compensation not yet recorded totaled $102,000 and is expected to be recognized over the next 10 months.

The following table summarizes information about unvested restricted share activity for the nine months ended September 30, 2009:

	Number of Restricted Shares	Weighted Average Grant Date Fair Value per Share
Outstanding at January 1, 2009	832,000	$ 2.55
Granted	-	-
Forfeited	(200,000)	2.55
Vested	(536,000)	2.55
Outstanding at September 30, 2009	96,000	$ 2.55

The following table summarizes information about stock option activity for the nine months ended September 30, 2009:

	Options	Weighted-Average Exercise Price	Aggregate Intrinsic Value
Outstanding at January 1, 2009	-	$ -	$ -
Granted	75,000	0.36	116,250
Exercised	-	-	-
Forfeited	-	-	-
Outstanding at September 30, 2009	75,000	$ 0.36	116,250
Exercisable at September 30, 2009	75,000	$ 0.36	$ 116,250

The weighted average remaining contract life of the options is 9.5 years.

The following table summarizes information about stock warrant activity for the nine months ended September 30, 2009:

Warrants	Weighted-Average Exercise Price	Aggregate Intrinsic

					Value
Outstanding at January 1, 2009	1,085,516	$	0.07	$	1,997,680
Granted	5,000		1.50		2,050
Exercised	-		-		-
Forfeited	-		-		-
Outstanding at September 30, 2009	1,090,516	$	0.08	$	1,997,730
Exercisable at September 30, 2009	1,090,516	$	0.08	$	1,997,730

The weighted average remaining contract life of the warrants is 3.8 years.

The following table reflects share-based compensation recorded by the Company for the quarter ended September 30, 2009 and 2008:

	Three Months Ended September 30,			
	2009		2008	
Share-based compensation expense included in reported net income	$	111,108	$	930,600
Earnings per share effect of share-based compensation expense	$	0.01	$	0.05

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The following table reflects share-based compensation recorded by the Company for the nine months ended September 30, 2009 and 2008:

	Nine Months Ended September 30,	
	2009	2008
Share-based compensation expense included in reported net income	$ 802,360	$ 930,600
Earnings per share effect of share-based compensation expense	$ 0.05	$ 0.05

NOTE 6 COMMON STOCK

Equity Issuances

During the nine months ended September 30, 2009, the Company issued 10,000 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 approximately $3,600.

During the nine months ended September 30, 2009, 200,000 shares of restricted common stock were forfeited and cancelled. In addition, 536,000 shares of restricted stock vested during the nine month period.

Stock Options

During the nine months ended September 30, 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. The options fully vested immediately. The options were valued using the Black-Sholes model with the following assumptions: $0.36 quoted stock price; $0.36 exercise price; 341% volatility; 5 year estimated life; zero dividends; 1.92% discount rate. No stock options were granted during the quarter ended September 30, 2009.

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 1,261,516 and 0 shares for the quarter and nine months ended September 30, 2009 and 2008, respectively.

NOTE 7 COMMODITY DERIVATIVE INSTRUMENTS

During the quarter ended September 30, 2009 and for the period July 15, 2008 to September 30, 2008, the Successor Company recognized a realized gain on derivative instruments of $1,099,128 and a realized loss on derivative instruments of $1,762,995, respectively, in the Statement of Operations. The Predecessor Company recognized a realized gain of $14,133,039 during the period July 1, 2008 to July 14, 2008 in the Statement of Operations. During the quarter ended September 30, 2009 and for the period July 15, 2008 to September 30, 2008 the Successor Company recognized an unrealized loss of $683,277 and an unrealized gain of $14,618,555, respectively, in the Statement of Operations as the result of market-to-market valuations. The Predecessor Company recognized an unrealized loss of $16,328,103 during the period July 1, 2008 to July 14, 2008 in the Statement of Operations as the result of market-to-market valuations.

