ARENA RESOURCES INC
Form SB-2/A
July 23, 2004
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As filed with the Securities and Exchange Commission on July 23, 2004.

Registration No. 333-113712

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

AMENDMENT NO. 3

to

FORM SB-2

REGISTRATION STATEMENT

UNDER

THE SECURITIES ACT OF 1933

ARENA RESOURCES, INC.

(Name of small business issuer in its charter)

Nevada	**1311**	**73-1596109**
(State or Other Jurisdiction of Organization)	**(Primary Standard Industrial Classification Code)**	**(IRS Employer Identification #)**

Arena Resources, Inc.	**John B. Johnson, Jr., Esq.**
4920 South Lewis Avenue	**15 West Sixth Street**
Suite 107	**Suite 2200**
Tulsa, Oklahoma 74105	**Tulsa, Oklahoma 74119**
(918)747-6060	**(918) 584-6644**
(Address and telephone number of registrant s principal executive offices and principal place of business)	**(Name, address and telephone number of agent for service)**

APPROXIMATE DATE OF COMMENCEMENT OF PROPOSED SALE TO THE PUBLIC: As soon as practicable after the effective date of this Registration Statement.

If this Form is filed to register additional common stock for an offering under Rule 462(b) of the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

If this Form is a post-effective amendment filed under Rule 462(c) of the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

If this Form is a post-effective amendment filed under Rule 462(d) of the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

If delivery of the prospectus is expected to be made under Rule 434, please check the following box. ¨

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered	Amount to be Registered	Proposed Maximum Offering Price Per Unit (1)	Proposed Maximum Aggregate Offering Price Per Unit (1)	Amount of Registration Fee
Units, consisting of one share of common stock and one warrant to purchase one share of common stock(2)	1,518,000			
Common stock included in Units	1,518,000	$ 7.15	$ 10,853,700	$ 1,375.16
Warrants to purchase common stock included in Units	1,518,000	$ 0.10	$ 151,800	$ 19.23
Common stock underlying public warrants	1,518,000	$ 8.70	$ 13,206,600	$ 1,673.28
Representatives options:				
Units, consisting of one share of common stock and one warrant to purchase one share of common stock (3)	132,000	$ 0.001	$ 132	$ 0.02
Common stock included in Representatives options	132,000	$ 10.725	$ 1,415,700	$ 179.37
Warrants included in Representatives options	132,000	$ 0.165	$ 21,780	$ 2.76
Common stock underlying Representatives warrants	132,000	$ 8.70	$ 1,148,400	$ 145.50
Total (4)			$ 26,798,112	$ 3,395.32

(1) Estimated pursuant to Rule 457(o) under the Securities Act of 1933 solely for the purpose of calculating the registration fee.
(2) Includes units the underwriters have the option to purchase from us to cover over-allotments, if any.
(3) Issuable upon exercise of the representatives options to purchase units consisting of common stock and warrants.
(4) In accordance with Rule 416 under the Securities Act of 1933, a presently indeterminable number of shares of common stock are registered hereunder which may be issued in the event provisions preventing dilution become operative, as provided in the representatives warrant for the purchase of common stock. No additional registration fee has been paid for these shares of common stock.

The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the registration statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

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The information in this preliminary prospectus is not complete and may be changed. We may not sell the securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell the securities and it is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted

Subject to completion, dated July 23, 2004

PROSPECTUS

1,320,000 Units

Each Unit Consisting of One Share of Common Stock

and

One Warrant to Acquire One Share of Common Stock

Our common stock is traded on the American Stock Exchange under the symbol ARD . The offering price of the units was determined largely by reference to our common stock whose closing price was $ per share on , 2004. The units offered hereby have been approved for trading on the American Stock Exchange under the symbol ARD.u . The common stock and warrants will initially trade as a unit, until separated, at which time the common stock and warrants will trade separately on the American Stock Exchange. Currently, no public market exists for the units or separately for the warrants.

Investing in our securities involves risks that are described in the Risk Factors section beginning on page 13 of this prospectus.

