Saga Energy, Inc.
Form 10-Q
May 08, 2013

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2013

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

Commission File Number: 000-52692

SAGA ENERGY, INC.

(Exact name of registrant as specified in its charter)

Florida (State or other Jurisdiction of incorporation or organization)	65-0921319 (I.R.S. Employer Identification Number)
1509 East Chapman Ave, Orange, CA (Address of principal executive offices)	92866 (Zip Code)

(714) 532-1500

(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 þ 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 þ 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 ¨	Smaller reporting company þ

(Do not check if a 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 þ

As of May 1, 2013, the number of shares of common stock outstanding was 49,100,000.

FORM 10-Q
FOR THE QUARTER ENDED MARCH 31, 2012

TABLE OF CONTENTS

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

SAGA ENERGY, INC. AND SUBSIDIARY
CONDENSED CONSOLIDATED BALANCE SHEETS
MARCH 31, 2013 AND DECEMBER 31, 2012
(UNAUDITED)

	March 31, 2013	December 31, 2012
ASSETS		
CURRENT ASSETS		
Cash	$ 451	$ 6,684
Accounts receivable	187	187
TOTAL CURRENT ASSETS	638	6,871
OIL FIELD SERVICE EQUIPMENT, NET OF ACCUMULATED DEPRECIATION OF $19,234 AND $15,586	82,901	86,549
TOTAL ASSETS	$ 83,539	$ 93,420
LIABILITIES AND SHAREHOLDERS' DEFICIT		
CURRENT LIABILITIES		
Accounts payable		
Related	$ 19,852	$ 19,852
Unrelated	65,985	53,470
Accrued expenses	9,481	6,575
Note payable, shareholder	192,138	166,530
TOTAL CURRENT LIABILITIES	287,456	246,427
TOTAL LIABILITIES	287,456	246,427
SHAREHOLDERS' DEFICIT		
Preferred stock, no stated value; Authorized - 10,000,000 shares; Issued and outstanding - -0- shares	-	-
Common stock, no par value; Authorized - 100,000,000 shares; Issued and outstanding - 49,100,000 and 49,100,000 shares at March 31, 2013 and December 31, 2012, respectively	544,972	544,972
Accumulated deficit	(748,889)	(697,979)
TOTAL SHAREHOLDERS' DEFICIT	(203,917)	(153,007)
TOTAL LIABILITIES AND SHAREHOLDERS' DEFICIT	$ 83,539	$ 93,420

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

SAGA ENERGY, INC. AND SUBSIDIARY
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE THREE MONTHS ENDED MARCH 31, 2013 AND 2012
(UNAUDITED)

		2013		2012
REVENUES – RELATED ENTITY	$	-	$	9,000
OPERATING EXPENSES		50,910		85,975
NET LOSS	$	(50,910)	$	(76,975)
NET LOSS PER SHARE – BASIC AND DILUTED	$	(.00)	$	(.00)
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING – BASIC AND DILUTED		49,100,000		49,111,813

The accompanying notes are an integral part of these financial statements

SAGA ENERGY, INC. AND SUBSIDIARY
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE THREE MONTHS ENDED MARCH 31, 2013 AND 2012
(UNAUDITED)

	2013		2012	
CASH FLOWS FROM OPERATING ACTIVITIES:				
Net loss	$	(50,910)	$	(76,975)
Adjustments to reconcile loss to net cash used by operating activities:				
Depreciation		3,648		3,348
Recovery of consulting fees due to cancellation of common stock		-		(223)
Changes in operating assets and liabilities:				
Accounts receivable		-		(1,800)
Advance to related entity		-		3,125
Prepaid expenses		-		(10,000)
Other receivable		-		750
Accounts payable		12,516		26,634
Accrued expenses		2,906		(15,654)
NET CASH USED IN OPERATING ACTIVITIES		(31,840)		(70,795)
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchase of oil field service equipment		-		(18,257)
NET CASH USED BY INVESTING ACTIVITIES		-		(18,257)
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from notes payable, shareholder		25,607		44,735
NET CASH PROVIDED BY FINANCING ACTIVITIES		25,607		44,735
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		(6,233)		(44,317)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD		6,684		45,995
CASH AND CASH EQUIVALENTS, END OF PERIOD	$	451	$	1,678
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION				
CASH PAID DURING THE YEAR FOR:				
Interest	$	-	$	-
Taxes	$	-	$	-
NON-CASH FINANCING ACTIVITIES				
Common stock re-purchased due to cancelled contract	$	-	$	223

The accompanying notes are an integral part of these financial statements

SAGA ENERGY, INC. AND SUBSIDIARY
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2013 AND 2012

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Business and History of Company

Saga Energy, Inc. (unless otherwise indicated, together with its subsidiary Saga Services & Equipment, Inc., "the Company"), formerly known as Don Marcos Trading Co., was incorporated on May 11, 1999 in the state of Florida. On August 15, 2011, control of the Company changed due to the majority shareholders selling their stock to a new group of stockholders. After the sale, the Company's operations are now concentrating on developing energy resources throughout the world, placing an emphasis on oil and gas properties in the U.S.

