ANTERO RESOURCES Corp
Form 10-Q
August 02, 2016
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2016

OR

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: 001-36120

ANTERO RESOURCES CORPORATION

(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	80-0162034 (IRS Employer Identification No.)
1615 Wynkoop Street Denver, Colorado (Address of principal executive offices)	80202 (Zip Code)

(303) 357-7310

(Registrant's telephone number, including area code)

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 No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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 the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	Accelerated filer
Non-accelerated filer (Do not check if a smaller reporting company)	Smaller reporting company

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

The registrant had 307,187,980 shares of common stock outstanding as of July 28, 2016.

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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

The information in this report includes “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 (the “Exchange Act”). All statements, other than statements of historical fact included in this Quarterly Report on Form 10-Q, regarding our strategy, future operations, financial position, estimated revenues and losses, projected costs, prospects, plans and objectives of management are forward-looking statements. When used, the words “could,” “believe,” “anticipate,” “intend,” “estimate,” “expect,” “project” and similar expressions are intended to identify forward-looki statements, although not all forward-looking statements contain such identifying words. These forward-looking statements are based on our current expectations and assumptions about future events and are based on currently available information as to the outcome and timing of future events. When considering forward-looking statements, you should keep in mind the risk factors and other cautionary statements described under the heading “Item 1A. Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2015 (our “2015 Form 10-K”) on file with the Securities and Exchange Commission (the “SEC”) and in “Item 1A. Risk Factors” of this Quarterly Report on Form 10-Q.

Forward-looking statements may include statements about our:

- ability to successfully complete the pending acquisition of properties from a third party, integrate the assets with our own, and realize the anticipated benefits of the transaction
- business strategy;
- reserves;
- financial strategy, liquidity, and capital required for our development program;
- natural gas, natural gas liquids (“NGLs”), and oil prices;
- timing and amount of future production of natural gas, NGLs, and oil;
- hedging strategy and results;
- ability to meet our minimum volume commitments and to utilize or monetize our firm transportation commitments;

· future drilling plans;

· competition and government regulations;

· pending legal or environmental matters;

· marketing of natural gas, NGLs, and oil;

· leasehold or business acquisitions;

· costs of developing our properties;

· operations of Antero Midstream Partners LP;

· general economic conditions;

· credit markets;

· uncertainty regarding our future operating results; and

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- plans, objectives, expectations, and intentions.

We caution you that these forward-looking statements are subject to all of the risks and uncertainties, most of which are difficult to predict and many of which are beyond our control, incident to the exploration for and development, production, gathering, processing, transportation, and sale of natural gas, NGLs, and oil. These risks include, but are not limited to, commodity price volatility and continued low commodity prices, inflation, lack of availability of drilling and production equipment and services, environmental risks, drilling and other operating risks, marketing and transportation risks, regulatory changes, the uncertainty inherent in estimating natural gas, NGLs, and oil reserves and in projecting future rates of production, cash flow and access to capital, the timing of development expenditures, and the other risks described under the heading "Item 1A. Risk Factors" in our 2015 Form 10-K on file with the SEC and in "Item 1A. Risk Factors" of this Quarterly Report on Form 10-Q.

Reserve engineering is a process of estimating underground accumulations of natural gas, NGLs, and oil that cannot be measured in an exact way. The accuracy of any reserve estimate depends on the quality of available data, the interpretation of such data and price and cost assumptions made by reservoir engineers. In addition, the results of drilling, testing and production activities, or changes in commodity prices, may justify revisions of estimates that were made previously. If significant, such revisions would change the schedule of any further production and development drilling. Accordingly, reserve estimates may differ significantly from the quantities of natural gas, NGLs, and oil that are ultimately recovered.

Should one or more of the risks or uncertainties described in this report occur, or should underlying assumptions prove incorrect, our actual results and plans could differ materially from those expressed in any forward-looking statements.

All forward-looking statements, expressed or implied, included in this report are expressly qualified in their entirety by this cautionary statement. This cautionary statement should also be considered in connection with any subsequent written or oral forward-looking statements that we or persons acting on our behalf may issue.

Except as otherwise required by applicable law, we disclaim any duty to update any forward-looking statements, all of which are expressly qualified by the statements in this section, to reflect events or circumstances after the date of this Quarterly Report on Form 10-Q.

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PART I—FINANCIAL INFORMATION

ANTERO RESOURCES CORPORATION

Condensed Consolidated Balance Sheets

December 31, 2015 and June 30, 2016

(Unaudited)

(In thousands, except per share amounts)

