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

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K/A

Amendment No.1

(Mark One)

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

For the Fiscal Year Ended December 31, 2008

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

For the transition period from ____________ to _____________

Commission File No. 1-32955

SARATOGA RESOURCES, INC.

(Exact name of registrant specified in its charter)

Texas	**76-0314489**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification No.)*

7500 San Felipe, Suite 675, Houston, Texas
77063
(Address of principal executive offices)(Zip code)

Issuer's telephone number, including area code:

(713) 458-1560

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which each is registered
None	None

Securities registered pursuant to Section 12(g) of the Act:

Common Stock, $0.001 par value
(Title of Class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes o No ý

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Exchange Act. Yes o No ý

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ý

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

Large accelerated filer o	Accelerated filer o	Non-accelerated filer o	Smaller reporting company ý

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant on June 30, 2008, based on the closing sales price of the registrant s common stock on that date, was approximately $1,350,000. Shares of common stock held by each current executive officer and director and by each person known by the registrant to own 5% or more of the outstanding common stock have been excluded from this computation in that such persons may be deemed to be affiliates.

The number of shares of the registrant s common stock, $0.001 par value, outstanding as of March 31, 2009 was 16,882,792.

DOCUMENTS INCORPORATED BY REFERENCE

None.

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FORWARD-LOOKING STATEMENTS

This annual report on Form 10-K contains forward-looking statements within the meaning of the federal securities laws. These forwarding-looking statements include without limitation statements regarding our expectations and beliefs about the market and industry, our goals, plans, and expectations regarding our properties and drilling activities and results, our intentions and strategies regarding future acquisitions and sales of properties, our intentions and strategies regarding the formation of strategic relationships, our beliefs regarding the future success of our properties, our expectations and beliefs regarding competition, competitors, the basis of competition and our ability to compete, our beliefs and expectations regarding our ability to hire and retain personnel, our beliefs regarding period to period results of operations, our expectations regarding revenues, our expectations regarding future growth and financial performance, our beliefs and expectations regarding the adequacy of our facilities, and our beliefs and expectations regarding our financial position, ability to finance operations and growth and the amount of financing necessary to support operations. These statements are subject to risks and uncertainties that could cause actual results and events to differ materially. We undertake no obligation to update forward-looking statements to reflect events or circumstances occurring after the date of this annual report on Form 10-K.

As used in this annual report on Form 10-K, unless the context otherwise requires, the terms we, us, the Company, Saratoga and Saratoga Resources refer to Saratoga Resources, Inc., a Texas corporation, and its subsidiaries.

EXPLANATORY NOTE

This Amendment No. 1 on Form 10-K/A amends and restates certain disclosure items in our annual report on Form 10-K for the year ended December 31, 2008, which we originally filed on April 15, 2009.

On May 19, 2009, management concluded that the previously filed consolidated financial statements of the Company as of and for the year ended December 31, 2008 needed to be restated.

The restatement results from errors in accounting for the acquisition (the Harvest Acquisition) of Harvest Oil & Gas, LLC and The Harvest Group, LLC. The Company, in reporting the Harvest Acquisition in its Form 10-K for the year ended December 31, 2008, made certain estimates as permitted by SFAS No. 141 Business Combinations. Subsequent to filing the Form 10-K, the Company reassessed those estimates including the application of SFAS 109, Accounting for Income Taxes related to the Harvest Acquisition. During this reassessment, the Company identified an error whereby the tax basis of its oil and gas properties was not properly adjusted,. resulting in an error in tax depletion, which caused the deferred tax assets to be overstated by $3,663,471. In addition, the Company identified an error in the purchase price allocation related to the Harvest Acquisition. This error resulted in an overstatement of depletion and impairment expense by $4,015,067 and $978,221, respectively, which resulted in a corresponding understatement of net oil and gas properties of $4,993,288, a $3,865,729 overstatement of deferred tax liabilities and an overstatement of income tax expense of $202,258. In addition, the revised statements of operations and cash flows reflect a reclassification of accretion expense from depletion, where it was previously reported.

Accordingly, this Form 10-K/A includes our restated financial statements for the year ended December 31, 2008 to correct our income tax expense, deferred tax asset and deferred tax liability, oil and gas properties, depletion and impairment expense, net income and retained earnings with accompanying notes. This Form 10-K/A also updates disclosure in Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operation to reflect the restated financial statements described above and in Item 9A. Controls and Procedures to reflect the re-evaluation of our disclosure controls and procedures and our internal control over financial reporting by our management, including our Chief Executive Officer and our Senior Financial Officer, in connection with the filing of this Form 10-K/A.