Saga Services & Equipment, Inc. was formed on December 22, 2011 in the state of Texas. The Company's operations consist of leasing an oil field service rig in the state of Oklahoma.

Principles of Consolidation

For the three months ended March 31, 2013, the Company was consolidated with its wholly-owned subsidiary, Saga Services & Equipment, Inc. All inter-company accounts and transactions have been eliminated.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Company considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents.

Fair value of financial instruments

For certain Company instruments, including cash, accounts receivable, accounts payable and accrued expenses, the carrying amounts approximate fair value due to their short maturities.

Common Stock Issued for Non-Cash Transaction

It is the Company's policy to value stock issued for non-cash transactions, such as services, at the fair market value of the goods or services received or the consideration granted, whichever is more readily determinable, at the date the transaction is negotiated.

Revenue Recognition

The Company recognizes revenue from the leasing of an oil field service rig when the services are completed.

Net Loss Per Share

The Company adopted ASC 260, “Earnings Per Share,” that requires the reporting of both basic and diluted earnings (loss) per share. Basic earnings (loss) per share is computed by dividing net income (loss) available to common stockholders by the weighted average number of common shares outstanding for the period. Diluted earnings (loss) per share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock. In accordance with ASC 260, any anti-dilutive effects on net income (loss) per share are excluded.

Allowance for Doubtful Accounts

The allowance for doubtful accounts on accounts receivable is charged to income in amounts sufficient to maintain the allowance at a level management believes is adequate to cover any probable losses. Management determines the adequacy of the allowance based on expected collectability.

SAGA ENERGY, INC. AND SUBSIDIARY
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2013 AND 2012

Oil Field Service Equipment

Oil field service equipment is stated at cost. Major renewals and improvements are charged to the asset accounts while replacements, maintenance and repairs, which do not improve or extend the lives of respective assets, are expensed. At the time the equipment is retired or otherwise disposed of, the assets and related depreciation accounts are relieved of the applicable amounts. Gains or losses from retirements or sales are credited or charged to income.

The Company depreciates its oil field service equipment for financial reporting purposes using the straight-line method over a seven year period.

Income Taxes

The Company follows the accounting principle for uncertainty in income tax guidance which clarifies the accounting and recognition for tax positions taken or expected to be taken in its income tax returns. The Company's income tax filings are subject to audit by various taxing authorities. The Company's open audit periods are 2008 to 2012. In evaluating the Company's tax provisions and accruals, future taxable income, the reversal of temporary differences, and tax planning strategies are considered.

NOTE 2 GOING CONCERN

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern, which contemplates the recoverability of assets and the satisfaction of liabilities in the normal course of business.

The Company's activities since inception have been financially sustained by issuance of common stock, stockholder contributions and related party loans. The Company may raise additional funding to continue its operations through contributions from the current stockholders and stock issuance to other investors.

The ability of the Company to continue as a going concern is dependent upon its ability to raise additional capital from the sale of common stock and, ultimately, the achievement of significant operating revenues. The accompanying financial statements do not include any adjustments that might be required should the Company be unable to recover the value of its assets or satisfy its liabilities.

Management's plan to eliminate the going concern situation includes, but is not limited to, obtaining investors to fund the working capital needs of the Company.

NOTE 3 RELATED PARTIES

The Company had multiple transactions with various related parties during the three months ended March 31, 2013. In addition, on March 31, 2012, the Company entered into a one-year $44,735 promissory note with Blue Sky Energy & Power, Inc. ("BSEP"), one of our stockholders and an affiliate of our majority stockholder, with interest accruing at the rate of 7% per annum and payable quarterly (the "BSEP Note"). An amendment signed on October 29, 2012 allows the parties to extend the due date on a yearly basis. On March 31, 2013, by agreement with BSEP, the due date of the BSEP Note has been extended to March 31, 2014. The increase in the balance due on BSEP Note, includes expenses of $25,607, which increased the total of the BSEP Note to $192,138.