	December 31, 2015	June 30, 2016
Assets		
Current assets:		
Cash and cash equivalents	$ 23,473	28,251
Accounts receivable, net of allowance for doubtful accounts of $1,195 in 2015 and 2016	79,404	71,606
Accrued revenue	128,242	133,479
Derivative instruments	1,009,030	429,920
Other current assets	8,087	6,528
Total current assets	1,248,236	669,784
Property and equipment:		
Natural gas properties, at cost (successful efforts method):		
Unproved properties	1,996,081	1,984,515
Proved properties	8,211,106	8,794,515
Water handling and treatment systems	565,616	655,251
Gathering systems and facilities	1,502,396	1,596,460
Other property and equipment	46,415	44,919
	12,321,614	13,075,660
Less accumulated depletion, depreciation, and amortization	(1,589,372)	(1,977,790)
Property and equipment, net	10,732,242	11,097,870
Derivative instruments	2,108,450	1,673,907
Other assets	26,565	117,219
Total assets	$ 14,115,493	13,558,780
Liabilities and Equity		
Current liabilities:		
Accounts payable	$ 364,160	211,106
Accrued liabilities	194,076	201,320
Revenue distributions payable	129,949	135,054
Derivative instruments	—	2,726
Other current liabilities	19,085	19,226
Total current liabilities	707,270	569,432
Long-term liabilities:		
Long-term debt	4,668,782	4,244,014
Deferred income tax liability	1,370,686	1,063,331

Derivative instruments	—	5,179
Other liabilities	82,077	75,925
Total liabilities	6,828,815	5,957,881
Commitments and contingencies (notes 9 and 13)		
Equity:		
Stockholders' equity:		
Preferred stock, $0.01 par value; authorized - 50,000 shares; none issued	—	—
Common stock, $0.01 par value; authorized - 1,000,000 shares; issued and outstanding 277,036 shares and 304,158 shares, respectively	2,770	3,042
Additional paid-in capital	4,122,811	5,022,848
Accumulated earnings	1,808,811	1,207,512
Total stockholders' equity	5,934,392	6,233,402
Noncontrolling interest in consolidated subsidiary	1,352,286	1,367,497
Total equity	7,286,678	7,600,899
Total liabilities and equity	$ 14,115,493	13,558,780

See accompanying notes to condensed consolidated financial statements.

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ANTERO RESOURCES CORPORATION

Condensed Consolidated Statements of Operations and Comprehensive Loss

Three Months Ended June 30, 2015 and 2016

(Unaudited)

(In thousands, except per share amounts)

	Three Months Ended June 30, 2015	2016
Revenue:		
Natural gas sales	$ 242,065	229,787
Natural gas liquids sales	59,525	94,713
Oil sales	23,032	16,740
Gathering, compression, and water handling and treatment	4,490	3,294
Marketing	49,829	90,902
Commodity derivative fair value losses	(2,227)	(684,634)
Total revenue	376,714	(249,198)
Operating expenses:		
Lease operating	6,673	12,043
Gathering, compression, processing, and transportation	166,669	206,060
Production and ad valorem taxes	22,519	17,458
Marketing	79,053	125,977
Exploration	628	1,109
Impairment of unproved properties	26,339	19,944
Depletion, depreciation, and	177,046	197,362

amortization		
Accretion of asset retirement obligations	408	:0px" align=justify>

In November 2014, Saratoga filed a motion with the arbitrator to reconsider and clarify the arbitration award. Separately, in November 2014, Saratoga filed a Motion for Clarification and Remittitur in the 19th District Court of East Baton Rouge Parish, Louisiana. Both the motion with the arbitrator and the Motion in the District Court sought to vacate the arbitrator s award relating to the pipeline claim on multiple grounds. In December 2014, the arbitrator agreed to hear arguments as to the authority and grounds for reconsidering the arbitration award and the arbitrator s decision in that matter is pending. Subsequent to March 31, 2015, the motion before the arbitrator to vacate the arbitration award was denied and the 19th District Court entered a final judgment denying Saratoga s motion to vacate or modify the arbitration award and granted the plaintiff s motion to confirm the arbitration award.

Also, in November 2014, Saratoga filed a separate cause of action against Brian Albrecht in the 24th District Court of Jefferson Parish, Louisiana. The cause of action alleges breach of contract on the part of Mr. Albrecht and seeks damages in an amount equal to those awarded in the above arbitration proceeding. Saratoga asserts that the Purchase and Sale Agreement under which Saratoga secured beneficial ownership of the pipeline that was subject of the arbitration proceeding and the claims of Harvest Operating was illusory in that, based on the reasoning of the arbitration award, Saratoga would not have received the rights associated with beneficial ownership and control of the pipeline and that, by withholding from Saratoga the ordinary rights associated with ownership of the pipeline, Mr. Albrecht was in breach of the terms of the Purchase and Sale Agreement.

NOTE 12 SUBSEQUENT EVENTS

Forbearance Agreements

On April 30, 2015, the Company entered into amendments to the Forbearance Agreements extending the Forbearance Period to May 8, 2015 subject to a further extension of the Forbearance Period to May 11, 2015 if the Company paid an additional retainer to legal counsel for the First Lien Lenders in the amount of $200,000 and subject to a further extension of the Forbearance Period to May 22, 2015 if the Company appoints an additional independent director designated by the First Lien Lenders. The payment of an additional legal fee retainer and appointment of an additional director both occurred by the designated dates and the Forbearance Period was extended until May 22, 2015.

On May 18, 2015, the Company entered into further amendments to the Forbearance Agreements extending the Forbearance Period to June 5, 2015.

Appointment of Director

Pursuant to the terms of the April 30, 2015 amendment to the Forbearance Agreements, on May 11, 2015, the Company appointed an additional independent director to the Company s board of directors and to the independent committee of the board.