Except for the foregoing restated information, the Form 10-K/A continues to describe conditions as of the date of the original filing and we have not updated the disclosures contained herein to reflect events that occurred at a later date. Other events occurring after the original filing or other disclosures necessary to reflect subsequent events have been addressed in reports filed with the SEC subsequent to the date of the original filing. In addition, we have included as exhibits to this amendment new certifications of our Chief Executive Officer and Chief Financial Officer.

PART I

Item 1.

Business

As discussed elsewhere in this Form 10-K, Saratoga Resources, Inc. 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 following discussion should be read in light of the foregoing.

General

Saratoga Resources, Inc. is an independent oil and natural gas company engaged in the production, development, acquisition and exploitation of natural gas and crude oil properties. Our principal properties were acquired in July 2008 and cover an estimated 33,000 gross acres (30,000 net), substantially all of which are held by production without near-term lease expirations, across 11 fields in the state waters of Louisiana. See Harvest Acquisition. Prior to the July 2008 acquisition of our Louisiana properties, our operations were focused on production, development, acquisition and exploitation of various mineral interests in the State of Texas.

Our total proved reserves as of December 31, 2008 were 76.7 Bcfe, consisting of 49.6 Bcf of natural gas and 4.5 MMbbls of oil. The PV-10 of our proved reserves at year-end was $148.5 million before future income taxes, or $97.9 million after future income taxes. During 2008, we added 14.4 Bcfe through purchases, extensions, discoveries and revisions and produced 5.0 Bcfe. Our average daily net production for December 2008 was 14.0 MMcfe/d, of which 58.7% was oil. We have 63 proved behind pipe and shut-in development opportunities in 6 fields, 35 proved undeveloped opportunities, 62 probable behind pipe and shut-in development opportunities and 6 probable undeveloped opportunities. We have also started full field studies at all of our fields.

Our principal and administrative offices are located at 7500 San Felipe, Suite 675, Houston, Texas. Our telephone number is (713) 458-1560.

Harvest Acquisition

In July 2008, we acquired (the Harvest Acquisition) all of the membership interest in Harvest Oil & Gas, LLC (Harvest Oil) and The Harvest Group, LLC (Harvest Group and, together with Harvest Oil, the Harvest Companies).

As consideration for the membership interests in the Harvest Companies, we paid to the former members of the Harvest Companies a combined purchase price of $105,683,000 in cash and issued 4.9 million shares of our common stock. The cash portion of the purchase price included $33,650,818 and $30,000,000 paid by the Harvest Companies to pay a note payable to Macquarie Bank Limited (Macquarie) and to obtain a release of a net profits interest and an overriding royalty interest in the properties of the Harvest Companies held by Macquarie and its affiliates, respectively, which amounts we paid directly to Macquarie on behalf of the Harvest Companies at closing. Of the 4.9 million shares of common stock issued in the acquisitions, 3.3 million shares were issued directly to Macquarie Americas Corp., an affiliate of Macquarie, pursuant to an agreement between Macquairie and the members of the Harvest Companies relating to the release of the net profits interest and overriding royalty interest held by Macquarie.

In conjunction with the Harvest Acquisition, and to finance the acquisition and post-acquisition operations, in July 2008, we entered into a Credit Agreement (the Wayzata Credit Agreement) with Wayzata Investment Partners, LLC (Wayzata) and a separate Credit Agreement (the Revolving Credit Agreement) with Macquarie. We borrowed $97,500,000 under the Wayzata Credit Agreement and approximately $12,528,878 under the Revolving Credit Agreement to pay the purchase price of the Harvest Acquisition and associated costs.

The Harvest Companies were independent oil and natural gas companies engaged in the production, development, and exploitation of natural gas and crude oil properties, together covering an estimated 33,000 gross acres (30,000 net) across 11 fields in the state waters of Louisiana.

We retained the key management and operational team members of the Harvest Companies and, following the Harvest Acquisition, shifted the focus of our operations to the continued development and operations of the various holdings of the Harvest Companies.

Recent Developments

Our operations, financial position and outlook have been materially impacted by events following the Harvest Acquisition, including the following:

Declines in Oil and Natural Gas Prices. Late in the third quarter of 2008, accelerating during the fourth quarter of 2008, and continuing into the first quarter of 2009, the United States and global economies suffered severe disruptions in credit and financial markets that have been accompanied by economic contraction and a sharp drop in the price of oil and natural gas due to a projected decline in demand. While we entered into hedging transactions to reduce our exposure to commodity price risks, we are still subject to risks associated with declines in the price of oil and natural gas relating to unhedged production.