NOTE 4 NOTES PAYABLE, SHAREHOLDER

As of March 31, 2013, the Company had notes payable from an officer-shareholder of the Company. At March 31, 2013 and December 31, 2012, the outstanding amount of the notes was $192,138 and $166,530, respectively. The notes, which were unsecured, accrued interest at 7%.

NOTE 5 SUBSEQUENT EVENTS

The Company's management has reviewed all material events through the date of this report in accordance with ASC 855-10.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis should be read in conjunction with our financial statements, including the notes thereto, appearing elsewhere in this report.

Overview

We were incorporated on May 11, 1999 in the state of Florida. On August 15, 2011, the control of the company changed due to the majority stockholders selling their stock to a new group of stockholders. After the sale, we now concentrate on conducting activities in the energy industry, including leasing the Workover Rig that we completed refurbishing on March 19, 2012 and expanding into the upstream sector of the oil industry in the United States. After the sale, we changed our name to Saga Energy, Inc. from Don Marcos Trading Co. and changed our trading symbol on the Over-the-Counter Quotation Bureau (OTC QB) from DNMO to SAGA.

Saga Services & Energy, Inc. was formed on December 22, 2011 in the state of Texas. Its operations consist of leasing an oil field service rig in the state of Oklahoma.

Critical Accounting Policies

Our discussion and analysis of our financial condition and results of operations are based upon our financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses. In consultation with our Board of Directors, we have identified several accounting principles that we believe are key to the understanding of our financial statements. These important accounting policies require management's most difficult, subjective judgments.

Principles of Consolidation

For the three months ended March 31, 2013, we were consolidated with our wholly-owned subsidiary, Saga Services & Equipment, Inc. All inter-company accounts and transactions have been eliminated.

Revenue Recognition

The Company recognizes revenue from the leasing of an oil field service rig when the services are completed.

Oil Field Service Equipment

Oil field service equipment is stated at cost. Major renewals and improvements are charged to the asset accounts while replacements, maintenance and repairs, which do not improve or extend the lives of respective assets, are expensed. At the time the equipment is retired or otherwise disposed of, the assets and related depreciation accounts are relieved of the applicable amounts. Gains or losses from retirements or sales are credited or charged to income.

We depreciate our oil field service equipment for financial reporting purposes using the straight-line method over a seven year period.

Common Stock

On February 13, 2012, we cancelled our agreement for financial advisory and investment banking services with an investment banking firm. The investment banking firm returned for cancellation the 25,000 shares of common stock it received under the contract. There have been no common stock transactions since that date.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Net Loss Per Share

We adopted ASC 260, “Earnings Per Share” that requires the reporting of both basic and diluted earnings (loss) per share. Basic earnings (loss) per share is computed by dividing net income (loss) available to common stockholders by the weighted average number of common shares outstanding for the period. Diluted earnings (loss) per share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock. In accordance with ASC 260, any anti-dilutive effects on net income (loss) per share are excluded.

Stock Issued for Non Cash Transactions

It is our policy to value stock issued for non-cash transactions, such as services, at the fair market value of the goods or services received or the consideration granted, whichever is more readily determinable, at the date the transaction is negotiated.

There were no shares of common stock issued for services during the three months ended March 31, 2013 and 2012.

Going Concern

Our financial statements are prepared using generally accepted accounting principles applicable to a going concern, which contemplates the realization of assets and liquidation of liabilities in the normal course of business. Our ability to continue as a going concern is dependent upon our ability to locate sources of capital, and attain future profitable operations. Our management is currently initiating our business plan. The accompanying financial statements do not include any adjustments that might be necessary should we be unable to continue as a going concern.

Results of Operations

Our operations currently consist of the leasing of the Workover Rig. Due to the age of the Workover Rig and federal and state regulations, however, we only lease the Workover Rig for five-day periods.

Our operations are affected by weather conditions, as operators will shut down rig activity for safety reasons when they anticipate inclement weather. Oklahoma faced an abundance of bad weather thus far this year, adversely affecting our results of operations. We hope for better weather conditions as the year progresses.

You should read the selected financial data set forth below along with our discussion and our financial statements and the related notes. We have derived the financial data from our financial statements. We believe the financial data shown in the table below include all adjustments consisting only of normal recurring adjustments, that we consider necessary for a fair presentation of such information. Operating results for the period are not necessarily indicative of the results that may be expected in the future.

