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SARATOGA RESOURCES INC /TX  
Form 10QSB  
July 21, 2005

UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
Washington, DC 20549

FORM 10-QSB

(Mark One)

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

For the Quarterly Period ended June 30, 2005

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_.

Commission File Number 000-27563

SARATOGA RESOURCES, INC.

\_\_\_\_\_  
(Exact name of registrant as specified in charter)

Texas

76-0314489

\_\_\_\_\_  
(State or other jurisdiction of incorporation or organization)

\_\_\_\_\_  
(I.R.S. Employer Identification No.)

2304 Hancock Drive, Suite 5, Austin, Texas

78756

\_\_\_\_\_  
(Address of principal executive offices)

\_\_\_\_\_  
(Zip Code)

(512) 478-5717

\_\_\_\_\_  
(Registrant's telephone number, including area code)

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

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date: As of July 14, 2005, the Company had outstanding 3,465,292 shares of its common stock, par value \$0.001.

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

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PART I

ITEM 1. FINANCIAL STATEMENTS

Saratoga Resources, Inc. and Subsidiaries  
BALANCE SHEET  
June 30, 2005

ASSETS

|  | In Thousands         |
|--|----------------------|
| Current assets:                            |                      |
| Cash & equivalents                         | \$       --          |
| Marketable Securities                      | 30                   |
|  | -----                |
|  | 30                   |
| Equipment, net of accumulated depreciation | 1                    |
| Total assets                               | \$       31<br>===== |
| LIABILITIES & STOCKHOLDERS' EQUITY         |                      |
| Current liabilities:                       |                      |
| Accounts payable & accrued liabilities     | \$       72          |
| Due to related parties                     | 307                  |
| Stockholders' equity:                      |                      |
| Common stock                               | 3                    |
| Additional paid-in capital                 | 2,490                |
| Accumulated deficit                        | (2,872)              |
| Other comprehensive income (loss)          | 31                   |
|  | -----                |

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|   |       |
|---|-------|
|   | (348) |
|   | ----- |
| Total liabilities & stockholders equity | \$ 31 |
|   | ===== |

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Saratoga Resources, Inc. and Subsidiaries  
STATEMENTS OF OPERATIONS  
For the Quarters and Six Months Ended June 30, 2005 & 2004

|  | Quarters Ended June 30,<br>2005 | 2004         | Six Months Ended June<br>2005 | 2004         |
|--|---------------------------------|--------------|-------------------------------|--------------|
|  | In Thousands                    | In Thousands | In Thousands                  | In Thousands |
|  | -----                           | -----        | -----                         | -----        |
| Revenues:  |                                 |              |                               |              |
| Gain from Participation Agreement                  | \$ 3                            | \$ --        | \$ --                         | \$ --        |
|  | -----                           | -----        | -----                         | -----        |
|  | 3                               | --           | --                            | --           |
| Expenses:  |                                 |              |                               |              |
| Loss from Participation Agreement                  | --                              | --           | 1                             | --           |
| General & administrative                           | 32                              | 8            | 49                            | --           |
|  | -----                           | -----        | -----                         | -----        |
|  | 32                              | 8            | 50                            | --           |
| Loss before income taxes                           | (29)                            | (8)          | (50)                          | --           |
|  | -----                           | -----        | -----                         | -----        |
| Net loss   | (29)                            | (8)          | (50)                          | --           |
|  | -----                           | -----        | -----                         | -----        |
| Unrealized holding gains (losses)                  | 19                              | (42)         | 4                             | --           |
|  | -----                           | -----        | -----                         | -----        |
| Comprehensive income                               | \$ (10)                         | \$ (50)      | \$ (46)                       | \$ --        |
|  | =====                           | =====        | =====                         | =====        |
| Basic & Diluted Loss Per Share                     | \$ (0.008)                      | \$ (0.002)   | \$ (0.014)                    | \$ --        |
| Wtd Average number of common<br>shares outstanding | 3,465,292                       | 3,465,292    | 3,465,292                     | 3,465,292    |

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Saratoga Resources, Inc. and Subsidiaries  
STATEMENTS OF CASH FLOWS  
For the Six Months Ended June 30, 2005 & 2004