On July 14, 2008, the day of closing for the Harvest Acquisitions, crude oil prices closed at $145.66 per barrel, while the Henry Hub spot price for natural gas averaged $11.45 per thousand cubic feet (MCF). Oil had remained above $100 per barrel for sixteen consecutive weeks at that time. Equivalent oil and natural gas prices in March 2009 are 63% and 65% respectively lower than they were when we closed the Harvest Acquisitions and entered into the Credit Agreements with Wayzata and Macquarie.

Notices of Default. Wayzata 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 also issued 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 states in its notice of default that it is not initiating any action to exercise its rights and remedies available, though its right to do so is expressly reserved. As a result of the Macquarie notice of default, Macquarie rejected our requests to access additional credit available under the Revolving 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 Revolving 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.

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

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

Our Strategy

Subject to approval of the bankruptcy court, availability of adequate financing and ultimate emergence from bankruptcy, we intend to continue pursuit of our strategy of using our competitive strengths to increase our reserves, production and cash flow. The following are key elements of our strategy:

Grow Through Exploitation, Development and Exploration of Our Properties. We intend to focus our development and exploration efforts on our Louisiana properties. We believe that our extensive held by production acreage position will allow us to grow organically through lower-risk development drilling. We have attractive opportunities to expand our reserve base through field extensions, delineating deeper formations within existing fields and exploratory drilling. Most of our locations also offer multiple stacked reservoir objectives with substantial behind pipe potential.

Actively Manage the Risks and Rewards of Our Drilling Program. We operate over 93% of the wells that comprise our proved reserves as of December 31, 2008, and we own net revenue interests in our properties that average approximately 74% on a net acreage leasehold basis. We believe operating our properties is important because it allows us to control the timing and costs in our drilling budget, as well as control operating costs and marketing of production. In addition, our high level of net revenue interests enhances our returns from each successful well we drill by giving us a higher percentage of cash flow generated. We believe our high level of net revenue interests provides us with a unique opportunity to retain a substantial economic interest in higher risk wells while mitigating the risk associated with these projects through farm-outs or promoted deals. Additionally, we will review and rationalize our properties on a continuous basis in order to optimize our existing asset base.

Leverage Technological Expertise. We believe that 3-D seismic analysis and other advanced technologies and production techniques are useful tools that help improve drilling results and ultimately enhance our production and returns. We either own or have licensed 3-D seismic data covering over 115 square miles in the Grand Bay and Vermillion 16 fields and intend to seek more seismic data in the future. We intend to utilize these technologies and production techniques in exploring for, developing and exploiting oil and natural gas properties to help us reduce drilling risks, lower finding costs and provide for more efficient production of oil and natural gas from our properties. We believe that the use of these technologies enhances our probability of locating and producing reserves that might not otherwise be discovered.

Pursue Opportunistic Acquisitions. We continually review opportunities to acquire producing properties, leasehold acreage and drilling prospects. We believe our relationship with Macquarie, which introduced us to the Harvest Companies, will provide us with first look opportunities relating to potential future acquisitions. When identifying acquisition candidates, we focus primarily on underdeveloped assets with significant growth potential. We seek acquisitions that will allow us to enhance and exploit properties without assuming significant geologic, exploration or integration risk.

Properties

The following table describes our properties and production profile at December 31, 2008.

Property	**Natural Gas Equivalent (Bcfe)**	**% Gas**	**PV-10[(1)] (dollars in thousands)**	**Net Acreage (estimated)**	**Net Revenue Interest %**	**Net Producing Wells**	**Daily Net Production (Mcfe/d)[(2)]**	**Reserve Life Index[(3)] (Years)**
Grand Bay	28.6	38%	$ 55,191	16,024	18-72%	52	5,915	13
Vermilion 16	35.1	93%	79,392	4,094	70-85%	2	977	*
Other	13.1	46%	13,896	13,632	31-82%	27	7,147	5
All Properties	76.7	65%	$ 148,479	33,750		81	14,039	15

* Not meaningful

(1)

Based on December 31, 2008 prices of $42.70 per Bbl and $5.63 per MMBtu.

(2)

Average net production for December 2008.

(3)

Calculated by dividing total net proved reserves by current net production for December 2008.

Grand Bay Field. The Grand Bay Field is located in Plaquemines Parish, Louisiana, approximately 70 miles southeast of New Orleans, Louisiana. It is situated in a shallow open water and marsh environment on the east side of the Mississippi River. Gulf Oil discovered the field in 1938. Harvest Oil and Gas acquired the field in April 2005. A farmout was granted to Clayton Williams Energy, Inc. prior to the acquisition of the field by Harvest Oil, covering approximately 2,000 gross acres in the north-west portion of the field. Saratoga s ownership in Grand Bay ranges from 25% to 100% working interest and 18% to 72% net revenue interest. We are the operator of all of the Grand Bay Field property not subject to the Clayton Williams Energy, Inc. farmout.

