

ARENA RESOURCES INC
Form 10-Q
November 08, 2007

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 September 30, 2007

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

(State or other jurisdiction of
incorporation or organization)

73-1596109

(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. Yes No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act):

Yes 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 November 7, 2007, the Company had outstanding 34,136,646 shares of common stock (\$0.001 par value).

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For the Quarter Ended September 30, 2007

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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 and nine months ended September 30, 2007 are not necessarily indicative of the results to be expected for the year ending December 31, 2007.

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

| | September 30, 2007 | December 31, 2006 |
|---|-----------------------|-----------------------|
| ASSETS | | |
| Current Assets | | |
| Cash | \$ 32,300,916 | \$ 4,919,984 |
| Accounts receivable | 14,262,988 | 6,702,677 |
| Joint interest billing receivable | 3,154,002 | 2,949,099 |
| Prepaid expenses | 253,090 | 102,585 |
| Total Current Assets | 49,970,996 | 14,674,345 |
| Property and Equipment, Using Full Cost Accounting | | |
| Oil and gas properties subject to amortization | 253,421,876 | 171,708,200 |
| Equipment | 60,051 | 59,332 |
| Drilling rigs | 5,422,313 | 1,996,899 |
| Office buildings and land | 2,868,180 | - |
| Office equipment | 210,466 | 120,929 |
| Total Property and Equipment | 261,982,886 | 173,885,360 |
| Less: Accumulated depreciation and amortization | (20,749,318) | (12,246,727) |
| Net Property and Equipment | 241,233,568 | 161,638,633 |
| Total Assets | \$ 291,204,564 | \$ 176,312,978 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current Liabilities | | |
| Accounts payable | \$ 9,491,288 | \$ 14,367,252 |
| Accrued liabilities | 903,083 | 628,618 |
| Total Current Liabilities | 10,394,371 | 14,995,870 |
| Long-Term Liabilities | | |
| Notes payable | - | 19,300,000 |
| Notes payable to related parties | - | 400,000 |
| Fair value of oil derivatives | 35,076 | - |
| Asset retirement liability | 2,584,515 | 2,250,332 |
| Deferred income taxes | 30,213,243 | 19,322,724 |
| Total Long-Term Liabilities | 32,832,834 | 41,273,056 |
| 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; 34,136,646 shares and 29,337,574 shares outstanding, respectively | 34,137 | 29,338 |
| Additional paid-in capital | 182,920,821 | 81,857,599 |
| Options and warrants outstanding | 4,749,327 | 2,872,988 |

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| | | |
|---|-----------------------|-----------------------|
| Retained earnings | 60,295,172 | 35,284,127 |
| Accumulated other comprehensive loss | (22,098) | - |
| Total Stockholders' Equity | 247,977,359 | 120,044,052 |
| Total Liabilities and Stockholders' Equity | \$ 291,204,564 | \$ 176,312,978 |

See the accompanying notes to unaudited condensed consolidated financial statements.

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

| | For the Three Months Ended September 30, | | For the Nine Months Ended September 30, | |
|---|---|---------------|--|---------------|
| | 2007 | 2006 | 2007 | 2006 |
| Oil and Gas Revenues | \$ 26,731,699 | \$ 18,192,860 | \$ 65,003,299 | \$ 43,263,323 |
| Costs and Operating Expenses | | | | |
| Oil and gas production costs | 2,969,674 | 1,455,453 | 7,946,155 | 4,124,281 |
| Oil and gas production taxes | 1,541,612 | 1,067,114 | 3,717,095 | 2,673,768 |
| Depreciation, depletion and amortization | 3,039,529 | 1,791,681 | 8,356,796 | 4,253,142 |
| Accretion expense | 46,414 | 41,755 | 135,177 | 104,697 |
| General and administrative expense | 1,472,855 | 1,154,243 | 4,507,220 | 2,626,659 |
| Total Costs and Operating Expenses | 9,070,084 | 5,510,246 | 24,662,443 | 13,782,547 |
| Other Income (Expense) | | | | |
| Other financing expense | - | - | - | (785,598) |
| Interest income | 481,387 | 154,977 | 633,451 | 240,415 |
| Interest expense | (20,032) | (19,705) | (1,252,499) | (200,406) |
| Net Other Income (Expense) | 461,355 | 135,272 | (619,048) | (745,589) |
| Income Before Provision for Income Taxes | 18,122,970 | 12,817,886 | 39,721,808 | 28,735,187 |
| Provision for Deferred Income Taxes | (6,719,193) | (4,811,062) | (14,710,763) | (10,700,463) |
| Net Income | \$ 11,403,777 | \$ 8,006,824 | \$ 25,011,045 | \$ 18,034,724 |
| Basic Net Income Per Common Share | \$ 0.33 | \$ 0.27 | \$ 0.80 | \$ 0.65 |
| Diluted Net Income Per Common Share | 0.32 | 0.26 | 0.76 | 0.61 |
| Other Comprehensive Income | | | | |
| Unrealized loss on oil derivatives, net of tax | (22,098) | - | (22,098) | - |
| Total Other Comprehensive Income | \$ 11,381,679 | \$ 8,006,824 | \$ 24,988,947 | \$ 18,034,724 |

See the accompanying notes to unaudited condensed consolidated financial statements.