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|   | Six Months Ended June 30, |              |
|---|---------------------------|--------------|
|   | 2005                      | 2004         |
|   | In Thousands              | In Thousands |
|   | -----                     | -----        |
| Cash provided (used) from operating activities: |                           |              |
| Net loss  | \$ (50)                   | \$ (14)      |
| Depreciation                                    | --                        | 1            |
| (Increase) decrease in other assets             | 4                         | --           |
| Increase (decrease) in accrued liabilities      | (80)                      | (73)         |
|   | -----                     | -----        |
|   | (126)                     | (86)         |
| <br>  |                           |              |
| Cash provided (used) by financing activities:   |                           |              |
| Principal payments long termd debt              | --                        | --           |
| Due from related parties                        | 126                       | 87           |
|   | -----                     | -----        |
|   | 126                       | 87           |
| <br>  |                           |              |
| Net decrease increase in cash                   | --                        | 1            |
| Beginning cash                                  | --                        | --           |
|   | -----                     | -----        |
| Ending Cash                                     | \$ --                     | \$ 1         |
|   | =====                     | =====        |

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SARATOGA RESOURCES, INC.  
Notes to Financial Statements  
March 31, 2005  
(Unaudited)

NOTE 1. - BASIS OF PRESENTATION

The accompanying unaudited financial statements of Saratoga Resources, Inc., a Texas corporation (the "Company") have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-QSB and Item 310(b) of Regulation S-B. They do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for a complete financial presentation. In the opinion of management, all adjustments, consisting only of normal recurring adjustments, considered necessary for a fair presentation, have been included in the accompanying unaudited financial statements. Operating results for the periods presented are not necessarily indicative of the results that may be expected for the full year.

These financial statements should be read in conjunction with the financial statements and footnotes, which are included as part of the Company's Form 10-KSB for the year ended December 31, 2004.

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

Forward-Looking Information

This Form 10-QSB quarterly report of Saratoga Resources, Inc. (the "Company") for the six months ended June 30, 2005, contains certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, which are intended to be covered by the safe harbors created thereby. To the extent that there are statements that are not recitations of historical fact, such statements constitute forward-looking statements that, by definition, involve risks and uncertainties. In any forward-looking statement, where the Company expresses an expectation or belief as to future results or events, such expectation or belief is expressed in good faith and believed to have a reasonable basis, but there can be no assurance that the statement of expectation or belief will be achieved or accomplished.

The following are factors that could cause actual results or events to differ materially from those anticipated, and include, but are not limited to: general economic, financial and business conditions; the Company's ability to minimize expenses; the Company's current dependency on its sole director and executive officer to continue funding the Company's operations and, to the extent he should ever become unwilling to do so, the Company's ability to obtain additional necessary financing from outside investors and/or bank and mezzanine lenders; and the ability of the Company to generate sufficient revenues to cover operating losses and position it to achieve positive cash flow.

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

Additionally, the following discussion regarding the Company's financial condition and results of operations should be read in conjunction with the financial statements and related notes contained in Item 1 of Part 1 of this Form 10-QSB, as well as the financial statements in Item 7 of Part II of the Company's Form 10-KSB for the fiscal year ended December 31, 2004.

Critical Accounting Policies

The Company's discussion and analysis of its financial condition and results of operations are based upon the Company's financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The Company believes certain critical accounting policies affect its more significant judgments and estimates used in the preparation of its financial statements. A description of the Company's critical accounting policies is set forth in the Company's Form 10-KSB for the year ended December 31, 2004. As of, and for the six months ended, June 30, 2005, there have been no material changes or updates to the Company's critical accounting policies.

#### Current Year Operations and Developments

During the six months ended June 30, 2005, the Company continued to operate on a very limited scale with operations consisting solely of the Company's investment in a single oil and gas property. Management continued to undertake efforts to minimize costs during the period.

A work-over of the Company's well was necessary in the first quarter of 2005 due to a down-hole equipment failure in February 2005. This resulted in an interruption in production and an increase in operating overhead. The equipment was repaired and production returned to its previous levels with no indication of decline. In May 2005, production again declined indicating that additional work would be needed as the production tubing was not holding pressure. The company is currently waiting on notification from its operator as to when the service repair companies are able to schedule the work and estimates of cost. Work by the service companies is currently delayed due to current demand for their services. The work-over is expected to be completed in the third quarter of 2005. Management believes that previous production levels can be achieved or surpassed, however, management can give no assurances that such production levels will occur.