Stock Option Grants

In April 2015, the Company granted stock options to a non-executive employee to purchase an aggregate of 60,000 shares of common stock. The options vest over three years and are exercisable for a term of seven years at a price of $0.23 per share.

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 three months ended March 31, 2015, 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, 2014.

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 our 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 8 of Part II of our Form 10-K for the fiscal year ended December 31, 2014.

Overview

We are an independent oil and natural gas company engaged in the acquisition, development, exploitation, exploration and production of crude oil and natural gas properties. Our lease holdings totaled approximately 51,500 acres at March 31, 2015, comprised of our principal producing properties covering approximately 31,700 acres in the transitional coastline and protected in-bay environment on parish and state leases of south Louisiana and approximately 19,800 acres of leases in the shallow Gulf of Mexico shelf.

At March 31, 2015, we operated or had interests in 105 producing wells and our principal properties covered approximately 51,500 gross/net acres, more than half of which were held by production without near-term lease expirations, across 13 fields in the transitional coastline and protected in-bay environment on parish and state leases in south Louisiana as well as in the shallow Gulf of Mexico. We own approximately 100% working interest in all our properties, with the only exception being a single well where we have an overriding royalty interest. Our net revenue interests in our properties range from 69% to 82%, with our average net revenue interest on a net acreage leasehold basis being approximately 75%. We operate over 99% of the wells that comprise our PV-10, enabling us to effectively exercise management control of our operating costs, capital expenditures and the timing and method of development of our properties.

2015 Developments

Commodity Prices

During the quarter ended March 31, 2015, we continued to be subject to a sharp decline in commodity prices that began during the second half of 2014 with average prices realized from the sale of crude being down to $45.72 per barrel during the 2015 quarter as compared to $102.93 per barrel in the 2014 quarter and average prices realized from the sale of natural gas being down to $3.29 per mcf in the 2015 quarter as compared to

$5.90 per mcf in the 2014 quarter.

Drilling and Development Activities

Drilling and development and infrastructure project operations to date in 2015 are summarized as follows:

Development Drilling. We did not drill any developmental wells during the three months ended March 31, 2015.

Exploratory Drilling. We did not drill any exploratory wells during the three months ended March 31, 2015.

Recompletion and Workover Program. During the three months ended March 31, 2015 we did not undertake any recompletions or workovers, however we invested $89,049 in recompletions and workovers that were begun during 2014.

Infrastructure Program. During the three months ended March 31, 2015, we invested $87,713 in infrastructure improvements and additions to support existing production and anticipated increases in production.

Drilling and Development Plans. We have an extensive inventory of drilling opportunities, including numerous proved behind pipe and proved undeveloped opportunities as well as a number of exploratory opportunities. With the drop in commodity prices we have put efforts to drill these prospects on hold. We expect to resume efforts to seek partners to drill at such time as commodity prices support such efforts.

For the three months ended March 31, 2015, we had approximately 105 gross, and 104 net, wells in production.

Compensation

During the three months ended March 31, 2015, we granted 30,000 stock options to an executive officer at an exercise price of $0.21 per share and a total of 45,000 stock options to two employees at exercise prices ranging from $0.21 to 0.27 per share.

We recorded $96,506 of compensation charges that is reflected in general and administrative expense for the three months ended March 31, 2015 and is attributable to equity grants during 2015 and prior years.

As of March 31, 2015, total compensation cost relating to unvested stock option awards not yet recognized in earnings was approximately $0.2 million, which is expected to be recognized over a weighted average period of approximately 0.5 years.

Operating Costs

During the three months ended March 31, 2015, we continued a program, begun during the fourth quarter of 2014, to decrease lease operating expenses and general and administrative expenses. Cost reduction measures have focused on bringing contract employees in-house, eliminating redundant positions, managing marine transportation, optimizing our chemical program, lowering communications costs, replacing/modifying our compressors, downsizing our Houston office, curtailing expenditures on certain longer term projects and tightening discretionary spending. Those cost cutting measures are targeted to reduce lease operating expenses and general and administrative expenses by $13.3 million (a 39% decrease), in the aggregate, during 2015 as compared to 2014. The anticipated cost reductions will be partially offset by additional legal fees, consulting and other expenses incurred pursuant to the Forbearance Agreements and our ongoing efforts to restructure/refinance existing debt.

Forbearance Agreements

On January 30, 2015, we, along with our subsidiaries, Lobo Operating, Inc., Lobo Resources, Inc., Harvest Oil & Gas, LLC and The Harvest Group, LLC (collectively, the Borrowers) entered into a forbearance agreement (the First Lien Forbearance Agreement) with the holders (the First Lien Lenders) of certain notes (the First Lien Notes) issued under that certain Indenture dated as of November 22, 2013 (the First Lien Indenture), by and among the Borrowers and The Bank of New York Mellon Trust Company, N.A., as trustee (the First Lien Trustee). Also on January 30, 2015, the Borrowers entered into a forbearance agreement (the Second Lien Forbearance Agreement and, together with the First Lien Forbearance Agreement, the Forbearance Agreements) with the holders (the Second Lien Lenders) of seventy-five percent (75%) or more in principal amount of the notes (the Second Lien Notes) issued under that certain Indenture dated as of July 12, 2011 (as supplemented or amended, the Second Lien Indenture), by and among the Borrowers and The Bank of New York Mellon Trust Company, N.A., as trustee (the Second Lien Trustee).