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

| <i>For the Nine Months Ended September 30,</i> | 2007 | 2006 |
|---|----------------------|---------------------|
| Cash Flows From Operating Activities | | |
| Net income | \$ 25,011,045 | \$ 18,034,724 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Warrants issued for financing expense | - | 785,598 |
| Depreciation, depletion and amortization | 8,356,796 | 4,253,142 |
| Provision for income taxes | 14,710,763 | 10,700,463 |
| Stock based compensation | 2,476,823 | 656,919 |
| Accretion of asset retirement obligation | 135,177 | 104,697 |
| Changes in assets and liabilities: | | |
| Accounts and joint interest receivable | (7,765,214) | (4,357,303) |
| Other changes in deferred income taxes | - | (320,058) |
| Prepaid expenses | (150,505) | (156,476) |
| Excess tax benefits from share-based payment arrangements | (3,807,266) | (1,851,813) |
| Accounts payable and accrued liabilities | (4,646,518) | 2,410,618 |
| Net Cash Provided by Operating Activities | 34,321,101 | 30,260,511 |
| Cash Flows from Investing Activities | | |
| Purchase and development of oil and gas properties | (83,235,525) | (61,556,302) |
| Proceeds from sale of oil and gas properties | 1,915,640 | - |
| Purchase of buildings, land & equipment | (6,383,851) | (717,818) |
| Net Cash Used in Investing Activities | (87,703,736) | (62,274,120) |
| Cash Flows From Financing Activities | | |
| Proceeds from issuance of common stock, net of offering costs | 95,099,298 | 29,788,881 |
| Proceeds from exercise of warrants | 270,003 | 150,000 |
| Proceeds from exercise of options | 1,287,000 | 640,000 |
| Excess tax benefits from share-based payment arrangements | 3,807,266 | 1,851,813 |
| Funds received and held for call options | - | 1,272,093 |
| Funds paid from funds held for call options | - | (1,265,912) |
| Proceeds from issuance of notes payable | 30,700,000 | 11,000,000 |
| Payment of notes payable | (50,400,000) | (11,000,000) |
| Net Cash Provided by Financing Activities | 80,763,567 | 32,436,875 |
| Net Increase in Cash | 27,380,932 | 423,266 |
| Cash at Beginning of Period | 4,919,984 | 4,317,114 |
| Cash at End of Period | \$ 32,300,916 | \$ 4,740,380 |
| Supplemental Cash Flow Information | | |
| Cash paid for income taxes | \$ - | \$ 329,986 |
| Cash paid for interest | 1,438,973 | 180,702 |
| Non-Cash Investing and Financing Activities | | |
| Common stock issued for properties and equipment | \$ - | \$ 3,507,872 |

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| | | |
|--|---------|---------|
| Asset retirement obligation incurred in property development | 270,357 | 189,326 |
| Depreciation on drilling rig capitalized as part of oil and gas properties | 149,766 | - |

See the accompanying notes to unaudited condensed consolidated financial statements.

ARENA RESOURCES, INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2007

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, 2006. The financial position and results of operations for the three and nine months ended September 30, 2007 are not necessarily indicative of the results to be expected for the full year ending December 31, 2007.

As disclosed in Note 6, 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. In 2006, the Company formed two wholly owned subsidiaries, Arena Drilling Co. and ARD Production Company. Arena Drilling Co. was formed to oversee the operation of the Company's drilling rigs that began operating in May 2006. ARD Production was formed to hold LZS Corporation, an acquisition the Company made in November 2006. The accompanying statements of operations and cash flows include the operations of the above subsidiaries from the date of acquisition/formation.

Fair Values of Financial Instruments The carrying amounts reported in the balance sheets for accounts 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 carrying amounts reported for oil derivatives is calculated based upon the present value of estimated future gains or losses attributable to changes in the commodity futures prices hedged

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.

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.

ARENA RESOURCES, INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2007

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 and nine months ended September 30, 2007 was \$3,039,529 and \$8,356,796, respectively, based on depletion at the rate of \$7.40 per barrel of oil equivalent compared to \$1,791,681 and \$4,253,142, respectively, based on depletion at the rate of \$5.76 per barrel of oil equivalent for the three and nine months ended September 30, 2006, respectively. These amounts include \$9,369 and \$59,475 for the three months ended September 30, 2007 and 2006, respectively and \$26,501 and \$107,826 of depreciation on equipment during the nine months ended September 30, 2007 and 2006, 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.

Buildings and Equipment Buildings and equipment are valued at historical cost adjusted for impairment loss less accumulated depreciation. Historical costs include all direct costs associated with the acquisition of buildings and equipment 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 |
| Drilling rigs | 10 years |
| Office equipment and software | 5-7 years |
| Machinery and equipment | 5-7 years |

Maintenance and repairs are charged to expense as incurred. Renovations and improvements are capitalized. Buildings and equipment of the Company are evaluated for impairment annually.

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.

ARENA RESOURCES, INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2007

Concentration of Credit Risk and Major Customer The Company has cash in excess of federally insured limits at September 30, 2007. During the three and nine months ended September 30, 2007, sales to two customers represented 84% and 11% of oil and gas revenues, respectively. At September 30, 2007, these customers made up 90% and 6% of accounts receivable, respectively.