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

#### Results of Operations

Revenues. During the six months ended June 30, 2005 the Company incurred a net loss of \$1,000 from the participation agreement. The Company had net revenues from this agreement of \$2,000 during the 2004 period. The adverse change in results attributable to the participation agreement was caused by the decline in production during the current period and the cost of resulting down-hole repairs.

General and Administrative Expenses. General and administrative expense increased from \$16,000 during the six months ended June 30, 2004 to \$49,000 during the same period in 2005. The company has been incurring accounting and legal expenses during the current period in order to bring its filings current with the Securities and Exchange Commission.

#### Financial Condition

##### Liquidity and Capital Resources.

The Company had a cash balance of \$Nil and a working capital deficit of \$42,000 at June 30, 2005 as compared to a cash balance of \$1,000 and a working capital deficit of \$125,000 at December 31, 2004.

The change in cash and working capital balances was attributable to the operating loss incurred during 2005, partially offset by proceeds from borrowings from related parties.

The Company, at and for the period ended June 30, 2005, had limited capital resources and limited operating revenues to support its overhead. The Company is, and was, dependent upon its principal shareholder to provide financing to support operations and ongoing cost control measures to minimize negative cash flow. Unless that shareholder continues to provide financing the Company will be required to substantially limit its activities and may be unable to sustain its operations.

Long-Term Debt

At June 30, 2005, the Company had long-term debt of \$307,000 owed to the Company's principal shareholder. Loans from the Company's principal shareholder bear interest at 12.5% and are to be repaid from proceeds from operations as they become available.

Capital Expenditures and Commitments

During the six months ended June 30, 2005, the Company made no capital expenditures and, at June 30, 2005, the Company had no capital commitment obligations.

Off-Balance Sheet Arrangements

The Company had no off-balance sheet arrangements or guarantees of third party obligations at June 30, 2005.

Inflation

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

ITEM 3. CONTROLS AND PROCEDURES

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

As required by Rules 13a-15 and 15d-15 under the Exchange Act, the Certifying Officers carried out an evaluation of the effectiveness of the design and operation of the Company's disclosure controls and procedures as of June 30, 2005. Their evaluation was carried out with the participation of other members of the Company's management. Based upon their evaluation, the Certifying Officers concluded that the Company's disclosure controls and procedures were effective.

The Company's internal control over financial reporting is a process designed by, or under the supervision of, the Certifying Officers and effected by the Company's Board of Directors, management and other personnel, to provide reasonable assurance regarding the reliability of the Company's financial reporting and the preparation of the Company's financial statements for external

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purposes in accordance with generally accepted accounting principles. Internal control over financial reporting includes policies and procedures that pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the Company's assets; provide reasonable assurance that transactions are recorded as necessary to permit preparation of the Company's financial statements in accordance with generally accepted accounting principles, and that the Company's receipts and expenditures are being made only in accordance with the authorization of the Company's Board of Directors and management; and provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on its financial statements. There has been no change in the Company's internal control over financial reporting that occurred in the quarter ended June 30, 2005, that has materially affected, or is reasonably likely to affect, the Company's internal control over financial reporting.

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### PART II OTHER INFORMATION

#### ITEM 6. EXHIBITS

| Exhibit<br>Number | Description  |
|-------------------|--|
| 31.1              | Certification of Chief Executive Officer, pursuant to Rule 13a-14(a) of the Exchange Act, as enacted by Section 302 of the Sarbanes-Oxley Act of 2002.                             |
| 31.2              | Certification of Chief Financial Officer, pursuant to Rule 13a-14(a) of the Exchange Act, as enacted by Section 302 of the Sarbanes-Oxley Act of 2002.                             |
| 32.1              | Certification of Chief Executive Officer and Chief Financial Officer, pursuant to 18 United States Code Section 1350, as enacted by Section 906 of the Sarbanes-Oxley Act of 2002. |

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#### Signatures

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

(Registrant) SARATOGA RESOURCES, INC.

By: /s/ Thomas Cooke

\_\_\_\_\_  
Thomas Cooke



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CEO and President

Date: July 20, 2005

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