Results for the Three Months Ended March 31, 2013 Compared to the Three Months Ended March 31, 2012 (unaudited)

	Three Months Ended March 31, 2013	Three Months Ended March 31, 2012	Increase/ (Decrease)
Revenue - related entity	$ -	$ 9,000	$ 9,000
Operating expenses	50,910	85,975	85,975
Net loss	$ (50,910)	$ (76,975)	$ 70,092
Net loss per share	$ (0.00)	$ (0.00)	$ (0.00)

Saga Energy, Inc. did not have any revenue for the three months ended March 31, 2013 or 2012. Saga Services & Equipment, Inc. had $0 and $9,000 of revenue from operations for the three months ended March 31, 2013 and 2012, respectively.

Operating Expenses

We had operating expenses of $50,910 and $85,975 for the three months ended March 31, 2013 and 2012, respectively, mainly due to professional fees, consulting fees, and salaries.

Net Loss

Primarily as a result of our operating expenses, we had a net loss of $50,910 and $76,975 for the three months ended March 31, 2013 and 2012, respectively.

Liquidity and Capital Resources

We currently have no material commitments for capital expenditures.

Working capital is summarized and compared as follows:

		March 31, 2013		March 31, 2012
Current Assets	$	638	$	21,553
Current Liabilities		287,456		125,344
Net working capital	$	(286,818)	$	(103,791)

The changes in our working capital are primarily due to increased borrowings on the BSEP Note and expenditures during the three months ended March 31, 2013.

Changes in cash flows are summarized as follows:

Our net cash used by operation activities was $31,840 for the three months ended March 31, 2013. During the three months ended March 31, 2013, we experienced a net loss of $50,910, which included noncash items such as depreciation in the amount of $3,648. We had cash provided by increases in accounts payable of $12,516 and accrued expenses of $2,906.

Our net cash used by operation activities was $70,795 for the three months ended March 31, 2012. During the three months ended March 31, 2012, we experienced a net loss of $76,975, which included noncash items such as depreciation in the amount of $3,348 and a recovery of consulting fees due to the cancellation of a contract in the amount of $223. We had cash provided by an advance from a related entity in the amount of $3,125, a decrease in other receivable of $750 and an increase in accounts payable of $26,634. These were offset by an increase in accounts receivable of $1,800, an increase in prepaid expenses of $10,000, and a decrease in accrued expenses of $15,654.

There was cash used by investing activities of $0 and $18,257 for the three months ended March 31, 2013 and 2012, respectively, due to the purchase of equipment to complete the refurbishment of the Workover Rig.

Cash provided by financing activities for the three months ended March 31, 2013 and 2012 was $25,607 and $44,735, respectively. In the three months ended March 31, 2013, from additional proceeds from the BSEP. We had proceeds from the BSEP Note of $44,735 for the three months ended March 31, 2012.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are a smaller reporting company as defined by Rule 12b-2 of the Securities Exchange Act of 1934 and are not required to provide information under this item.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Our President and Chief Financial Officer have evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934) as of the end of period covered by this report. Based upon such evaluation, the President and Chief Financial Officer concluded that our disclosure controls and procedures were effective to ensure that the information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms, and is accumulated and communicated to our management, including our President and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting during the period covered by this report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

To the best knowledge of our management, there are no legal proceedings pending or threatened against us.

ITEM 1A. RISK FACTORS

We are a smaller reporting company as defined by Rule 12b-2 of the Securities Exchange Act of 1934 and are not required to provide information under this item.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

The information required by this item is included in "Notes to Condensed Consolidated Financial Statements – Note 5 - Related Parties."

ITEM 6. EXHIBITS

The information required by this Item is set forth on the Exhibit Index at the end of this report.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

DATED: May 8, 2013

SAGA ENERGY, INC.

/s/ Ilyas Chaudhary
BY: Ilyas Chaudhary
ITS: President and Chief Executive Officer
(Principal Executive Officer)

/s/ Ricardo Hsu
BY: Ricardo Hsu
ITS: Chief Financial Officer
(Principal Financial Officer and Principal Accounting Officer)

EXHIBIT INDEX

Exhibit Number	Description
31.1	Certification by the Chief Executive Officer of Registrant pursuant to the Securities Exchange Act of 1934, Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification by the Chief Financial Officer of Registrant pursuant to the Securities Exchange Act of 1934, Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certifications 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 Taxonomy Extension Schema Document
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document.
101.LAB*	XBRL Taxonomy Extension Label Linkbase Document.
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document.
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document.

* Pursuant to Rule 406T of Regulation S-T, the interactive data files on Exhibit 101 hereto are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, are deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and otherwise are not subject to liability under those sections.