Recent Accounting Pronouncements In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* (SFAS No. 157). SFAS No. 157 establishes a common definition for fair value to be applied to United States GAAP guidance requiring use of fair value, establishes a framework for measuring fair value, and expands disclosure about such fair value measurements. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007. The Company is currently assessing the impact of SFAS No. 157 on our consolidated financial position and results of operations.

In February 2007, the FASB issued SFAS 159. SFAS 159 permits entities to measure many financial instruments and certain other assets and liabilities at fair value on an instrument-by-instrument basis. SFAS 159 allows entities to measure eligible items at fair value at specified election dates, with resulting changes in fair value reported in earnings. SFAS 159 is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007. The Company does not expect the adoption of SFAS 159 to have a material impact on its results of operations or financial condition.

In September 2006, the Securities and Exchange Commission (SEC) issued Staff Accounting Bulletin No. 108 (SAB 108). Due to diversity in practice among registrants, SAB 108 expressed SEC staff views regarding the process by which misstatements in financial statements are evaluated for purposes of determining whether financial statement restatement is necessary. SAB 108 is effective for fiscal years ending after November 15, 2006, and early application is encouraged. The Company does not believe SAB 108 will have a material impact on its financial position or results from operations.

On January 1, 2007, the Company adopted the provisions of FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes - an Interpretation of FASB Statement No. 109* (FIN 48). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an entity's financial statements in accordance with SFAS No. 109, *Accounting for Income Taxes* . FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The adoption of FIN 48 did not have a material impact on the Company's financial condition, results of operations, or cash flows. Any interest assessed by the taxing authorities would be included in *Interest expense* and penalties related to income taxes would be included in *Other expense* on the accompanying Consolidated Statements of Operations. The Company has not recognized any interest or penalties for the three or nine months ended September 30, 2007.

ARENA RESOURCES, INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2007

NOTE 2 EARNINGS PER SHARE INFORMATION

| | For the Three Months Ended September 30, | | For the Nine Months Ended September 30, | |
|--|---|--------------|--|---------------|
| | 2007 | 2006 | 2007 | 2006 |
| Net Income | \$ 11,403,777 | \$ 8,006,824 | \$ 25,011,045 | \$ 18,034,724 |
| Basic Weighted-Average Common Shares Outstanding | 34,068,128 | 29,251,578 | 31,368,107 | 27,731,056 |
| Effect of dilutive securities | | | | |
| Warrants | 317,605 | 469,084 | 334,525 | 512,804 |
| Stock options | 1,198,505 | 1,438,822 | 1,265,482 | 1,411,218 |
| Diluted Weighted-Average Common Shares Outstanding | 35,584,238 | 31,159,484 | 32,968,114 | 29,655,078 |
| Basic Income Per Common Share | | | | |
| Net income | 0.33 | 0.27 | 0.80 | 0.65 |
| Diluted Income Per Common Share | | | | |
| Net Income | 0.32 | 0.26 | 0.76 | 0.61 |

For the three and nine months ended September 30, 2007, 200,000 and 900,000 stock options, respectively, 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 In September 2007, the Company acquired a 100% working interest in three leases, McClay Federal, Federal E and Federal F leases, located in Eddy County, New Mexico. The McClay Federal lease is split into two tracts, so the Company has four net revenue interests associated with these leases, ranging from 63% to 78.13%. The acquisition was effective September 1, 2007. Total consideration provided was a cash payment of \$330,000.

In September 2007, the Company acquired a 95.31% working interest, 66.87% net revenue interest, in the Miles lease in Andrews County, Texas. The effective date of this acquisition was September 1, 2007. Total consideration provided was a cash payment of \$216,327.

Divestiture of Oil and Gas Properties In June 2007, the Company entered into an agreement to sell the working interest and related rights in the West San Andres property, which the Company had acquired for \$500,000 in October 2003. Total proceeds to the Company from the sale of this property were \$1,915,000, net of related costs of the sale. Under the full cost method of accounting, the proceeds were offset against oil and gas properties subject to amortization.

Acquisition of drilling rig In April 2007, the Company contracted for the construction of a second company owned drilling rig, to be operated by the wholly owned subsidiary, Arena Drilling Company. As of September 30, 2007, the Company had paid approximately \$3,425,000 for the rig. It is anticipated that the rig will be operational in November 2007. The Company will not begin to depreciate this drilling rig until it is in operation.

Acquisition of office buildings In March 2007, the Company acquired an office building, land and adjoining parcel of real estate in Tulsa, Oklahoma to serve as its executive offices. The building was purchased with a cash payment of \$1,900,000. As of September 30, 2007, the building was being renovated. Subsequent to September 30, 2007 the Company began occupying the building.

In July 2007, the Company acquired an office building in Hobbs, New Mexico to serve as its primary field office for its Permian Basin properties. The building was purchased with a cash payment of \$357,500. As of September 30, 2007 the building was being renovated. The Company anticipates occupying the Hobbs building in November 2007.

NOTE 3 PROPERTY AND EQUIPMENT

ARENA RESOURCES, INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2007

The Company will not begin to depreciate these buildings until they are occupied and in use.

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 September 30, 2007, the Company was in compliance with all covenants and no amount was outstanding under this credit facility.

Related party notes payable Previously, two officers and members of the Board of Directors of the Company loaned money to the Company, evidenced by notes payable in the amount of \$400,000. During the nine months ended September 30, 2007, the Company paid all principal and interest owed under the notes payable.

