ARENA RESOURCES INC
Form 10-Q
May 07, 2008

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

FORM 10-Q

(Mark One)

|X| QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Quarterly Period Ended March 31, 2008
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 001-31657

ARENA RESOURCES, INC.

(Exact name of registrant as specified in its charter)

Nevada	73-1596109
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

6555 S. Lewis Ave.
Tulsa, Oklahoma 74136
(Address of principal executive offices)

(918) 747-6060
(Registrant's telephone number)

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 past 12 months, and (2) has been subject to such filing requirements for the past 90 days.
|X| 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 definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act:

Large accelerated filer |X|	Accelerated filer |_|
Non-accelerated filer |_|	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 |X| No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practical date:

As of April 30, 2008, the Company had outstanding 35,107,411 shares of common stock ($0.001 par value).

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Arena Resources, Inc.
For the Quarter Ended March 31, 2008

Part I Financial Information

Item 1. Financial Statements:

The condensed consolidated financial statements included herein have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to such rules and regulations, although the Company believes that the disclosures are adequate to make the information presented not misleading.

In the opinion of the Company, all adjustments, consisting of only normal recurring adjustments, necessary to present fairly the consolidated financial position of the Company and the consolidated results of its operations and its cash flows have been made. The results of its operations and its cash flows for the three months ended March 31, 2008 are not necessarily indicative of the results to be expected for the year ending December 31, 2008.

ARENA RESOURCES, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(UNAUDITED)

	March 31, 2008	December 31, 2007
ASSETS		
Current Assets		
Cash	$ 6,687,188	$ 5,213,459
Accounts receivable	23,664,455	20,462,160
Joint interest billing receivable	2,832,756	3,355,537
Prepaid expenses	29,045	133,393
Total Current Assets	33,213,444	29,164,549
Property and Equipment, Using Full Cost Accounting		
Oil and gas properties subject to amortization	380,850,166	339,887,859
Drilling rigs	6,423,897	6,254,737
Land, buildings, equipment and leasehold improvements	4,860,533	4,512,224
Total Property and Equipment	392,134,596	350,654,820
Less: Accumulated depreciation and amortization	(36,796,492)	(30,497,371)
Net Property and Equipment	355,338,104	320,157,449
Total Assets	$ 388,551,548	$ 349,321,998
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Accounts payable	$ 13,399,418	$ 12,525,202
Income taxes payable	-	539,793
Fair value of oil derivative	5,056,201	4,446,822
Accrued liabilities	2,480,044	1,704,658
Total Current Liabilities	20,935,663	19,216,475
Long-Term Liabilities		
Notes payable	40,500,000	35,000,000
Asset retirement liability	3,618,305	3,397,830
Deferred income taxes	44,429,683	33,896,728
Total Long-Term Liabilities	88,547,988	72,294,558
Stockholders' Equity		
Preferred stock - $0.001 par value; 10,000,000 shares authorized; no shares issued or outstanding	-	-
Common stock - $0.001 par value; 100,000,000 shares authorized; 35,107,411 shares and 34,278,779 shares outstanding, respectively	35,108	34,279
Additional paid-in capital	194,173,945	190,852,118
Retained earnings	88,044,461	69,726,066
Accumulated other comprehensive loss	(3,185,617)	(2,801,498)

Total Stockholders' Equity		279,067,897		257,810,965
Total Liabilities and Stockholders' Equity	$	388,551,548	$	349,321,998

See the accompanying notes to unaudited condensed consolidated financial statements.

ARENA RESOURCES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)

For the Three Months Ended March 31,	2008	2007
Oil and Gas Revenues	$ 45,312,392	$ 16,651,301
Costs and Operating Expenses		
Oil and gas production costs	2,911,925	2,360,949
Oil and gas production taxes	2,329,750	958,651
Realized loss on oil derivatives	1,588,440	-
Depreciation, depletion and amortization	6,139,933	2,657,555
Accretion expense	68,425	43,497
General and administrative expense	2,622,983	1,234,786
Total Costs and Operating Expenses	15,661,456	7,255,438
Other Income (Expense)		
Interest income	40,961	50,828
Interest expense	(615,080)	(404,167)
Net Other Expense	(574,119)	(353,339)
Income Before Provision for Income Taxes	29,076,817	9,042,524
Provision for Deferred Income Taxes	(10,758,422)	(3,334,634)
Net Income	$ 18,318,395	$ 5,707,890
Basic Net Income Per Common Share	0.52	0.19
Diluted Net Income Per Common Share	0.51	0.18
Other Comprehensive Loss		
Unrealized loss on oil derivative, net of tax	(384,119)	-
Total Other Comprehensive Income	$ 17,934,276	$ 5,707,890

See the accompanying notes to unaudited condensed consolidated financial statements.