The Grand Bay Field is a large, faulted anticlinal structure. It lies on a northwest/southeast trending, deep-seated salt ridge that also sets up Coquille Bay Field, to the northwest, and Romere Pass Field, to the southeast, Trapping is predominantly from intersecting fault closures associated with this anticlinal feature, although there are cases of stratigraphic trapping. The predominant drive mechanism is water drive. Some productive formations are clean, blocky sands with high-resistivity pay. Other laminated, low-resistivity sands are also productive. Shallow sands are predominantly gas-filled and associated with anomalous amplitudes. There are additional shallow amplitudes in the field that have not yet been drilled or logged.

Production has been from over 50 different sands between approximately 1,600 and 13,500 feet, subsea. We are evaluating shallow Pliocene gas potential as well as deeper oil and gas potential in the Tex W and Big Hum levels below 13,500 feet. Collarini Engineering began a full field study of the Grand Bay Field in October 2008 and this study is expected to continue into mid-2009. Our leases in the Grand Bay Field, which are all held by production, cover an estimated 17,544 gross acres (16,024 net).

Facilities include a central compressor station, four tank batteries, numerous gas lift manifolds and a bunk house, from which all field operations are controlled. Low pressure, high Btu-content gas at Grand Bay Field is used to lift oil and high pressure, lower Btu gas. We entered into a production tie-in agreement with Apache in late 2008 that improves field efficiencies and we continue to look for ways to decrease operating costs in all fields.

Vermilion 16 Field. The Vermilion 16 Field is located in state waters offshore Vermilion Parish, Louisiana, approximately 40 miles south of Lafayette, Louisiana. It is situated in approximately 12 feet of water, 0.5 miles offshore in the Gulf of Mexico. Saratoga is operator with a 60% to 100% working interest with a net revenue interest ranging from 46% to 81%.

The field is a four-way rollover anticline on the downthrown side of a down-to-the-south fault. There are multiple stacked reservoirs within the field. Pulsed neutron logging has been carried out to identify unswept hydrocarbons within existing wellbores. There are five wellbores associated with this field and a number of proved undeveloped drilling locations within the field. Nutech Energy Alliance began a full field study of the Vermillion 16 Field in October 2008 and this study is expected to continue into mid-2009. We licensed 25 square miles of 3D seismic data in 2008 and will use this data to better locate proposed development wells.

Facilities include a central facility and there are five wellbores associated with the field. Production from McMoRan Oil and Gas, LLC s King Kong wells, located 1.2 miles to the southwest of our platform in adjoining SL 17159, is processed at the Vermilion 16 platform, for which we receive revenues. The existing seven state leases cover an estimated 4,095 gross acres (4,095 net) and are all held by production.

Other Fields. We hold interests in eleven other fields, all in Louisiana state waters, with working interests ranging from 40% to 100%. The net revenue interest ranges from 31% to 82%, except for Breton Sound 31 Field, where we have a 36% net profits interest. The leases, which are all held by production, cover an estimated 15,441 gross acres (13,632 net).

Among the other fields in which we hold interests are the Main Pass and Breton Sound fields, which are a series of stratigraphic trap-type fields in the Middle Miocene trend that were discovered with 3D seismic technology. The reservoir drive mechanisms are water drive and combination water drive/pressure depletion. We installed a line heater at Main Pass 25 Field in late 2008, which allowed us to increase oil production from that field.

We also hold leasehold interests and a single operating well in Dawson County. Texas. We do not presently intend to conduct any further drilling or exploration operations on our Dawson County property.

Field Infrastructure

We own certain infrastructure assets serving our properties including approximately 85 miles of pipelines connecting several of the fields as well as outlying wellheads. There are seven platform facilities plus 81 active producing wellbores associated with these fields, including ten salt water disposal wells. In addition to serving our wells and improving field economics, we generate revenues from providing access to our infrastructure assets to third parties. Facilities at Grand Bay include four tank batteries, a compressor station, various flowlines and a bunk house. We receive third-party processing revenues from Clayton Williams Energy, Inc. and McMoRan Oil and Gas, LLC.

Natural Gas and Oil Reserves

Due to the inherent uncertainties and the limited nature of reservoir data, proved reserves are subject to change as additional information becomes available. The estimates of reserves, future cash flows and present value are based on various assumptions, including those prescribed by the Securities and Exchange Commission (SEC), and are inherently imprecise. Although we believe these estimates are reasonable, actual future production, cash flows, taxes, development expenditures, operating expenses and quantities of recoverable oil and natural gas reserves may vary substantially from these estimates. Also, the use of a 10% discount factor for reporting purposes may not necessarily represent the most appropriate discount factor, given actual interest rates and risks to which our business or the oil and natural gas industry in general are subject.