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 nine months ended September 30, 2007 is as follows:

| | |
|--|------------------|
| Balance, January 1, 2007 | \$ 2,250,332 |
| Liabilities incurred | 270,357 |
| Accretion expense | 135,177 |
| Deletions related to property divestitures | (26,332) |
| Liabilities settled | (45,019) |
| Balance, September 30, 2007 | \$ 2,584,515 |

NOTE 6 STOCKHOLDERS EQUITY

Warrants exercised During the nine months ended September 30, 2007, the Company issued 54,952 shares of common stock from the exercise of warrants for proceeds of \$270,003. Of these warrants, 20,000 had an exercise price of \$4.50 per share and 34,952 had an exercise price of \$5.15 per share. Additionally, during the nine months ended September 30, 2007, the Company issued 134,120 shares of common stock in a cashless exercise of 150,000 warrants with an exercise price of \$3.745 per share.

Common Stock Issued in Offerings In June 2007, the Company issued 4,100,000 shares of common stock, valued at \$100,450,000, or \$24.50 per share, in a private placement. Proceeds from the offering totaled \$95.1 million, net of offering costs paid as of September 30, 2007.

Common Stock Issued in Stock Split In September 2007, the Company's Board of Directors authorized a 2 for 1 stock split. The split was effective to shareholders of record at the close of business on October 15, 2007. The split was in the form of a stock dividend, with one additional share distributed for every share held. The additional shares were distributed on October 26, 2007 and the Company's stock began trading at its post-split price on October 29, 2007. Accordingly, all amounts of common stock have been retroactively restated throughout these financial statements to give effect to the 2 for 1 stock split.

ARENA RESOURCES, INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2007

NOTE 7 EMPLOYEE STOCK OPTIONS

Compensation expense charged against income for stock based awards during the three and nine months ended September 30, 2007 was \$956,072 and \$2,476,823, respectively, as compared to \$263,619 and \$656,919 for the three and nine months ended September 30, 2006, respectively, and is included in general and administrative expense in the accompanying financial statements.

In January and May 2007, the Company granted nonqualified stock options to directors and employees to purchase 900,000 shares of common stock, with options for 100,000 shares having an exercise price of \$18.68 per share, options for 600,000 shares having an exercise price of \$19.23 per share and options for 200,000 shares having an exercise price of \$23.42 per share. The options vest at the rate of 20% each year over five years beginning one year from the date granted. A summary of the status of the stock options as of September 30, 2007 and changes during the nine months ended September 30, 2007 is as follows:

| | Options | | Weighted-Average Exercise Price |
|---|----------------|----|--|
| Outstanding at December 31, 2006 | 2,610,000 | \$ | 2.90 |
| Issued | 900,000 | | 20.10 |
| Forfeited | (115,000) | | 3.35 |
| Exercised | (510,000) | | 2.53 |
| | | | |
| Outstanding at September 30, 2007 | 2,885,000 | | 8.69 |
| | | | |
| Exercisable at September 30, 2007 | 1,090,000 | \$ | 2.58 |
| | | | |
| Weighted average fair value of options granted during the period ended September 30, 2007 | | \$ | 9.17 |

The following are the weighted-average assumptions used for options granted during the nine months ended September 30, 2007:

| | <u>2007</u> |
|-------------------------|--------------------|
| Risk free interest rate | 4.73% |
| Expected life | 5 years |
| Dividend yield | - |
| Volatility | 44.74% |

The expected life of stock options represents the period of time that the stock options granted are expected to be outstanding based on historical exercise trends. The expected volatility is based on the historical price volatility of our common stock. The risk-free interest rate represents the U.S. Treasury bill rate for the expected life of the related stock options. The dividend yield represents our anticipated cash dividend over the expected life of the stock options.

ARENA RESOURCES, INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2007

The 510,000 options exercised during the nine months ended September 30, 2007 had an intrinsic value of \$10,329,700. Associated with the exercise of stock options, the Company received a tax benefit of \$3,807,266 during the nine months ended September 30, 2007. The tax benefit is recorded as an increase in additional paid in capital.

As of September 30, 2007, there was approximately \$5,826,528 of unrecognized compensation cost related to stock options that will be recognized over a weighted average period of 4.25 years. The aggregate intrinsic value of options expected to vest at September 30, 2007 was \$61,095,320. The aggregate intrinsic value of options exercisable at September 30, 2007 was \$32,893,000. The intrinsic value is based on a September 28, 2007 closing price of the Company's common stock of \$32.75.

NOTE 8 CONTINGENCIES AND COMMITMENTS

Standby Letters of Credit A commercial bank has issued standby letters of credit on behalf of the Company to the states of Texas, Oklahoma, New Mexico and Kansas totaling \$527,500 to allow the Company to do business in those states. The standby letters of credit are valid until cancelled or matured and are collateralized by the revolving credit facility with the bank. Letter of credit terms range from one to five years. The Company intends to renew the standby letters of credit for as long as the Company does business in those states. No amounts have been drawn under the standby letters of credit.