ARENA RESOURCES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

For the Three Months Ended March 31,	**2008**	**2007**
Cash Flows From Operating Activities		
Net income	$ 18,318,395	$ 5,707,890
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, depletion and amortization	6,139,933	2,653,585
Provision for income taxes	10,758,422	3,334,634
Stock based compensation	1,760,812	639,624
Accretion of asset retirement obligation	68,425	43,497
Changes in assets and liabilities:		
Accounts and joint interest receivable	(2,679,514)	708,355
Other changes in deferred income taxes	(540,000)	-
Prepaid expenses	104,348	81,515
Excess tax benefits from share-based payment arrangements	-	(1,714,733)
Accounts payable and accrued liabilities	1,549,185	(5,397,930)
Net Cash Provided by Operating Activities	35,480,006	6,056,437
Cash Flows from Investing Activities		
Purchase and development of oil and gas properties	(40,550,652)	(24,373,643)
Purchase of buildings, drilling rigs & equipment	(517,469)	(1,902,646)
Net Cash Used in Investing Activities	(41,068,121)	(26,276,289)
Cash Flows From Financing Activities		
Cash paid for offering costs	(5,000)	-
Proceeds from exercise of warrants	38,844	270,003
Proceeds from exercise of options	1,528,000	485,500
Excess tax benefits from share-based payment arrangements	-	1,714,733
Proceeds from issuance of notes payable	5,500,000	17,200,000
Payment of notes payable	-	(400,000)
Net Cash Provided by Financing Activities	7,061,844	19,270,236
Net Increase in Cash	1,473,729	(949,616)
Cash at Beginning of Period	5,213,459	4,919,984
Cash at End of Period	$ 6,687,188	$ 3,970,368
Supplemental Cash Flow Information		
Cash paid for income taxes	$ 540,000	$ -
Cash paid for interest	482,599	590,641
Non-Cash Investing and Financing Activities		
Asset retirement obligation incurred in property development	252,467	75,804
Depreciation on drilling rigs capitalized as oil and gas properties	159,187	49,922

See the accompanying notes to unaudited condensed consolidated financial statements.

ARENA RESOURCES, INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2008

NOTE 1 BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

Condensed Consolidated Financial Statements The accompanying condensed consolidated financial statements have been prepared by the Company and are unaudited. In the opinion of management, the accompanying unaudited financial statements contain all adjustments necessary for fair presentation, consisting of normal recurring adjustments, except as disclosed herein.

The accompanying unaudited interim financial statements have been condensed pursuant to the rules and regulations of the Securities and Exchange Commission; therefore, certain information and disclosures generally included in financial statements have been condensed or omitted. The condensed financial statements should be read in conjunction with the Company s annual financial statements included in its annual report on Form 10-K as of December 31, 2007. The financial position and results of operations for the three months ended March 31, 2008 are not necessarily indicative of the results to be expected for the full year ending December 31, 2008.

During 2007 the Company completed a 2 for 1 stock split, in the form of a stock dividend. Accordingly, all share amounts throughout these financial statements have been retroactively restated to account for the split.

Nature of Operations Arena Resources, Inc. (the Company) owns interests in oil and gas properties located in Oklahoma, Texas, Kansas and New Mexico. The Company is engaged primarily in the acquisition, exploration and development of oil and gas properties and the production and sale of oil and gas. The accompanying statements of operations and cash flows include the operations of their wholly owned subsidiaries from the date of acquisition/formation.

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, disclosure of contingent assets and liabilities and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Fair Values of Financial Instruments The carrying amounts reported in the balance sheets for accounts receivable, joint interest billings receivable, accounts payable, and accrued liabilities approximate fair value because of the immediate or short-term maturity of these financial instruments. The carrying amounts reported for notes payable and long-term debt approximate fair value because the underlying instruments are at interest rates which approximate current market rates. The fair value estimates for oil derivatives are derived from published market prices for the underlying commodities to determine discounted expected future cash flows as of the date of the estimate. See Note 9 Derivative Instruments.

Consolidation The accompanying consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation.

Concentration of Credit Risk and Major Customer The Company has cash in excess of federally insured limits at March 31, 2008. During the three months ended March 31, 2008, sales to one customer represented 83% of oil and gas revenues. At March 31, 2008, this customer made up 86% of accounts receivable.