The Forbearance Agreements were entered into following (i) the Borrower s failure to pay to the First Lien Lenders an interest installment in the amount of $1.4 million scheduled for payment on December 31, 2014, and constituting a default if not paid by January 30, 2015 (the Anticipated First Lien Default), and (ii) the Borrower s failure to pay to the Second Lien Lenders an interest installment in the amount of $7.9 million scheduled for payment on January 1, 2015, and constituting a default if not paid by

February 2, 2015 (the Anticipated Second Lien Default, and, together with the Anticipated First Lien Default, the Specified Defaults).

We received confirmation from the First Lien Lenders that they hold more than 75% of the principal amount of the outstanding Second Lien Notes and have each agreed, during the Forbearance Period (as defined below), not to provide any direction to the Second Lien Trustee or to take any steps to enforce any rights of the Second Lien Trustee or the holders of Second Lien Notes occasioned by the failure of the Borrowers to make the January 1, 2015 interest payment.

Pursuant to the First Lien Forbearance Agreement, the First Lien Lenders agreed to forbear, until the earlier of March 16, 2015 or the occurrence of certain defaults defined in the First Lien Forbearance Agreement (the Forbearance Period), from exercising certain of their default-related rights and remedies against the Borrowers with respect to the Specified Defaults in order to permit the Borrowers an opportunity to effectuate a restructuring/refinancing or implement operational improvements.

Under the terms of the First Lien Forbearance Agreement, among other things, we agreed to (i) pay, by February 2, 2015, the December 31, 2014 interest payment owing to the First Lien Lenders, with interest at the default rate, in the amount of $1,378,650; (ii) pay expenses incurred by the First Lien Lenders in connection with the Forbearance Agreement, including paying a retainer to counsel for the First Lien Lenders; (iii) retain, by March 2, 2015, a financial advisor acceptable to the First Lien Lenders on terms acceptable to the First Lien Lenders; (iv) deliver to the First Lien Lenders a 6-week operating budget in form and methodology acceptable to the First Lien Lenders and to abide by that budget within permitted variances; (v) deliver to the First Lien Lenders, not later than March 2, 2015, certain financial, operating and other information and, not later than March 15, 2015, a two year business plan and 2015 budget; and (vi) cause its officers, financial advisors, investment bankers and others to furnish information reasonably requested by the First Lien Lenders.

Any breach by the Borrowers of any covenant in the First Lien Forbearance Agreement, or the commencement of any bankruptcy, insolvency or creditor relief proceedings by or with respect to the Borrowers, will constitute an event of default under the First Lien Forbearance Agreement.

Pursuant to the Second Lien Forbearance Agreement, the Second Lien Lenders agreed to forbear, during the Forbearance Period, from exercising certain of their default-related rights and remedies against the Borrowers with respect to the Specified Defaults in order to permit the Borrowers an opportunity to effectuate a restructuring/refinancing or implement operational improvements. Second Lien Forbearance Agreement is substantially identical to the First Lien Forbearance Agreement except that the January 1, 2015 interest payment on the First Lien Notes was not required to be made.

On March 16, 2015, we entered into amendments to the Forbearance Agreements extending the Forbearance Period to April 30, 2015.

On April 30, 2015, we entered into further amendments to the Forbearance Agreements extending the Forbearance Period to May 8, 2015 subject to a further extension of the Forbearance Period to May 11, 2015 if we paid an additional retainer to legal counsel for the First Lien Lenders in the amount of $200,000 and subject to a further extension of the Forbearance Period to May 22, 2015 if we appoint an additional independent director designated by the First Lien Lenders. The payment of an additional legal fee retainer and appointment of an additional director both occurred by the designated dates and the Forbearance Period was extended until May 22, 2015.

On May 18, 2015, the Company entered into further amendments to the Forbearance Agreements extending the Forbearance Period to June 5, 2015.

Advisory Agreement

In March 2015, pursuant to the terms of the Forbearance Agreements, we entered into an engagement letter (the Engagement Letter) with Conway MacKenzie Management Services, LLC (CMS). Pursuant to the Engagement Letter, we appointed principals of CMS to the Interim Chief Financial Officer and Strategic Alternatives Officer positions. Those officers are engaged to assist in connection with our efforts to restructure or repay the First Lien Notes and Second Lien Notes. We will pay CMS a fee of $50,000 per month for services of the Interim Chief Financial Officer and pay hourly fees for services of other CMS personnel.

Appointment of Director

Pursuant to the terms of the April 30, 2015 amendment to the Forbearance Agreements, on May 11, 2015, we appointed an additional independent director to our board of directors and to the independent committee of our board.

Results of Operations

Oil and Gas Revenue

Oil and gas revenue for the quarter ended March 31, 2015 decreased by 40.3% to $6.3 million from $10.6 million in the 2014 quarter.

The decrease in revenue was attributable to a 41.0% decrease in oil revenues on a 55.6% decrease in average oil prices realized partially offset by a 32.7% increase in oil production volumes and a 32.2% decline in gas revenues on a 44.2% decrease in average gas prices realized partially offset by a 21.8% increase in gas production volumes, each as compared to the 2014 quarter.