NOTE 9 DERIVATIVE INSTRUMENTS

During the nine months ended the Company entered into a derivative contract in order to manage the commodity price risk for a portion of production. The Company's current derivative contract is a costless collar. A collar is a contract which combines both a put option or floor and a call option or ceiling. The Company receives the excess, if any, of the floor price over the reference price, based on NYMEX quoted prices, and pays the excess, if any, of the reference price over the ceiling price. The following is information relating to the Company's collar position as of September 30, 2007.

| Commodity | Period | Volume | Floor | Ceiling |
|------------------|-----------------------------|---------------|--------------|----------------|
| WTI Crude Oil | August 2007 - December 2008 | 458,000 | \$ 65.00 | \$ 80.50 |

The change in fair value of the oil hedging contract in place at September 30, 2007, resulted in a net liability of \$35,076. The after tax impact of the change in the fair value of the hedge of \$22,098 is reflected in other comprehensive income. Changes in the fair value of derivative instruments designated as cash flow hedges, to the extent they are effective in offsetting cash flows attributable to the hedged risk, are recorded in other comprehensive income until the hedged item is recognized in earnings. Any change in fair value from ineffectiveness is recognized currently in unrealized derivative gain or loss in the consolidated statements of operations.

ARENA RESOURCES, INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2007

NOTE 10 SUBSEQUENT EVENTS

Subsequent to September 30, 2007, the Company acquired a 100% working interest in the Red Lake Unit in Eddy County, New Mexico. The acquisition was effective October 1, 2007. Total consideration provided was a cash payment of \$800,000.

Subsequent to September 30, 2007, the Company acquired a 100% working interest in three leases, the Cal Mon 1, Cal Mon 2 and Welch, in Eddy County, New Mexico. The acquisition was effective October 1, 2007. Total consideration provided was a cash payment of \$259,000.

Subsequent to September 30, 2007, the Company acquired a 100% working interest, 75% net revenue interest in 18 individual leases in Andrews County, Texas. The acquisition was effective October 24, 2007. Total consideration provided consisted of cash payments totaling \$1,316,088.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Results of Operations For the Three Months Ended September 30, 2007

Oil and natural gas sales. For the three months ended September 30, 2007, oil and natural gas sales revenue increased \$8,538,839 to \$26,731,699, compared to \$18,192,860 for the same period during 2006. Oil sales increased \$7,674,328 and natural gas sales increased \$864,511. The increases were primarily the result of our increased volumes due to our development throughout 2006 and 2007. For the three months ended September 30, 2007, oil sales volume increased 88,033 barrels to 344,399 barrels, compared to 256,366 barrels for the same period in 2006. The average realized per barrel oil price increased 9% from \$63.91 for the three months ended September 30, 2006 to \$69.78 for the three months ended September 30, 2007. For the three months ended September 30, 2007, gas sales volume increased 74,617 thousand cubic feet (MCF) to 351,498 MCF, compared to 276,881 MCF for the same period in 2006. The average realized natural gas price per MCF increased 18% from \$6.53 for the three months ended September 30, 2006 to \$7.68 for the three months ended September 30, 2007.

Oil and gas production costs. Our lease operating expenses (LOE) increased from \$1,455,453 or \$4.81 per barrel of oil equivalent (BOE) for the three months ended September 30, 2006 to \$2,969,674 or \$7.37 per BOE for the three months ended September 30, 2007. The increase in total LOE was due to our development projects throughout 2006 and 2007. The increase in the per BOE amounts is a result of rising rates for labor and services.

Production taxes. Production taxes as a percentage of oil and natural gas sales were 6% during the three months ended September 30, 2006 and remained steady at 6% for the three months ended September 30, 2007. Production taxes vary from state to state. Therefore, these taxes may vary in the future depending on the mix of production we generate from various states, as well as the possibility that any state may raise its production tax rate.

Depreciation, depletion and amortization. Our depreciation, depletion and amortization expense increased by \$1,247,848 to \$3,039,529 for the three months ended September 30, 2007, compared to the same period in 2006. The increase was primarily a result of an increase in volume and in the average depletion rate from \$5.76 per BOE during the three months ended September 30, 2006 to \$7.40 per BOE during the three months ended September 30, 2007. The increased depletion rate was the result of increased capitalized costs and development costs.

General and administrative expenses. General and administrative expenses increased by \$318,612 to \$1,472,855 for the three months ended September 30, 2007, compared to the same period in 2006. This increase was primarily due to an increase in the stock-based compensation expense recognized under FASB 123(R) of \$692,453. Other general and administrative items increased during the three months ended September 30, 2007 as a result of increases in compensation expense associated with an increase in personnel required to administer our growth. However, during the three months ended September 30, 2006 the Company paid costs that it did not incur during the three months ended September 30, 2007, including a payment of \$150,000 to the New York Stock Exchange for the initial listing fee.

Interest income. Interest income increased \$326,410 to \$481,387 for the three months ended September 30, 2007, compared to \$154,977 for the same period in 2006. The increase was due to a higher average cash balances over the full quarter.

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Interest expense. Interest expense increased \$327 to \$20,032 for the three months ended September 30, 2007, compared to \$19,705 for the same period in 2006. This increase was due to a larger non-usage fee as a result of having an increased credit facility.

Income tax expense. Our effective tax rate was 38% during the three months ended September 30, 2006 and decreased to 37% for the three months ended September 30, 2007.