These calculations were prepared using standard geological and engineering methods generally accepted by the petroleum industry and in accordance with SEC financial accounting and reporting standards. The estimated present value of proved reserves does not include indirect expenses such as general and administrative expenses, debt service and future income tax expense or depletion, depreciation, and amortization.

In accordance with applicable financial accounting and reporting standards of the SEC, the estimates of our proved reserves and the present value of proved reserves set forth herein are made using oil and natural gas sales prices estimated to be in effect as of the date of such reserve estimates and are held constant throughout the life of the properties. Estimated quantities of proved reserves and their present value are affected by changes in oil and natural gas prices. The prices utilized for the purpose of estimating our proved reserves and the present value of proved reserves as of December 31, 2008 were a WTI Cushing spot price of $42.70 per Bbl and a Henry Hub spot natural gas price of $5.63 per MMBtu, adjusted by property for energy content, quality, transportation fees, and regional price differentials.

The following table sets forth our estimated net proved oil and natural gas reserves and the PV-10 value of such reserves as of December 31, 2008. The reserve data and the present value as of December 31, 2008 were prepared by Collarini Associates, independent petroleum engineers. The PV-10 value is not intended to represent the current market value of the estimated oil and natural gas reserves owned by us. For further information concerning the present value of future net revenues from these proved reserves, see Supplemental Oil and Gas Disclosures in the Notes to Consolidated and Consolidated Financial Statements.

	Oil	**Natural Gas**	**Undiscounted Future Net Revenue**	**Present Value of Proved Reserves Discounted at 10% (1)**
	(Mbbl)	**(MMcf)**	**($000 s)**	**($000 s)**
Developed Producing	1,274	4,468	(302)	11,464
Developed Nonproducing	1,898	9,227	65,338	46,487
Proved Undeveloped	1,343	35,932	154,869	90,528
Total Proved	4,515	49,627	219,905	148,479

(1)

Management believes that the presentation of PV-10 may be considered a non-GAAP financial measure as defined in Item 10(e) of Regulation S-K. Therefore we have included a reconciliation of the measure to the most directly comparable GAAP financial measure (standardized measure of discounted future net cash flows in the table immediately below). Management believes that the presentation of PV-10 value provides useful information to investors because it is widely used by professional analysts and sophisticated investors in evaluating oil and gas companies. Because many factors that are unique to each individual company may impact the amount of future income taxes to be paid, the use of the pre-tax measure provides greater comparability when evaluating companies. It is relevant and useful to investors for evaluating the relative monetary significance of our natural gas and oil properties. Further, investors may utilize the measure as a basis for comparison of the relative size and value of our reserves to other companies. Management also uses this pre-tax measure when assessing the potential return on investment related to its oil and gas properties and in evaluating acquisition candidates. The PV-10 value is not a measure of financial or operating performance under GAAP, nor is it intended to represent the current market value of the estimated oil and natural gas reserves owned by us. PV-10 should not be considered in isolation or as a substitute for the standardized measure of discounted future net cash flows as defined under GAAP.

The table below provides a reconciliation of PV-10 to the standardized measure of discounted future net cash flows.

	As of December 31, 2008	
PV-10	$	148,479
Future income taxes, discounted at 10%		50,485
Standardized measure of discounted future net cash flows	$	97,994

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Production and Price History

The table below sets forth certain information regarding the production volumes, revenue, average prices received and average production costs associated with our sale of oil and natural gas for the year ended December 31, 2008. As noted above, our principal operating assets as of December 31, 2008 were acquired on July 14, 2008. Prior to that date, our oil and natural gas properties consisted of holdings in a single prospect and well in Dawson County, Texas. Information regarding years prior to 2008 is not material and has been omitted.

	Combined For the Year Ended December 31, 2008	Successor July 15, 2008 December 31, 2008	Predecessor January 1, 2008 July 14, 2008
Net Production:			
Oil (Bbl)	571,975	230,671	341,304
Natural gas (Mcf)	1,612,470	644,985	967,485
Natural gas equivalent (Mcfe)	5,044,320	2,029,011	3,015,309
Oil and natural gas sales Mmcfe ($ 000 s)	$ 68,899.3	$ 22,423.7	$ 46,475.6
Average sales price per Mmcfe	$ 13.7	$ 11.1	$ 15.4
Oil and natural gas costs ($ 000 s)			
Lease operating expenses	$ 28,022.9	$ 10,666.7	$ 17,356,2
Production taxes	8,119.5	2,510.5	5,609.0
Total	$ 36,142.4	$ 13,177.2	$ 22,965,2
Average production cost per Mcfe	$ 7.17	$ 6.50	$ 7.62

Drilling Activity

During 2008, beginning with the Harvest Acquisition in July 2008, we drilled 1 productive developmental well in our Grand Bay field in which we own 100% working interest. That well was awaiting completion at December 31, 2008.