The following table discloses the oil and gas sales revenues, net oil and natural gas production volumes and average sales prices for the three ended March 31, 2015 and 2014:

	Three Months Ended March 31,			
		2015		2014
Revenues				
Oil	$	5,718,867	$	9,700,842
Gas		611,595		902,149
Total oil and gas revenues	$	6,330,462	$	10,602,991
Production				
Oil (Bbls)		125,096		94,247
Gas (Mcf)		186,135		152,861
Total production (Boe)		156,118		119,724
Average sales price				
Oil (per Bbl)	$	45.72	$	102.93
Gas (per Mcf)		3.29		5.90
Total average sales price (per Boe)	$	40.55	$	88.56

Oil production was up 30.8 MBbl, or 32.7%, and gas production was up 33.3MMcf, or 21.8%, for the three months ended March 31, 2015 as compared to the same period in 2014. The increase in production was largely attributable to improved run times during the first quarter of 2015 as compared to the first quarter of 2014. Average run times and production rates during the first quarter of 2014 were negatively affected by elevated decline rates in certain high production wells, increased water-cut in selected wells, gas lift shortages, mechanical issues and flow line capacity constraints. Production optimization initiatives and infrastructure improvements undertaken throughout 2014 addressed the principal causes of the decreased run times, gas lift shortages, mechanical issues and flow line capacity constraints, raising production rates to 1,735 Boepd during the first quarter of 2015 from 1,330 Boepd during the first quarter of 2014.

The decrease in realized oil and natural gas prices reflects the steep drop in global hydrocarbon prices during the second half of 2014. While prices stabilized during the first quarter of 2015, they remained at levels that were significantly lower than in the comparable period in 2014. We continue to realize a premium pricing on both our crude oil and natural gas production.

Oil and Gas Hedging

For the quarter ended March 31, 2015, we recorded a gain on oil and gas hedging of $117 compared to $1.1 million for the same period in 2014. All of our oil and gas hedges have expired at March 31, 2015 and we have not entered into any new hedges during 2015 due to the current uncertainty surrounding oil and gas prices.

Other Revenues

Other revenue consists principally of production handling fees and contract operator fees received.

Operating Expenses

Operating expenses decreased by 29.3% to $9.9 million for the quarter ended March 31, 2015 from $14.0 million in the 2014 quarter. The following table sets forth the components of operating expenses for the 2015 and 2014 quarters:

	Three Months Ended March 31, 2015		Three Months Ended March 31, 2014	
	Total	**Per Boe**	**Total**	**Per Boe**
Lease operating expense	$ 4,008,007	$ 25.67	$ 5,492,815	$ 45.88
Workover expense	18,978	0.12	2,192,186	18.31
Exploration expense	19,098	0.12	221,352	1.85
	2,748,394	17.61	2,742,059	22.90

Depreciation, depletion and amortization				
Accretion expense	595,562	3.81	448,466	3.75
General and administrative	1,887,412	12.09	2,352,570	19.65
Severance taxes	580,204	3.72	500,750	4.18
	$ 9,857,655	$ 63.14	$ 13,950,198	$ 116.52

The changes in operating expenses were primarily attributable to the factors discussed below.

Lease Operating Expense

Lease operating expenses for the quarter ended March 31, 2015 decreased 27.0% to $4.0 million from $5.5 million in the 2014 quarter and, on a per BOE basis, decreased 44.0% to $25.67 per BOE from $45.88 per BOE, in the 2014 quarter. The decrease in lease operating expense for the quarter was primarily due to (i) $0.5 million in contract labor and repair and maintenance charges associated with our production optimization initiative that were included in lease operating expense for the 2014 quarter (ii) one-time contract construction labor and building repair and maintenance expenses for the living quarters in Grand Bay Field incurred during 2014; and (iii) a reduction in our reliance on, and cost of, contract operating personnel. We are attempting to negotiate reduced rates with many of our vendors and expect our lease operating expenses will continue to decrease if hydrocarbon prices continue to remain at lower levels during the remainder of the year.

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. The decrease in lease operating expenses on a per BOE basis for the quarter was higher on a percentage basis than the overall decrease in lease operating expense primarily due to the increases in production volumes and the fixed nature of certain lease operating expenses.

Workover Expense

Workover expense for the quarter ended March 31, 2015 decreased to $18,978 from $2,192,186 in the 2014 quarter. The change in workover expense was attributable to reduction in the number of workovers undertaken during the current quarter.

Exploration Expense

Exploration expense for the quarter ended March 31, 2015 decreased to $19,098 from $221,352 in the 2014 quarter. The decrease in exploration expenses was principally due to a reduction in field studies related to our Gulf of Mexico shelf acreage.

Depreciation, Depletion and Amortization (DD&A)

Depreciation, depletion and amortization for the quarter ended March 31, 2015 remained relatively flat at $2,748,394 as compared to $2,742,059 in the 2014 quarter. Increases in DD&A caused by higher production volumes was offset by a lower cost base due to impairments recorded during 2014 as reflected in a decrease to $17.61 per BOE during the 2015 quarter from $22.90 per BOE in the 2014 quarter.

We utilize the successful efforts method of accounting for oil and gas producing activities. Under this method, 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.