ARENA RESOURCES, INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2008

Oil and Gas Properties The Company uses the full cost method of accounting for oil and gas properties. Under this method, all costs associated with acquisition, exploration, and development of oil and gas reserves are capitalized. Costs capitalized include acquisition costs, geological and geophysical expenditures, lease rentals on undeveloped properties and costs of drilling and equipping productive and non-productive wells. Drilling costs include directly related overhead costs. Capitalized costs are categorized either as being subject to amortization or not subject to amortization.

All capitalized costs of oil and gas properties, including the estimated future costs to develop proved reserves and estimated future costs of abandonment and site restoration, are amortized on the unit-of-production method using estimates of proved reserves as determined by independent engineers. Investments in unproved properties and major development projects are not amortized until proved reserves associated with the projects can be determined. The Company evaluates oil and gas properties for impairment at least annually. Amortization expense for the three months ended March 31, 2008 was $6,139,933, based on depletion at the rate of $11.78 per barrel of oil equivalent compared to $2,657,555, based on depletion at the rate of $7.89 per barrel of oil equivalent for the three months ended March 31, 2007. These amounts include $49,691 and $8,437 of depreciation for the three months ended March 31, 2008 and 2007, respectively.

In addition, capitalized costs are subject to a ceiling test which limits such costs to the estimated present value of future net revenues from proved reserves, discounted at a 10-percent interest rate, based on current economic and operating conditions, plus the lower of cost or fair market value of unproved properties. Consideration received from sales or transfers of oil and gas property is accounted for as a reduction of capitalized costs. Revenue is not recognized in connection with contractual services performed on properties in which the Company holds an ownership interest.

Drilling Rigs Drilling rigs are valued at historical cost adjusted for impairment loss less accumulated depreciation. Historical costs include all direct costs associated with the acquisition of drilling rigs and placing them in service. Drilling rigs are depreciated over 10 years and the depreciation is capitalized as part of oil and gas properties subject to amortization. For the three months ended March 31, 2008 and 2007 the Company had depreciation of $159,187 and $49,922, respectively, on the Company owned drilling rigs.

Land, Buildings, Equipment and Leasehold Improvements Land, buildings, equipment and leasehold improvements are valued at historical cost adjusted for impairment loss less accumulated depreciation. Historical costs include all direct costs associated with the acquisition of land, buildings, equipment and leasehold improvements and placing them in service.

Depreciation of buildings and equipment is calculated using the straight-line method based upon the following estimated useful lives:

Buildings and improvements	30 years
Office equipment and software	5-7 years
Machinery and equipment	5-7 years

One building has not been placed in service and, therefore, the Company has not recorded any depreciation on this building. Depreciation expense on the buildings and improvements was $29,152 for the three months ended March 31, 2008. No depreciation was taken during the three months ended March 31, 2007 on buildings and improvement, as there were no Company owned buildings during that time period. An aggregate value of $530,000 has been attributed to the land on which the buildings are located and is not depreciated.

ARENA RESOURCES, INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2008

Basic and Diluted Income Per Common Share Basic income per common share is computed by dividing net income by the weighted-average number of common shares outstanding during the period. Diluted income per share reflects the potential dilution that could occur if all contracts to issue common stock were converted into common stock, except for those that are anti-dilutive. The dilutive effect of stock options and other share based compensation is calculated using the treasury method with an offset from expected proceeds upon exercise of the stock options and unrecognized compensation expense.

Recent Accounting Pronouncements In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities Including an amendment to FASB Statement No. 115* (SFAS 159). SFAS 159 allows companies to choose to measure eligible assets and liabilities at fair value with changes in value recognized in earnings. Fair value treatment for eligible assets and liabilities may be elected either prospectively upon initial recognition, or if an event triggers a new basis of accounting for an existing asset or liability. The Company adopted SFAS 159 on January 1, 2008. The adoption of SFAS 159 had no material impact on its financial position and results of operations as the Company has not elected to utilize the fair value option on any assets or liabilities.

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities an amendment of FASB Statement No. 133*, which changes the disclosure requirements for derivative instruments and hedging activities. Enhanced disclosures are required to provide information about (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for under Statement 133 and its related interpretations, and (c) how derivative instruments and related hedged items affect an entity s financial position, financial performance, and cash flows. This Statement is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. This Statement will require the additional disclosures described above. The Company is does not expect the adoption of SFAS 161 to have a material impact on its results of operations or financial condition.