The following table sets forth certain information regarding the actual drilling results for 2008:

	Exploratory Wells (1)		Developmental Wells (1)	
	Gross	**Net**	**Gross**	**Net**
Productive	-	-	1	1
Dry	-	-	-	-

(1)

Gross wells represent the total number of wells in which we owned an interest; net wells represent the total of our net working interests owned in the wells.

At December 31, 2008, no wells were being drilled.

In addition to the developmental well drilled, during 2008 we recompleted three wells and performed a workover on one well.

The foregoing information should not be considered indicative of future drilling performance, nor should it be assumed that there is any necessary correlation between the number of productive wells drilled and the amount of oil and natural gas that may ultimately be recovered by us. We do not own any drilling rigs and all of our drilling activities are conducted by independent drilling contractors.

Acreage Position

The following table summarizes our gross and net developed and undeveloped oil and natural gas acreage under lease as of December 31, 2008.

	Developed acres		Undeveloped acres	
	Gross	**Net**	**Gross**	**Net**
Grand Bay	17,544	16,024	-	-
Vermilion 16	3,573	3,573	522	522
Other	15,441	13,632	-	-
Total	37,028	33,229	522	522

As is customary in the oil and natural gas industry, we can generally retain our interest in undeveloped acreage by drilling activity that establishes commercial production sufficient to maintain the leases or by paying delay rentals during the remaining primary term of leases. The oil and natural gas leases in which we have an interest are for varying primary terms and, if production under a lease continues from our developed lease acreage beyond the primary term, we are entitled to hold the lease for as long as oil or natural gas is produced.

Our oil and natural gas properties consist primarily of oil and natural gas wells and our interests in leasehold acreage, both developed and undeveloped.

Marketing and Customers

We market substantially all of our oil and natural gas production from the properties we operate pursuant to a marketing contract with Professional Oil and Gas Marketing, LLC (POGM) that expires March 31, 2010. POGM accounted for 100% of our gas, oil and condensate production revenues during fiscal 2008.

We believe there are numerous purchasers of oil and natural gas that would purchase all of our production in the absence of purchases by POGM. Therefore, the loss of POGM as a customer would not be expected to have a significant impact on our ability to market our oil and natural gas production or our results of operations.

Competition

We encounter intense competition from other oil and gas companies in all areas of our operations, including the acquisition of producing properties and undeveloped acreage. Our competitors include major integrated oil and gas companies, numerous independent oil and gas companies and individuals. Many of our competitors are large, well-established companies with substantially larger operating staffs and greater capital resources and have been engaged in the oil and gas business for a much longer time than our company. These companies may be able to pay more for productive oil and gas properties, exploratory prospects and to define, evaluate, bid for and purchase a greater number of properties and prospects than our financial or human resources permit. Our ability to acquire additional properties and to discover reserves in the future will be dependent upon our ability to evaluate and select suitable properties and to consummate transactions in this highly competitive environment.

Employees

As of December 31, 2008, we had 27 full time employees. We are not a party to any collective bargaining agreements and have not experienced any strikes or work stoppages. We believe our relationships with our employees are good. From time to time, we utilize the services of independent contractors to perform various field and other services.

Regulatory Matters

Regulation of Oil and Gas Production, Sales and Transportation

The oil and gas industry is subject to regulation by numerous national, state and local governmental agencies and departments. Compliance with these regulations is often difficult and costly and noncompliance could result in substantial penalties and risks. Most jurisdictions in which we operate also have statutes, rules, regulations or guidelines governing the conservation of natural resources, including the unitization or pooling of oil and gas properties and the establishment of maximum rates of production from oil and gas wells. Some jurisdictions also require the filing of drilling and operating permits, bonds and reports. The failure to comply with these statutes, rules and regulations could result in the imposition of fines and penalties and the suspension or cessation of operations in affected areas.

We operate various gathering systems and pipelines servicing the areas in which we operate. The United States Department of Transportation and certain governmental agencies regulate the safety and operating aspects of the transportation and storage activities of these facilities by prescribing standards. However, based on current standards concerning transportation and storage activities and any proposed or contemplated standards, we believe that the impact of such standards is not material to our operations, capital expenditures or financial position. All of our sales of our natural gas are currently deregulated, although governmental agencies may elect in the future to regulate certain sales.