Accretion expense

Accretion expense relating to our asset retirement obligations increased to $595,562 from $448,466 for the quarter ended March 31, 2015 as compared to the 2014 quarter.

The decrease in accretion expense was attributable to changes in the anticipated plugging dates and discount rates used in calculating the asset retirement obligation for certain fields.

General and Administrative

General and administrative (G&A) expense for the quarter ended March 31, 2015 decreased 19.8% to $1,887,412 as compared to $2,352,570 in the 2014 quarter. The decrease in G&A expense for the quarter was primarily due a reduction in consulting fees and accounting costs, partially offset by

an increase in non-cash stock compensation expense.

Severance Taxes

Severance taxes for the quarter ended March 31, 2015 increased to $580,204 from $500,750 in the 2014 quarter. The increase was primarily attributable to the fact that we received refunds of severance taxes paid in prior periods totaling $0.5 million during the 2014 quarter which more than offset the reductions in current quarter severance taxes from the decrease in oil and revenues. We continue to receive the horizontal well severance tax exemptions obtained for our Rocky and Zeke wells and the deep well severance tax exemption obtained for our Mesa Verde well.

Other Income (Expense), Net

Net other expense increased to $8.5 million for the quarter ended March 31, 2015 from $6.0 million for the 2014 quarter.

Interest expense reflects interest incurred on debt under our 10% First Lien Notes and 12.5% Second Lien Notes. The increase in interest expense was attributable to an increase in the amortization of the debt discount and debt issuance costs associated with the notes as the amortization period was reduced to reflect the forbearance period and penalty interest accrued due to the non-payment of interest on the Second Lien Notes.

Income Tax Expense (Benefit)

For the quarter ended March 31, 2015 we recorded an income tax expense of $25,500 compared to $82,066 during the 2014 quarter.

The decrease in income tax expense is primarily due to the fact that we expect lower state taxes during 2015 as a result of decreased revenues.

Our effective tax rates were different than our federal statutory tax rate due to Louisiana 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.

During 2014 and 2015 we funded operations out of operating cash flow and cash on hand. We did not have access to available capital under a revolving credit agreement and do not at this time have a revolving credit facility.

We developed, and beginning in 2011 commenced, a layered, multi-faceted development and maintenance program designed to achieve short-, mid- and long-term objectives. Short-term objectives are focused on restoration of shut-in and curtailed production through investments in infrastructure and deferred maintenance and recompletions, workovers and thru-tubing plugbacks each designed to increase or restore production volumes from wells producing below capacity and an inventory of proved developed nonproducing opportunities. Mid-term, following or in conjunction with execution of short-term opportunities, our focus is on the development of an inventory of proved undeveloped opportunities within our inventory of proved undeveloped wells targeting normally pressured oil and gas. Long-term, following or in conjunction with the execution of our short- and mid-term opportunities, our focus is on continuing development of our reserves and exploratory drilling of deep shelf opportunities. During 2014, while continuing to advance short-term objectives associated with continual investment in our infrastructure, we focused on our mid-term objectives through drilling proved undeveloped opportunities.

As a result of sharply lower commodity prices, and resulting operating losses and declines in cash flows, our liquidity position deteriorated substantially during 2014 and the first quarter of 2015. We have implemented cost cutting measures and curtailed development of our proved undeveloped opportunities in favor of building our cash position to, among other things, support our scheduled payments of interest on outstanding debt. In January 2015, we entered into forbearance agreements with our lenders, paying only the interest on first lien indebtedness but not paying interest on second lien indebtedness. We are presently working with our lenders and with prospective financing sources to add liquidity and/or refinance our debt. Our cash on hand at March 31, 2015, together with operating cash flows, is expected to be adequate to support basic operations and maintenance but, absent increased commodity prices and/or production, is not expected to be adequate to support development activities or debt service obligations over the next twelve months. Further, should we be required to pay the 2014 arbitration award of approximately $3.4 million, our existing cash reserves would be materially reduced. We are presently evaluating options for bringing in additional financing to support our liquidity needs and planned development program. We do not, however, presently have any commitments to provide financing and there is

no assurance that any additional financing will be provided on acceptable terms or at all. Should we be unable to pay our scheduled interest payments or to reach acceptable accommodations with our lenders regarding such payments, we may be subject to legal actions instituted by our lenders which may include foreclosure of liens and possible loss of assets.

Cash, Cash Flows and Working Capital

We had a cash balance of $5.7 million and a working capital deficit of $190.6 million at March 31, 2015 as compared to a cash balance of $10.9 million and a working capital deficit of $185.7 million at December 31, 2014. The decrease in cash on hand was primarily attributable the interest payment on our 10% First Lien Notes in January 2015 and to reductions in our operating cash flow. The decrease in our working capital was primarily attributable to the reduction in our cash balance and an increase in accrued liabilities, primarily due to unpaid interest, partially offset by reductions in accounts payable.

Operations used cash flow of $3.5 million for the three months ended March 31, 2015 as compared to using $9.5 million for the three months ended March 31, 2014. The change in operating cash flows during 2015 was principally attributable to changes in our operating assets and liabilities.