In December 2007, the FASB issued Statements of Financial Accounting Standards No. 141 (revised 2007), Business Combinations (SFAS 141R) and No. 160, Noncontrolling Interests in Consolidated Financial Statements an amendment to ARB No. 51 (SFAS 160). Both SFAS 141R and SFAS 160 are to be adopted effective January 1, 2009. SFAS 141R requires the application of several new or modified accounting concepts that, due to their complexity, could introduce a degree of volatility in periods subsequent to a material business combination. SFAS 141R requires that all business combinations result in assets and liabilities acquired being recorded at their fair value, with limited exceptions. Other areas related to business combinations that will require changes from current GAAP include: contingent consideration, acquisition costs, contingencies, restructuring costs, in process research and development and income taxes, among others. SFAS 160 will primarily impact the presentation of minority or noncontrolling interests within the Balance Sheet and Statement of Operations as well as the accounting for transactions with noncontrolling interest holders. The Company does not expect the adoption of SFAS 141R or 160 to have a material impact on its results of operations or financial condition.

ARENA RESOURCES, INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2008

NOTE 2 EARNINGS PER SHARE INFORMATION

For the Three Months Ended March 31,	2008	2007
Net Income	$ 18,318,395	$ 5,707,890
Basic Weighted-Average Common Shares Outstanding	34,892,570	29,512,394
Effect of dilutive securities		
Warrants	228,232	411,932
Stock options	1,108,624	1,331,946
Diluted Weighted-Average Common Shares Outstanding	36,229,426	31,256,272
Basic Income Per Common Share		
Net income	0.52	0.19
Diluted Income Per Common Share		
Net income	0.51	0.18

For the three months ended March 31, 2008, 525,000 stock options were not included in the computation of diluted income per share as their effects are anti-dilutive.

NOTE 3 PROPERTY AND EQUIPMENT

Acquisition of Oil and Gas Properties On December 11, 2007, the Company consummated a transaction pursuant to which the Company acquired a 100% working interest, 75% net revenue interest, in the South Fuhrman Mascho Unit, a 100% working interest, 78.125% net revenue interest, in the University Consolidated IX Unit and a 100% working interest, 75% net revenue interest, in approximately 5,040 acres of undeveloped acreage (collectively, the Properties), all of which are located in Andrews County, Texas. The Properties were acquired from Phoenix PetroCorp, Inc. The effective date of the acquisition was December 1, 2007. The Company acquired the Properties for their current production, as well as for the approximately 120 additional drilling locations which we estimate exist on the Properties. The Company paid $49,000,000 to the sellers. In addition, the Company paid acquisition costs of $222,250, including the issuance of 5,000 shares of common stock as a consulting and finder s fee, valued at $204,750, or $40.95 per share. The acquisition was funded through the use of cash on hand and proceeds from the Company s credit facility.

The following unaudited pro forma information is presented to reflect the operations of the Company as if the acquisitions of the properties had been completed on January 1, 2007:

For the Three Months Ended March 31,	2008	2007
Oil and Gas Revenues	$ 45,312,392	$ 17,090,595
Net Income	18,318,395	5,208,603
Income Per Common Share		
Basic Net Income Per Common Share	$ 0.52	$ 0.16
Diluted Net Income Per Common Share	0.51	0.15

NOTE 3 PROPERTY AND EQUIPMENT

ARENA RESOURCES, INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2008

NOTE 4 NOTES PAYABLE

Credit facility In June 2007, the Company entered into a new agreement that increased the borrowing base under its credit facility to $100,000,000, while leaving the credit facility at $150,000,000. Additionally, the interest rate was changed to be a floating rate equal to the 30, 60 or 90 day LIBOR rate plus 1.75%. Additionally, the subordination of the loans from two officers was released. All other terms and conditions remained the same. As of March 31, 2008, the Company was in compliance with all covenants and had $40,500,000 outstanding under this credit facility.

NOTE 5 ASSET RETIREMENT OBLIGATION

The Company provides for the obligation to plug and abandon oil and gas wells at the dates properties are either acquired or the wells are drilled. The asset retirement obligation is adjusted each quarter for any liabilities incurred or settled during the period, accretion expense and any revisions made to the estimated cash flows. The reconciliation of the asset retirement obligation for the three months ended March 31, 2008 is as follows:

Balance, January 1, 2008	$	3,397,830
Liabilities incurred		252,467
Accretion expense		68,425
Liabilities settled		(100,417)
Balance, March 31, 2008	$	3,618,305

NOTE 6 STOCKHOLDERS EQUITY

Warrants exercised During the three months ended March 31, 2008, the Company issued 8,632 shares of common stock from the exercise of warrants with an exercise price of $4.50 per share, for proceeds of $38,844.

Options exercised During the three months ended March 31, 2008, the Company issued 820,000 shares of c