Environmental Regulation

Various federal, state and local laws and regulations relating to the protection of the environment, including the discharge of materials into the environment, may affect our exploration, development and production operations and the costs of those operations. These laws and regulations, among other things, govern the amounts and types of substances that may be released into the environment, the issuance of permits to conduct exploration, drilling and production operations, the discharge and disposition of generated waste materials and waste management, the reclamation and abandonment of wells, sites and facilities, financial assurance under the Oil Pollution Act of 1990 and the remediation of contaminated sites. These laws and regulations may impose substantial liabilities for noncompliance and for any contamination resulting from our operations and may require the suspension or cessation of operations in affected areas.

The environmental laws and regulations applicable to us and our operations include, among others, the following United States federal laws and regulations:

Clean Air Act, and its amendments, which governs air emissions;

Clean Water Act, which governs discharges to waters of the United States;

Comprehensive Environmental Response, Compensation and Liability Act, which imposes liability where hazardous releases have occurred or are threatened to occur (commonly known as Superfund);

Resource Conservation and Recovery Act, which governs the management of solid waste;

Oil Pollution Act of 1990, which imposes liabilities resulting from discharges of oil into navigable waters of the United States;

Emergency Planning and Community Right-to-Know Act, which requires reporting of toxic chemical inventories;

Safe Drinking Water Act, which governs the underground injection and disposal of wastewater; and

U.S. Department of Interior regulations, which impose liability for pollution cleanup and damages.

We routinely obtain permits for our facilities and operations in accordance with these applicable laws and regulations on an ongoing basis. There are no known issues that have a significant adverse effect on the permitting process or permit compliance status of any of our facilities or operations.

The ultimate financial impact of these environmental laws and regulations is neither clearly known nor easily determined as new standards are enacted and new interpretations of existing standards are rendered. Environmental laws and regulations are expected to have an increasing impact on our operations. In addition, any non-compliance with such laws could subject us to material administrative, civil or criminal penalties, or other liabilities. Potential permitting costs are variable and directly associated with the type of facility and its geographic location. Costs, for example, may be incurred for air emission permits, spill contingency requirements, and discharge or injection permits. These costs are considered a normal, recurring cost of our ongoing operations and not an extraordinary cost of compliance with government regulations.

We are committed to the protection of the environment throughout our operations and believe our operations are in substantial compliance with applicable environmental laws and regulations. We believe environmental stewardship is an important part of our daily business and will continue to make expenditures on a regular basis relating to environmental compliance. We maintain insurance coverage for spills, pollution and certain other environmental risks, although we are not fully insured against all such risks. The insurance coverage maintained by us provides for the reimbursement to us of costs incurred for the containment and clean-up of materials that may be suddenly and accidentally released in the course of our operations, but such insurance does not fully insure pollution and similar environmental risks. We do not anticipate that it will be required under current environmental laws and regulations to expend amounts that will have a material adverse effect on our consolidated and combined financial position or our results of operations. However, since environmental costs and liabilities are inherent in our operations and in the operations of companies engaged in similar businesses and since regulatory requirements frequently change and may become more stringent, there can be no assurance that material costs and liabilities will not be incurred in the future. Such costs may result in increased costs of operations and acquisitions and decreased production.

Future Laws and Regulations

Recent scientific studies have suggested that emissions of certain gases, commonly referred to as greenhouse gases and including carbon dioxide and methane, may be contributing to warming of the Earth s atmosphere. In response to such studies, the U.S. Congress is actively considering legislation to restrict or regulate emissions of greenhouse gases. At least 17 states, as well as other regions, have already taken legal measures to reduce emissions of greenhouse gases, primarily through the planned development of greenhouse gas emissions inventories and regional greenhouse gas cap-and-trade programs. Also, as a result of the U.S. Supreme Court s decision on April 2, 2007 in *Massachusetts, et al. v. EPA*, the EPA may be required to regulate greenhouse gas emissions from mobile sources, *e.g.*, cars and trucks, even if Congress does not adopt new legislation specifically addressing emissions of greenhouse gases. The court s holding in *Massachusetts, et al. v. EPA*, that greenhouse gases fall under the federal Clean Air Act s definition of air pollutant, may lead to future regulation of greenhouse gas emissions from stationary sources under certain Clean Air Act programs. Other nations have already agreed to regulate emissions of greenhouse gases pursuant to the Kyoto Protocol, an international treaty pursuant to which participating countries, not including the United States, have agreed to reduce their emissions of greenhouse gases to below 1990 levels by 2012. Passage of climate-related legislation or other regulatory initiatives by Congress or various states of the U.S., or the adoption of regulations by the EPA and analogous state agencies that restrict emissions of greenhouse gases in areas in which we conduct business, may have an adverse effect on demand for our services or products and may result in compliance obligations with respect to the release, capture and use of carbon dioxide that could have an adverse effect on our operations.