Net income. Net income increased from \$8,006,824 for the three months ended September 30, 2006 to \$11,403,777 for the same period in 2007. The primary reasons for this increase include increased volumes as a result of the development of our properties, partially offset by higher lease operating expense, general and administrative expense and income tax expense due to our growth.

Results of Operations For the Nine Months Ended September 30, 2007

Oil and natural gas sales. For the nine months ended September 30, 2007, oil and natural gas sales revenue increased \$21,739,976 to \$65,003,299, compared to \$43,263,323 for the same period during 2006. Oil sales increased \$18,295,532 and natural gas sales increased \$3,444,444. The increases were primarily the result of our increased volumes due to our development throughout 2006 and 2007. For the nine months ended September 30, 2007, oil sales volume increased 322,773 barrels to 954,228 barrels, compared to 631,455 barrels for the same period in 2006. The average realized per barrel oil price decreased 3% from \$61.91 for the nine months ended September 30, 2006 to \$60.16 for the nine months ended September 30, 2007. For the nine months ended September 30, 2007, gas sales volume increased 406,857 MCF to 1,024,602 MCF, compared to 617,745 MCF for the same period in 2006. The average realized natural gas price per MCF increased 10% from \$6.75 for the nine months ended September 30, 2006 to \$7.43 for the nine months ended September 30, 2007.

Oil and gas production costs. Our lease operating expenses (LOE) increased from \$4,124,281 or \$5.62 per BOE for the nine months ended September 30, 2006 to \$7,946,155 or \$7.06 per BOE for the nine months ended September 30, 2007. The increase in total LOE was due to our development projects throughout 2006 and 2007. The increase in the per BOE amounts is a result of rising rates for labor and services and additional costs for repairs as a result of weather and other factors.

Production taxes. Production taxes as a percentage of oil and natural gas sales were 6% during the nine months ended September 30, 2006 and remained steady at 6% for the nine months ended September 30, 2007. Production taxes vary from state to state. Therefore, these taxes may vary in the future depending on the mix of production we generate from various states, as well as the possibility that any state may raise its production tax rate.

Depreciation, depletion and amortization. Our depreciation, depletion and amortization expense increased by \$4,103,654 to \$8,356,796 for the nine months ended September 30, 2007, compared to the same period in 2006. The increase was primarily a result of an increase in volume and in the average depletion rate from \$5.76 per BOE during the nine months ended September 30, 2006 to \$7.40 per BOE during the nine months ended September 30, 2007. The increased depletion rate was the result of increased capitalized costs and development costs.

General and administrative expenses. General and administrative expenses increased by \$1,880,561 to \$4,507,220 for the nine months ended September 30, 2007, compared to the same period in 2006. A portion of this increase was due to an increase in the stock-based compensation expense recognized under FASB 123(R) of \$1,819,904. The remaining increase was primarily related to increases in compensation expense associated with an increase in personnel required to administer our growth and was offset by not incurring certain costs that were incurred last year, including a payment of \$150,000 to the New York Stock Exchange as an initial listing fee.

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Other financing expense. Other financing expense was \$0 for the nine months ended September 30, 2007, compared to \$785,598 for the same period in 2006. This financing expense relates to the issuance in the first quarter of 2006 of warrants associated with the 2005 private offering and subsequent registration of common stock.

Interest income. Interest income increased \$393,036 to \$633,451 for the nine months ended September 30, 2007, compared to \$240,415 for the same period in 2006. The increase was due to higher average cash balances over the full nine months.

Interest expense. Interest expense increased \$1,052,093 to \$1,252,499 for the nine months ended September 30, 2007, compared to \$200,406 for the same period in 2006. The increase was due to higher average outstanding debt over the nine months.

Income tax expense. Our effective tax rate was 37% during the nine months ended September 30, 2006 and remained steady at 37% for the nine months ended September 30, 2007.

Net income. Net income increased from \$18,034,724 for the nine months ended September 30, 2006 to \$25,011,045 for the same period in 2007. The primary reasons for this increase include increased volumes as a result of the development of our properties, partially offset by slightly lower crude oil prices between periods, higher lease operating expense, general and administrative expense and income tax expense due to our growth.

Revenues Year to Date by Geographic section

Arena reports its net oil and gas revenues for the year to date as applicable to the following geographic sectors:

OIL

| | Net Production Volume | Net Revenue |
|-------------------|-----------------------|---------------|
| Texas Leases | 773,991 BBLS | \$ 48,562,279 |
| Oklahoma Leases | 30,649 BBLS | \$ 1,964,008 |
| New Mexico Leases | 149,588 BBLS | \$ 6,865,001 |

GAS

| | Net Production Volume | Net Revenue |
|-------------------|-----------------------|--------------|
| Texas Leases | 652,116 MCF | \$ 5,017,558 |
| Oklahoma Leases | 14,604 MCF | \$ 77,108 |
| New Mexico Leases | 239,403 MCF | \$ 2,002,293 |
| Kansas Leases | 118,479 MCF | \$ 515,052 |

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Significant Subsequent Events occurring after September 30, 2007:

Subsequent to September 30, 2007, the Company acquired a 100% working interest in the Red Lake Unit in Eddy County, New Mexico. The acquisition was effective October 1, 2007. Total consideration provided was a cash payment of \$800,000.

Subsequent to September 30, 2007, the Company acquired a 100% working interest in three leases, the Cal Mon 1, Cal Mon 2 and Welch, in Eddy County, New Mexico. The acquisition was effective October 1, 2007. Total consideration provided was a cash payment of \$259,000.