During the nine months ended September 30, 2009, the Successor Company recognized a realized gain of $5,921,319 and the Predecessor Company recognized a realized loss of $3,904,612 during the period January 1, 2008 to July 14, 2008 in the Statement of Operations. During the nine months ended September 30, 2009, the Successor Company recognized an unrealized loss of $7,978,238 and the Predecessor Company recognized an unrealized loss of $15,155,991 during the period January 1, 2008 to July 14, 2008 in the Statement of Operations as the result of market-to-market valuations.

As of September 30, 2009, the following natural gas derivative instruments were outstanding:

	NYMEX Contract Price Per MMBtu								
	Fixed-Price Swaps			Put Options			Call Options		
Period	MMBtu		Weighted Average Fixed Price	Volume in MMBtus		Weighted Average Strike Price	Volume in MMBtus		Weighted Average Strike Price
2009	150,925	$	7.67	56,817	$	6.58	-		-
2010	397,880	$	7.18	143,100	$	6.50	-		-
2011	241,089	$	6.85	131,175	$	6.50	-		-

As of September 30, 2009, the Company had entered into the following crude oil derivative instruments:

	NYMEX Contract Price Per Bbl								
	Fixed-Price Swaps			Put Options			Call Options		
Period	MBls		Weighted Average Fixed Price	Volume in MBls		Weighted Average Strike Price	Volume in MBls		Weighted Average Strike Price
2009	52,729	$	78.26	10,928	$	53.94	8,612	$	75.00
2010	149,186	$	79.48	26,484	$	50.00	-		-
2011	110,826	$	75.73	26,484	$	50.00	-		-

At September 30, 2009, the Company recognized an asset of $2,163,014 related to the estimated fair value of these derivative instruments.

Fair Value of Financial Instruments:

The Company has adopted the provisions of FASB ASC 820, *Fair Value Measurements and Disclosures*, for all its financial instruments. FASB ASC 820 establishes a three-level valuation hierarchy for disclosure of fair value measurements. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

Level 1 — Quoted prices (unadjusted) for identical assets or liabilities in active markets

Level 2 — Quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; and model-derived valuations whose inputs or significant value drivers are observable

Level 3 — Significant inputs to the valuation model are unobservable

The following table provides fair value measurement information within the hierarchy for Saratoga's commodity derivative instruments at September 30, 2009:

	Fair Value Measurement Classification			
	Quoted Prices in Active Markets (Level 1)	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**	**Total**
Assets (liabilities):				
Oil and gas derivative option contracts	$ -	$ 512,099	$ -	$ 512,099
Oil and gas derivative swap contracts	-	1,650,915	-	1,650,915
Total	$ -	$ 2,163,014	$ -	$ 2,163,014

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.

At September 30, 2009 and December 31, 2008, the Company had commodity derivative financial instruments in place that are accounted for under FASB ASC 815, *Derivatives and Hedging*. The Company does not apply hedge accounting as allowed by FASB ASC 815, therefore, the changes in fair value subsequent to the initial measurement are recorded in income. The estimated fair value amounts of the Company s derivative instruments have been determined at discrete points in time based on relevant market information which resulted in the Company classifying such derivatives as Level 2. Although the Company s derivative instruments are valued using public indexes, the instruments themselves are traded with third-party counterparties and are not openly traded on an exchange.

As of September 30, 2009 and December 31, 2008, the Company s derivative contracts were with major financial institutions with investment grade credit ratings which are believed to have a minimal credit risk. As such, the Company is exposed to credit risk to the extent of nonperformance by the counterparties in the derivative contracts discussed above; however, the Company does not anticipate such nonperformance.

The estimated fair value of short-term financial instruments, including cash, accounts receivable and accounts payable approximates their carrying value due to their short-term nature.

NOTE 8 COMMITMENTS AND CONTINGENCIES

As noted above and in the Company s Form 10-K 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 to 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 in tact.

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 approximately $9.7 million at September 30, 2009 in letters of credit with certain financial institutions. The letters of credit are secured by the various oil and gas properties maintained by the Company.