Web Site Access to Reports

Our Web site address is *www.saratogaresources.net.* We make available, free of charge on or through our Web site, our annual report, Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K, and all amendments to these reports as soon as reasonably practicable after such material is electronically filed with, or furnished to, the United States Securities and Exchange Commission.

Item 1A. Risk Factors

Our business activities and the value of our securities are subject to significant hazards and risks, including those described below. If any of such events should occur, our business, financial condition, liquidity and/or results of operations could be materially harmed, and holders and purchasers of our securities could lose part or all of their investments.

Because we have a limited history operating our existing properties, you may not be able to evaluate our current and future business prospects accurately.

We acquired our principal properties in July 2008 and, accordingly, have a limited operating and financial history upon which you can base an evaluation of our current and future business. The results of exploration, development, production and operation of our properties may differ from that of prior owners.

Our pending bankruptcy and indebtedness may limit our ability to borrow additional funds or capitalize on acquisition or other business opportunities.

On March 31, 2009, we, and our principal subsidiaries, filed for protection under Chapter 11 of the U.S. Bankruptcy Code. Our bankruptcy filing was made after unsuccessful efforts to resolve certain alleged financial covenant defaults asserted by our second lien secured creditor and in the wake of Hurricanes Ike and Gustav and sharp declines in the price of oil and natural gas which, together, resulted in our revenues and net income being below that originally projected at the time of our acquisition of the Harvest Companies.

We have incurred substantial indebtedness in acquiring our properties. At December 31, 2008, our indebtedness under our revolving credit facility and term loan totaled $110.0 million, including $97.5 million of term loan which bears interest at 20% per annum. Additionally, we are presently seeking DIP financing to support our operations during the pendency of the Chapter 11 case.

Our leverage and the current and future restrictions contained in the agreements governing our indebtedness and any future DIP financing may reduce our ability to incur additional indebtedness, engage in certain transactions or capitalize on acquisition or other business opportunities. Our indebtedness and other financial obligations and restrictions, along with our operation under the oversight of the bankruptcy court, could have important consequences. For example, they could:

impair our ability to obtain additional financing in the future for capital expenditures, potential acquisitions, general corporate purposes or other purposes;

result in higher interest expense in the event of increases in interest rates since some of our debt is at variable rates of interest;

have a material adverse effect if we fail to comply with financial and restrictive covenants in any of our debt agreements, including an event of default if such event is not cured or waived;

require us to dedicate a substantial portion of future cash flow to payments of our indebtedness and other financial obligations, thereby reducing the availability of our cash flow to fund working capital, capital expenditures and other general corporate requirements;

limit our flexibility in planning for, or reacting to, changes in our business and industry; and

place us at a competitive disadvantage to those who have proportionately less debt.

If we are unable to obtain DIP financing on satisfactory terms, we may be unable to support our existing operations and development program during the pendency of the Chapter 11 case. Further, if we are unable to successfully restructure or refinance our debt in the Chapter 11 case, we may be required to liquidate some or all of our properties. In either of such events, we and our shareholders could suffer substantial impairment in the value of our holdings, including the potential complete loss of such holdings. There is no assurance that we will be able to secure DIP financing on acceptable terms, or at all, that we will be able to restructure or refinance our existing debt on acceptable terms, or at all, or that we will be able to successfully operate during the pendency of the Chapter 11 case or following the Chapter 11 case, any of which could result in a total loss to our company and our shareholders.

We expect to have substantial capital requirements, and we may be unable to obtain needed financing on satisfactory terms.

We expect to make substantial capital expenditures for the acquisition, development, production, exploration and abandonment of oil and gas properties. Our capital requirements will depend on numerous factors, and we cannot accurately predict the timing and amount of our capital requirements. We intend to primarily finance our capital expenditures through cash flow from operations, cash on hand and, during the pendency of the Chapter 11 case, DIP financing. However, if our capital requirements vary materially from those reflected in our projections, we may require additional financing. A decrease in expected revenues or adverse change in market conditions could make obtaining this financing economically unattractive or impossible. Without additional capital resources, we may be forced to limit or defer our planned natural gas and oil exploration and development program and this will adversely affect the recoverability and ultimate value of our natural gas and oil properties, in turn negatively affecting our business, financial condition and results of operations. As a result, we may lack the capital necessary to complete potential acquisitions or to capitalize on other business opportunities.

We have been, and may continue to be, adversely affected by general economic conditions

The disruption experienced in U.S. and global credit markets during second half of 2008 and subsequent global economic downturn has resulted in projected decreases in demand for oil and natural gas, resulting in a sharp drop in energy prices, and has affected the availability and cost of capital. Prolonged negative changes in domestic and global economic conditions or disruptions of the financial and credit markets may have a material adverse effect on our results of operations, financial condition and liquidity during, and f