Subsequent to September 30, 2007, the Company acquired a 100% working interest, 75% net revenue interest in 18 individual leases in Andrews County, Texas. The acquisition was effective October 24, 2007. Total consideration provided consisted of cash payments totaling \$1,316,088.

Capital Resources and Liquidity

As shown in the financial statements for the nine months ended September 30, 2007, the Company had cash on hand of \$32,300,916, compared to \$4,919,984 as of December 31, 2006. The Company had net cash provided by operating activities for the nine months ended September 30, 2007 of \$34,321,101, compared to \$30,260,511 for the same period 2006. Other significant sources of cash inflow during the nine months ended September 30, 2007 and 2006, were from issuances of common stock net of offering costs of \$95,099,298 in 2007 and \$29,788,881 in 2006, draw downs on the Company's credit facility of \$30,700,000 in 2007 and \$11,000,000 in 2006, proceeds from option exercises of \$1,287,000 in 2007 and \$640,000 in 2006 and proceeds from the sale of oil and gas properties of \$1,915,640 in 2007. The most significant cash outflows during the nine months ended September 30, 2007 and 2006 were capital expenditures of \$83,235,525 in 2007 and \$61,556,302 in 2006, purchases of building and equipment of \$6,381,851 in 2007 and \$717,818 in 2006 and repayment of notes payable \$50,400,000 in 2007 and \$11,000,000 in 2006.

Credit facility In April 2006, the Company entered into an agreement that increased its credit facility to \$150,000,000, with an increased borrowing base of \$65,000,000. The interest rate was a floating rate equal to the 30, 60 or 90 day LIBOR rate plus 2%, and is payable monthly. Amounts borrowed under the revolving credit facility are due in May 2009. The revolving credit facility is secured by the Company's principal mineral interests. In order to obtain the revolving credit facility, loans from two officers were subordinated to the position of the bank. The Company is required under the terms of the credit facility to maintain a 5-to-1 ratio of income before interest, taxes, depreciation, depletion and amortization to interest expense, maintain a current asset to current liability ratio of 1-to-1 and a requirement to maintain a maximum leverage ratio of no more than 2.5-to-1, calculated on a rolling four quarter basis

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 September 30, 2007, the Company was in compliance with all covenants and no amount was outstanding under this credit facility.

Related party notes payable Previously, two officers and members of the Board of Directors of the Company loaned money to the Company, evidenced by notes payable in the amount of \$400,000. During the nine months ended September 30, 2007, the Company paid all principal and interest owed under the notes payable.

Disclosures About Market Risks

Like other natural resource producers, Arena faces certain unique market risks. The two most salient risk factors are the volatile prices of oil and gas and certain environmental concerns and obligations.

Oil and Gas Prices

Current competitive factors in the domestic oil and gas industry are unique. The actual price range of crude oil is largely established by major international producers. Pricing for natural gas is more regional. Because domestic demand for oil and gas exceeds supply, there is little risk that all current production will not be sold at relatively fixed prices. To this extent Arena does not see itself as directly competitive with other producers, nor is there any significant risk that the Company could not sell all production at current prices with a reasonable profit margin. The risk of domestic overproduction at current prices is not deemed significant. The primary competitive risks would come from falling international prices which could render current production uneconomical.

Secondarily, Arena is presently committed to use the services of the existing gatherers in its present areas of production. This gives to such gatherers certain short term relative monopolistic powers to set gathering and transportation costs, because obtaining the services of an alternative gathering company would require substantial additional costs since an alternative gatherer would be required to lay new pipeline and/or obtain new rights-of-way in the lease.

It is also significant that more favorable prices can usually be negotiated for larger quantities of oil and/or gas product, such that Arena views itself as having a price disadvantage to larger producers. Large producers also have a competitive advantage to the extent they can devote substantially more resources to acquiring prime leases and resources to better find and develop prospects.

Environmental

Oil and gas production is a highly regulated activity which is subject to significant environmental and conservation regulations both on a federal and state level. Historically, most of the environmental regulation of oil and gas production has been left to state regulatory boards or agencies in those jurisdictions where there is significant gas and oil production, with limited direct regulation by such federal agencies as the Environmental Protection Agency. However, while the Company believes this generally to be the case for its production activities in Texas, Oklahoma, Kansas and New Mexico, it should be noticed that there are various Environmental Protection Agency regulations which would govern significant spills, blow-outs, or uncontrolled emissions.

In Oklahoma, Texas, Kansas and New Mexico specific oil and gas regulations exist related to the drilling, completion and operations of wells, as well as disposal of waste oil. There are also procedures incident to the plugging and abandonment of dry holes or other non-operational wells, all as governed by the Oklahoma Corporation Commission, Oil and Gas Division, the Texas Railroad Commission, Oil and Gas Division, the Kansas Corporation Commission, Oil and Gas Division or the New Mexico Oil Conservation Division.

Compliance with these regulations may constitute a significant cost and effort for Arena. No specific accounting for environmental compliance has been maintained or projected by Arena to date. Arena does not presently know of any environmental demands, claims, or adverse actions, litigation or administrative proceedings in which it or the acquired properties are involved or subject to or arising out of its predecessor operations.