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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 nine months ended September 30, 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 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 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 for the year ended December 31, 2008, prior to the Company s July 14, 2008 (the Acquisition Date) 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 and nine months ended September 30, 2009 and at and for the period from July 15, 2008 to September 30, 2008 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 periods from July 1, 2008 to the Acquisition Date and from January 1, 2008 to the Acquisition Date, 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 rights 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, Lafayette Division (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. We believe that we have sufficient cash to operate our business in the immediate term and, accordingly, have forgone new debtor-in-possession (DIP) financing to date. At September 30, 2009, we had cash on hand of approximately $19.7 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.

The Debtors were granted interim authority by the Bankruptcy Court for the limited use of cash collateral to pay expenses pursuant to cash collateral budgets through November 13, 2009 and in accordance with applicable provisions of the Bankruptcy Code.

On July 29, 2009, the Bankruptcy Court extended the exclusive period for 30 days, until September 28, 2009, for the Debtors to file a plan of reorganization. The Debtors filed a Plan of Reorganization on August 17, 2009 and subsequently filed a First Amended and Second Amended Plan of Reorganization on September 11, 2009 and October 6, 2009, respectively. The exclusive period was extended for 30 days after September 28, 2009 and was further extended until December 1, 2009 in order for the Debtors to obtain confirmation of the plan of reorganization. A hearing on approval of the Plan of Reorganization was held beginning on November 12, 2009. On November 16, 2009, an agreement in principle was reached between the Debtors, Wayzata and Macquarie pursuant to which the Debtors would prepare and file a further amended consensual Plan of Reorganization, which plan would involve, among other things, refinancing the existing Wayzata debt and increasing the availability under the Macquarie revolving credit facility. Confirmation of the amended consensual Plan of Reorganization is subject to completion and filing of the amended plan, preparation and approval of documentation and final confirmation of the plan by the Bankruptcy Court. A hearing has been scheduled for November 30, 2009 to consider confirmation of the amended consensual plan.

Drilling and Development Activities

During the nine months ended September 30, 2009, we continued our plan to further develop the assets acquired in the Harvest Acquisitions. During the period, we successfully recompleted and completed workovers on 5 wells in the Grand Bay Field and completed a developmental well in the Grand Bay Field. Because of constraints on access to borrowings under our revolving credit facility with Macquarie following the giving of the Wayzata notice of default, further development activities have been substantially curtailed since March 31, 2009 and no new wells were being drilled at September 30, 2009.

In addition to the recompletion, workover and developmental drilling work undertaken during the period ended September 30, 2009, full field studies in the Grand Bay and Vermilion 16 fields continued and were ongoing at September 30, 2009.

At and for the nine months ended September 30, 2009, we had approximately 83 wells in production, including 82 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 FASB ASC 852, *Reorganizations*, 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. FASB ASC 852 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 FASB ASC 450, Contingencies. If valid unrecorded claims, including parent guarantees of subsidiary debt, meeting the criteria set out in the above guidance 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 FASB ASC 805, Business Combinations.

Mineral Royalty Audit

In October 2009, the Louisiana Department of Mineral Resources notified the Company of the completion of audits of royalty payments from Harvest Oil and Harvest Group for the period from September 2005 to March 2009. Pursuant to the notifications, the Department of Mineral Resources asserted deficiencies in royalty payments totaling $1,368,194. Additionally, the Department of Mineral Resources estimated interest and penalties owing of approximately $772,894. Saratoga is reviewing the asserted royalty deficiencies and, based on its review, may contest the asserted deficiencies. Saratoga also intends to review potential claims against the former owners of Harvest Oil and Harvest Group arising from underpayments determined to have occurred during periods prior to Saratoga s acquisition of the Harvest Companies.

The full amount of the asserted deficiency in royalty payments is included in lease operating expense for the September 30, 2009 quarter and nine month periods and the estimated interest and penalties are included in interest expense for the same periods. At September 30, 2009, Saratoga recorded as liabilities subject to compromise $2,141,088 attributable to the asserted deficiencies in royalties.

Results of Operations

As noted above, the results of operations discussed below are comprised of the consolidated results reported by the Successor Company during the 2009 periods. For the 2008 periods, the results discussed below reflect both the consolidated results reported by the Successor during the periods from July 15 to September 30, 2008 and the combined results of the Predecessor Companies during the 2008 periods up to the Acquisition Date.