Investing activities used cash totaling $1.3 million during the three months ended March 31, 2015 as compared to $2.3 million during 2014. The decrease in cash used in investing activities was primarily due to a reduction in our development activities.

Financing activities used cash flows of $0.4 million during the three months ended March 31, 2015 as compared to $0.3 million during 2014. Cash flows used by financing activities during both periods are primarily related to repayments on our short-term notes payable.

Debt

At March 31, 2015, we had $179.9 million of indebtedness outstanding, consisting of $54.6 million in face amount of 10% First Lien Notes, less $0.1 million of debt discount, and $125.2 million in face amount of 12½% Senior Secured Notes due 2016 less $0.3 million of debt discount.

We had no letters of credit outstanding at March 31, 2015 that were not fully collateralized by cash.

10% First Lien Notes. In November 2013, we issued $54.6 million in aggregate principal amount of our 10.0% Senior Secured Notes due 2015 (the First Lien Notes).

The 10% First Lien Notes are our senior secured obligations and are fully and unconditionally guaranteed on a senior secured basis by the Guarantors and will rank equally in right of payment with our, and the Guarantors , existing and future senior indebtedness and senior in right of payment to 12½% Second Lien Notes.

The 10% First Lien Notes mature on December 31, 2015, and interest, accruing at 10% per annum, is payable on the notes on March 31, June 30, September 30 and December 31 of each year, commencing December 31, 2013.

We have the option to redeem all or a portion of the 10% First Lien Notes at any time at 100% of the principal amount to be redeemed plus accrued and unpaid interest. Upon the occurrence of a change of control, we are required to offer to purchase the 10% First Lien Notes at a price equal to 101% of the aggregate principal amount of 10% First Lien Notes repurchased plus accrued and unpaid interest. Further, upon the occurrence of certain asset sales, we are required to provide notice of the same and are required to offer to purchase a defined portion of the 10% First Lien Notes at a price equal to 100% of the principal amount of 10% First Lien Notes repurchased plus accrued and unpaid interest.

In connection with the issuance and sale of the 10% First Lien Notes, we, the First Lien Trustee and Second Lien Trustee entered into an Intercreditor Agreement. Pursuant to the Intercreditor Agreement, the parties agreed that the lien with respect to collateral securing the First Lien Indenture and related First Lien Obligations shall be senior in right, priority, operation, effect and all other respects to any lien with respect to collateral securing the obligations under Second Lien Indenture, by and among our company, the Guarantors named therein and the Second Lien Trustee, and the related 12½% Second Lien Notes.

12½% Second Lien Notes. In July 2011, we issued $127.5 million of our 12½% Second Lien Notes and retired all obligations owing under our prior credit facilities and all outstanding letter of credit obligations. In December

2012, we issued an additional $25.0 million of our 12½% Second Lien Notes. In November 2013, we retired $27.3 million in face amount of our 12½% Second Lien Notes pursuant to the issuance of a like amount of 10% First Lien Notes described above.

The 12½% Second Lien Notes are our senior secured obligations and are fully and unconditionally guaranteed on a senior secured basis by the Guarantors and will rank equally in right of payment with our and the Guarantors existing and future senior indebtedness, subject, however, to the Intercreditor Agreement pursuant to which the 10% First Lien Notes are senior in right, priority, operation and effect to the lien securing the 12½% Second Lien Notes. The 12½% Second Lien Notes mature on July 1, 2016, and interest is payable on the notes on January 1 and July 1 of each year. We have the option to redeem all or a portion of the 12½% Second Lien Notes at any time on or after January 1, 2014 at the redemption prices specified in the Second Lien Indenture pursuant to which the 12½% Second Lien Notes were issued plus accrued and unpaid interest.

In January 2015, we entered into forbearance agreements with respect to both the First Lien Notes and the Second Lien Notes and were in default under those notes, including being default on the payment of interest owing as of January 1, 2015 with respect to the Second Lien Notes in the amount of $7.8 million.

In March 2015, we entered into amendments to the forbearance agreements which extended the forbearance period to April 30, 2015.

In April 2015, we entered into further amendments to the forbearance agreements which extended the forbearance period to May 22, 2015.

Capital Expenditures and Commitments

Our capital spending for the three months ended March 31, 2015 was $181,184 relating primarily to infrastructure projects, recompletions and workovers that were begun during 2014. We did not undertake and recompletions or workovers during the quarter ended March 31, 2015 and capital expenditures were down from $3.5 million during the 2014 quarter.

As noted, 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

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 partially limit our potential gains from future increases in prices. None of these instruments have been used for trading purposes. During the three months ended March 31, 2015, we recorded a gain on commodity derivatives of $117 in current earnings.

Off-Balance Sheet Arrangements

We had no off-balance sheet arrangements or guarantees of third party obligations at March 31, 2015.

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

Commodity Price Risk

Our major market-risk exposure is the commodity pricing applicable to our oil and natural gas production. Realized commodity prices received for

such production are primarily driven by the prevailing worldwide price for crude oil and spot prices applicable to natural gas. Prices have fluctuated significantly during the last five years and such volatility is expected to continue, and the range of such price movement is not predictable with any degree of certainty. In the normal course of business we periodically enter into commodity derivative transactions, including fixed price and ratio swaps to mitigate exposure to commodity price movements, but not for trading or speculative purposes.