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In the event of a breach of environmental regulations, these environmental regulatory agencies have a broad range of alternative or cumulative remedies to include: ordering a clean up of any spills or waste material and restoration of the soil or water to conditions existing prior to the environmental violation; fines; or enjoining further drilling, completion or production activities. In certain egregious situations the agencies may also pursue criminal remedies against the Company or its principals.

Forward-Looking Information

Certain statements in this Section and elsewhere in this report are forward-looking in nature and relate to trends and events that may affect the Company's future financial position and operating results. Such statements are made pursuant to the safe harbor provision of the *Private Securities Litigation Reform Act of 1995*. The terms expect, anticipate, intend, and project and similar words or expressions are intended to identify forward-looking statements. These statements speak only as of the date of this report. The statements are based on current expectations, are inherently uncertain, are subject to risks, and should be viewed with caution. Actual results and experience may differ materially from the forward-looking statements as a result of many factors, including changes in economic conditions in the markets served by the company, increasing competition, fluctuations in raw materials and energy prices, and other unanticipated events and conditions. It is not possible to foresee or identify all such factors. The company makes no commitment to update any forward-looking statement or to disclose any facts, events, or circumstances after the date hereof that may affect the accuracy of any forward-looking statement.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Interest Rate Risk

The Company is subject to interest rate risk on its revolving credit facility, which bears variable interest based upon a LIBOR rate. Changes in interest rates affect the interest earned on the Company's cash and cash equivalents and the interest rate paid on borrowings under its bank credit facility. Currently, the Company does not use interest rate derivative instruments to manage exposure to interest rate changes.

Commodity Price Risk

The Company's revenues, profitability and future growth depend substantially on prevailing prices for oil and natural gas. Prices also affect the amount of cash flow available for capital expenditures and Arena's ability to borrow and raise additional capital. The amount the Company can borrow under its bank credit facility is subject to periodic redetermination based in part on changing expectations of future prices. Lower prices may also reduce the amount of oil and natural gas that the Company can economically produce. Arena currently sells all of its oil and natural gas production under price sensitive or market price contracts.

During the nine months ended the Company entered into a derivative contract in order to manage the commodity price risk for a portion of production. The Company's current derivative contract is a costless collar. A collar is a contract which combines both a put option or floor and a call option or ceiling. The Company receives the excess, if any, of the floor price over the reference price, based on NYMEX quoted prices, and pays the excess, if any, of the reference price over the ceiling price. The following is information relating to the Company's collar position as of September 30, 2007.

| Commodity | Period | Volume | Floor | Ceiling |
|------------------|-----------------------------|---------------|--------------|----------------|
| WTI Crude Oil | August 2007 - December 2008 | 458,000 | \$ 65.00 | \$ 80.50 |

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The change in fair value of the oil hedging contract in place at September 30, 2007, resulted in a net liability of \$35,076. The after tax impact of the change in the fair value of the hedge of \$22,098 is reflected in other comprehensive income. Changes in the fair value of derivative instruments designated as cash flow hedges, to the extent they are effective in offsetting cash flows attributable to the hedged risk, are recorded in other comprehensive income until the hedged item is recognized in earnings. Any change in fair value from ineffectiveness is recognized currently in unrealized derivative gain or loss in the consolidated statements of operations.

Additionally, to the extent we hedge our commodity price exposure, we will forego the benefits we would have otherwise experienced if commodity prices were to change in our favor.

Currency Exchange Rate Risk

Foreign sales accounted for none of the Company's sales; further, the Company accepts payment for its commodity sales only in U.S. dollars; hence, Arena is not exposed to foreign currency exchange rate risk on these sales.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

The Company maintains controls and procedures designed to ensure that information required to be disclosed by the Company in the reports it files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission. At the end of the period covered by this Quarterly Report on Form 10-Q, the Company's management, under the supervision and with the participation of the Company's Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures. Based on that evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that as of the end of such period the Company's disclosure control and procedures are effective in alerting them to material information that is required to be included in the reports the Company files or submits under the Securities Exchange Act of 1934.

Changes in Internal Controls Over Financial Reporting

There have been no changes in the Company's internal control over financial reporting during the most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Part II Other Information

Item 1. Legal Proceedings

None.

Item 1A. Risk Factors

There have been no material changes from risk factors as previously disclosed in our Form 10-K in response to Item 1A to Part I of Form 10-K.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Submission of Matters to a Vote of Security Holders

None.

Item 5. Other Information

None.

Item 6. Exhibits

- | | | |
|-----|---------------------|-----------------------------------|
| (a) | <u>Exhibit 31.1</u> | Section 302 Certification of CEO |
| | <u>Exhibit 31.2</u> | Section 302 Certification of CFO |
| (b) | <u>Exhibit 32.1</u> | Section 1350 Certification of CEO |
| | <u>Exhibit 32.2</u> | Section 1350 Certification of CFO |

SIGNATURES

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

REGISTRANT: **ARENA RESOURCES, INC.**

Dated: November 8, 2007

By: /s/ Lloyd Tim Rochford
Lloyd Tim Rochford
Chief Executive Officer

Dated: November 8, 2007

By: /s/ Phillip W. Terry
Phillip W. Terry
President

Dated: November 8, 2007

By: /s/ William R. Broaddrick
William R. Broaddrick
Vice President, Chief Financial Officer