Oil and Gas Revenue

Oil and gas revenue for the quarter ended September 30, 2009 decreased to $13,375,438 from $18,257,789 in the 2008 quarter and, for the nine months ended September 30, decreased to $33,479,520 from $59,061,605. The decrease in

revenue for the quarter and nine month periods was attributable to lower hydrocarbon prices during 2009 partially offset by increases in production. The following table discloses the net oil and natural gas production volumes, sales, and average sales prices for the quarters and nine month periods ended September 30, 2009 and 2008:

	Quarter Ended September 30,		Nine Months Ended September 30,	
	2009	**2008**	**2009**	**2008**
Oil and gas production (Mcfe)	1,570,130	904,767	4,502,587	3,920,076
Avg daily production (Mcfe)	17,067	9,834	16,493	14,359
Oil and gas revenues	$ 13,375,438	$ 18,257,789	$ 33,479,520	$ 59,061,605
Price per Mcfe	$ 8.52	$ 20.22	$ 7.44	$ 15.07

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 nine months of 2009, as compared to 2008 pricing, particularly during the first quarter of 2009. Oil and gas prices stabilized and oil prices rose during the second and third quarters of 2009 although, at and for the quarter ended September 30, 2009, prices remain well below 2008 prices.

The increase in production during the 2009 quarter and nine month periods was due to recompletions and workovers of 9 wells during the fourth quarter of 2008 and the first nine months of 2009, the commencement of production from a developmental well in the Grand Bay Field in September 2009 and the temporary interruption of production from substantially all of our Louisiana properties of approximately 19.4 Mbls of oil and 113.1 Mmcf during 2008 as a result of Hurricanes Gustav and Ike.

Operating Expenses

Operating expenses decreased to $9,319,929 for the quarter ended September 30, 2009 from $14,365,139 in the 2008 quarter and, for the nine months ended September 30, decreased to $32,200,747 from $42,501,306. The following table sets forth the components of operating expenses for the 2009 and 2008 quarter and nine month periods:

	Quarter Ended September 30,		**Nine Months Ended September 30,**	
	2009	**2008**	**2009**	**2008**
Lease operating expense	$ 4,839,359	$ 4,279,241	$ 13,395,483	$ 20,959,078
Exploration expense	286,554	-	848,368	-
Depreciation, depletion and amortization	973,243	4,704,326	8,252,630	7,144,681
Accretion expense	340,180	668,636	982,283	1,408,416
General and administrative expenses	1,487,221	2,429,575	4,610,125	5,636,779
Production and severance taxes	1,393,372	2,283,361	4,111,858	7,033,616
	$ 9,319,929	$ 14,365,139	$ 32,200,747	$ 42,177,896

As more fully described below, the decrease in operating expenses was primarily attributable to decreases in lease operating expenses, general and administrative expenses and production and severance taxes partially offset, during the nine month period, by increased depreciation, depletion and amortization.

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 increased to $4,839,359, or $3.08 per Mcfe, from $4,279,241 in the 2008 quarter, or $4.73 per Mcfe. For the nine months ended September 30, lease operating expenses decreased to $13,395,483, or $2.98 per Mcfe, from $20,959,078, or $5.35 per Mcfe. During the 2008 nine month period, the Predecessor had an oil spill in the South Atchafalaya Bay which contributed to an increase in lease operating expenses. Operating costs in our fields have historically been 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 have been actively engaged in field management efforts to reduce our lease operating expenses on a per Mcfe basis. The absence of oil spill costs during 2009 and a general reduction in lease operating expenses resulting from our field management efforts were the primary causes of reductions in lease operating expenses during 2009. Included in the nine months 2009 lease operating expenses is $1,301,737 related to workover expenses, $181,640 related to hurricane repairs from hurricanes Ike and Gustav, and $1,368,194 related to the mineral royalty audit.