As of March 31, 2015, we had no hedge contracts outstanding:

We are exposed to market risk on derivative instruments to the extent of changes in market prices of crude oil. However, the market risk exposure on these derivative contracts is generally offset by the gain or loss recognized upon the ultimate sale of the commodity. Unrealized gains and losses, at fair value, are included on our consolidated balance sheets as current or non-current assets or liabilities based on the anticipated timing of cash settlements under the related contracts. The change in the fair value of our commodity derivative contracts that are effective are recorded to Accumulated Other Comprehensive Income (Loss) in Stockholders Equity in the Consolidated Balance Sheet. The ineffective portion of the change in fair market value of derivatives is recorded currently in earnings as a component of Oil and Gas Hedging in the Consolidated Statements of Operations. We estimate the fair values of swap contracts based on the present value of the difference in exchange-quoted forward price curves and contractual settlement prices multiplied by notional quantities.

Interest Rate Risk

All of our debt has a fixed interest rate, and we are not presently exposed to interest rate risk. In the event that we establish a new revolving credit facility we expect that such facility will provide for interest at a floating rate and that borrowing under such facility will expose us to risk of changing interest rates.

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 March 31, 2015 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 not effective as of March 31, 2015.

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 March 31, 2015 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II

ITEM 1

LEGAL PROCEEDINGS

The Harvest Group, LLC, et al. v. Brian Carl Albrecht; Harvest Operating LLC v. The Harvest Group, LLC, et al.

In February 2010, the Company filed a complaint in the United States Bankruptcy Court for the Western District of Louisiana against Barry Ray Salsbury, Brian Carl Albrecht, Shell Sibley, Willie Willard Powell and Carolyn Monica Greer, each being former owners of The Harvest Group LLC and/or Harvest Oil & Gas, LLC. The complaint alleged breach of the Purchase and Sale Agreements with the former owners arising from the underpayment or nonpayment of royalties to the State of Louisiana for periods prior to the Company s acquisition of the Harvest Companies and related claims for damages. The claims against all parties other than Brian Carl Albrecht were subsequently settled and the claim against Mr. Albrecht was converted to an arbitration proceeding.

Harvest Operating, LLC, a company controlled by Mr. Albrecht, brought a separate cause of action against The Harvest Group, LLC, Harvest Oil & Gas, LLC and Saratoga Resources, Inc. (the Saratoga Parties), which cause of action was consolidated with the arbitration proceedings noted above. Harvest Operating s cause of action asserted a claim for damages based on the alleged wrongful termination of rights to use a pipeline owned and operated by the Saratoga Parties and the loss in value of a property operated by Harvest Operating based on its inability to transport production from that property via the pipeline in question.

The consolidated arbitration proceeding was conducted before a single arbitrator and, in August 2014, the arbitrator issued an Award and Reasons ruling (1) in favor of Saratoga, as relates to the royalty claim, and awarding to Saratoga $355,879, and (2) in favor of Harvest Operating, as relates to the pipeline use claim, and awarding to Harvest Operating $3,757,050. As a result of such award, the Company recorded an arbitration award expense and an accrued liability of $3.4 million.

In November 2014, Saratoga filed a motion with the arbitrator to reconsider and clarify the arbitration award. Separately, in November 2014, Saratoga filed a Motion for Clarification and Remittitur in the 19th District Court of East Baton Rouge Parish, Louisiana. Both the motion with the arbitrator and the Motion in the District Court sought to vacate the arbitrator s award relating to the pipeline claim on multiple grounds. In December 2014, the arbitrator agreed to hear arguments as to the authority and grounds for reconsidering the arbitration award and the arbitrator s decision in that matter is pending. Subsequent to March 31, 2015, the motion before the arbitrator to vacate the arbitration award was denied and the 19th District Court entered a final judgment denying Saratoga s motion to vacate or modify the arbitration award and granted the plaintiff s motion to confirm the arbitration award.

Also, in November 2014, Saratoga filed a separate cause of action against Brian Albrecht in the 24th District Court of Jefferson Parish, Louisiana. The cause of action alleges breach of contract on the part of Mr. Albrecht and seeks damages in an amount equal to those awarded in the above arbitration proceeding. Saratoga asserts that the Purchase and Sale Agreement under which Saratoga secured beneficial ownership of the pipeline that is subject of the arbitration proceeding and the claims of Harvest Operating was illusory in that, if the reasoning of the arbitration award were to stand, Saratoga would not have received the rights associated with beneficial ownership and control of the pipeline and that, by withholding from Saratoga the ordinary rights associated with ownership of the pipeline, Mr. Albrecht was in breach of the terms of the Purchase and Sale Agreement.

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
101.INS	XBRL Instance Document
101.SCH	XBRL Schema Document
101.CAL	XBRL Calculation Linkbase Document
101.DEF	XBRL Definition Linkbase Document
101.LAB	XBRL Labels Linkbase Document
101.PRE	XBRL Presentation Linkbase Document

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.	
Date: May 20, 2015		
	By:	/s/ Thomas Cooke Thomas Cooke Chief Executive Officer
	By:	/s/ Randal B. McDonald, Jr. Randal B. McDonald, Jr. Vice President Finance and Accounting