Exploration Expenses

Exploration expense for the 2009 quarter increased to $286,554 from $0 in the 2008 quarter. For the nine month period, exploration expense increased to $848,368 from $0. The increase is due to the Successor undertaking full field studies on its properties for evaluation of its assets during the nine months ended September 30, 2009.

Depreciation, Depletion and Amortization (DD&A)

Depreciation, depletion and amortization for the 2009 quarter decreased to $973,243 from $4,704,326 in the 2008 quarter. For the nine month period, DD&A increased to $8,252,630 from $7,144,681. The increase in DD&A for the nine month period was attributable to the acquisition of the Harvest Companies during the third quarter 2008 and development programs during the fourth quarter 2008 and first nine months 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 $1,487,221 from $2,429,575 in the 2008 quarter. For the nine month period, general and administrative expenses decreased to $4,610,125 from $5,636,779. The decrease in general and administrative expenses was attributable to a reduction in stock-based compensation recorded during 2009 as well as a bad debt charge recorded during 2008.

Production and Ad Valorem Taxes

Production and Ad Valorem Taxes for the 2009 quarter decreased to $1,393,372 from $2,283,361 in the 2008 quarter. For the nine month periods, production and ad valorem taxes decreased to $4,111,858 from $7,033,616. The decrease is due to the decrease in oil and gas revenues during the 2009 quarter and nine month period.

Other Income (Expense), Net

Net other income (expenses) totaled $(5,953,608) of expenses for the 2009 quarter and $5,672,030 of income for 2008 quarter and, for the nine month periods, totaled $(18,961,860) of expenses for the 2009 period and $(15,736,887) of expense during the 2008 period. The following table sets forth the components of net other income (expenses) for the 2009 and 2008 quarters and nine month periods:

	Quarter Ended September 30,		**Nine Months Ended September 30,**	
	2009	**2008**	**2009**	**2008**
Commodity derivative income (expense)	$ 415,851	$ 10,660,496	$ (2,056,919)	$ (6,205,043)
Interest income	13,418	40,238	34,054	85,781
Interest expense	(6,382,877)	(5,028,704)	(16,938,995)	(9,617,625)
	$ (5,953,608)	$ 5,672,030	$ (18,961,860)	$ (15,736,887)

As more fully described below, the change in net other expenses, was principally attributable to fluctuations in commodity derivative income (expenses) during the 2009 quarter and nine month period and increased net interest expense during the 2009 quarter and nine month period.

Commodity Derivative Income (Expense)

Commodity derivative income (expense) reflects changes within a period in the prices of commodities underlying our crude oil and natural gas hedges. In general, where prices of underlying commodities rise during a period we recognize commodity derivative expense and where prices of underlying commodities decrease during a period we recognize commodity derivative income. Commodity derivative income decreased to $415,851 for the 2009 quarter from income of $10,660,496 for the 2008 quarter and, for the nine month periods, commodity derivative expense decreased to $2,056,919 from an expense of $6,205,043. 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 quarter and nine month periods reflects the extreme volatility of crude oil and natural gas prices during 2008 and 2009, with oil and natural gas prices rising sharply during the first nine months of 2008 followed by a steep and rapid decline in prices lasting through the first quarter of 2009 followed by a rise in crude oil prices beginning in the second quarter of 2009. In particular, sharp increases in oil and gas prices during the 2008 nine month period and lesser increases in oil prices during the 2009 quarter and nine month period resulted in losses during both the 2008 and 2009 nine month periods with larger losses realized during the 2008 period due to the higher prevailing prices during 2008.

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 $6,369,459 in the 2009 quarter from $4,988,466 in the 2008 quarter and, for the nine month period, increased to $16,904,941 from $9,531,844. The increase in net interest expense was attributable to the incurrence of approximately $110 million of debt in connection with the Harvest Acquisitions. In addition, we recorded $772,894 for penalties and interest during 2009 related to the mineral royalty audit.

Income Tax Provision (Benefit)

Our income tax benefit increased to $1,277,049 in the 2009 quarter from a tax expense of $3,239,157 in the 2008 quarter and, for the nine month periods, increased to a benefit of $6,811,621 from an expense of $3,239,157. The income tax benefit for the 2009 quarter and nine month period was attributable to the Successor Company reporting tax losses as a c-corporation following the Harvest Acquisition while the Predecessors operated as non-taxable limited liability companies and, following the Harvest Acquisition and conversion to reporting as a c-corporation, taxable income was reported during the 2008 quarter and nine month periods.

The effective tax rate for the 2009 quarter and nine month period 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, and cash on hand.

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 resolution of the Chapter 11 case, we will not have access to further borrowing under the Revolving Credit Agreement which may result in curtailment of certain planned operations.

We had a cash balance of $19,664,157 at September 30, 2009 as compared to a cash balance of $5,677,994 at December 31, 2008. Our working capital at September 30, 2009 was $11,090,023 compared to a deficit of $(10,528,527) at December 31, 2008. The change in working capital primarily relates to the reclassification of certain liabilities that are subject to compromise as a result of the Chapter 11 filing on March 31, 2008. Liabilities subject to comprise at September 30, 2009 totaled $17,738,534.

Net cash flow from operations was $16,981,364 for the nine months ended September 30, 2009 compared to $20,616,100 for the nine months ended September 30, 2008. Cash flows provided from operations during the nine month ended September 30, 2009 and 2008 consist primarily of oil and gas revenues. Oil and gas revenues decreased in the nine months ended September 30, 2009 compared to 2008. The decrease in oil and gas revenues was partially offset by a decrease in operating expenses during 2009 compared to 2008.

Net cashed used in investing activities was $5,377,250 for the nine months ended September 30, 2009 compared to $4,088,274 for the nine months ended September 30, 2008. The change in cash used in investing activities was primarily attributable to additions to oil and gas properties.

Net cash flow provided by financing activities totaled $2,382,049 for the nine months ended September 30, 2009 compared to $3,971,113 used in financing activities for the nine months ended September 30, 2008. The change in cash flows from financing activities was primarily attributable to borrowings of short-term notes payable and repayments of related party notes payable during 2009.

We incurred substantial indebtedness in connection with the Harvest Acquisitions, including amounts borrowed under the Wayzata Credit Agreement and the Revolving Credit Agreement. At September 30, 2009, we had $108.6 million of indebtedness outstanding, consisting of $96.1 million (includes debt discount of $1.4 million) under the Wayzata Credit Agreement and $12.5 million under the Revolving Credit Agreement.

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, during the first nine months of 2009, we undertook cost cutting measures and deferred previously planned development activities in order to improve profitability and cash flow. With recovering crude oil prices, lower operating costs, increased production and an improved cash position, we believe that our operations and available resources will support our planned exploration, development and acquisition activities and other liquidity needs during the balance of 2009 and beyond and, accordingly, we plan to continue our planned activities. While we believe that our current operating cash flows will be adequate to support planned operations and service existing indebtedness, reduced revenues and profitability resulting from lower oil and natural gas prices previously 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 September 30, 2009, totaling $108.6 million, consisted of (1) $97.5 million less debt discount of $1.4 million owing to Wayzata under the Wayzata Credit Agreement, and (2) $12.5 million owing to Macquarie under the Revolving Credit Agreement.

Letters of credit totaling approximately $9.7 million were outstanding at September 30, 2009 and reduce amounts available to be drawn under the Revolving Credit Agreement.

Capital Expenditures and Commitments

During the nine months ended September 30, 2009, our capital expenditures totaled $5,060,539. Capital expenditures primarily 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 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 quarter of 2009, which at this time is expected to be approximately $2.0 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 the 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 the Revolving Credit Agreement, we have entered into commodity derivative agreements. At September 30, 2009, commodity derivative instruments were in place covering approximately 41% 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 September 30, 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 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 September 30, 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 September 30, 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 September 30, 2009 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II

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: November 23, 2009	By: /s/ Thomas F. Cooke Thomas F. Cooke Chairman and Chief Executive Officer
Dated: November 23, 2009	By: /s/ Edward Hebert Edward Hebert Vice President Finance