	Per Unit	Total
Public offering price	$	$
Underwriting discount	$	$
Proceeds to us, before expenses	$	$

The unit offering price consists of $ per share of common stock and $0.10 per warrant. The underwriters may also purchase up to an additional 198,000 units from us, less the underwriting discount, within 60 days from the date of this prospectus to cover over-allotments.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The underwriters expect to deliver the units to purchasers on or about , 2004.

Neidiger, Tucker, Bruner, Inc. **Lane Capital Markets**

vFinance Investments, Inc.

The date of this prospectus is July , 2004

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ARENA RESOURCES, INC.

Property Locations

Arena Resources, Inc. is engaged in oil and natural gas acquisition, exploration, development and production, with activities currently in Oklahoma, Texas, New Mexico and Kansas.

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Unless the context otherwise requires, references in this prospectus to Arena, we, us, our or ours refer to Arena Resources, Inc.

You should rely only on the information contained in this prospectus. We have not, and the underwriters have not, authorized any other person to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. We are not, and the underwriters are not, making an offer to sell these securities in any jurisdiction where the offer or sale is not permitted.

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PROSPECTUS SUMMARY

This summary highlights information contained elsewhere in this prospectus. You should read this entire prospectus carefully, including Risk Factors and our financial statements and the notes to those financial statements included elsewhere in this prospectus. Unless otherwise indicated, the information contained in this prospectus assumes that the underwriters do not exercise their over-allotment option. If the underwriters exercise their option, net proceeds therefrom will be utilized for the acquisition of additional properties. The reserve information contained in this prospectus is as of December 31, 2003, unless otherwise indicated. The operating information and other data contained in this prospectus are as of March 31, 2004, unless otherwise indicated. We have provided definitions for the oil and natural gas terms used in this prospectus in the Glossary of Oil and Natural Gas Terms included in this prospectus.

About Our Company

We are engaged in oil and natural gas acquisition, exploration, development and production, with activities currently in Oklahoma, Texas, New Mexico and Kansas. Our intermediate-term focus is on pursuing acquisition of oil and gas properties that provide immediate cash flow, as well as opportunities for further development. Our intent is to minimize our near-term risks, and to increase exploration activities once we have established a larger production base. We believe we can minimize near term risk by delaying exploration or development activities on certain property interests we own (which would otherwise require us to finance such activities from outside sources) until we have a base of producing properties that will provide sufficient cash from operations to undertake further exploration or development activities.

Since our inception in August 2000, we have built our asset base and achieved growth primarily through property acquisitions. Finding properties that are suitable for our intermediate-term plans can sometimes be difficult, since we look for properties with development potential as well as existing cash flow. We believe the key to being successful is in undertaking thorough due diligence of each property we acquire or consider for acquisition.

From our inception through December 31, 2003, we increased our proved reserves to approximately 7.6 million Boe (barrels of oil equivalent), through the acquisition of interests in 10 producing leases, which have net revenue interests ranging from 24.5% to 81.32%. As of December 31, 2003, our estimated proved reserves had a pre-tax PV10 (present value of future net revenues before income taxes discounted at 10%) of approximately $67 million. We spent approximately $7.28 million on acquisitions and capital projects during 2002 and 2003.

On May 7, 2004, we completed the acquisition of an 82.2% working interest in a lease in Lea County, New Mexico (the East Hobbs Unit), with a net revenue interest of approximately 67.6%, and proved reserves of approximately 3.0 million Boe. With this acquisition, we estimate our total proved reserves to be approximately 10.6 million Boe. The acquisition cost of the East Hobbs Unit was approximately $10 million.

Including the operations from the East Hobbs Unit, we have a portfolio of oil and natural gas reserves, with approximately 92% of our proved reserves consisting of oil and approximately 8% consisting of natural gas. Approximately 21.5% of our proved reserves are classified as proved developed producing, or PDP. Approximately 5% of our proved reserves are classified as proved developed non-producing, or PDNP, and approximately 73.5% are classified as proved undeveloped, or PUD.

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The following table summarizes our total net proved reserves and pre-tax PV10 value by state, as of December 31, 2003. Additionally, the table summarizes the total net proved reserves and pre-tax PV10 value of the East Hobbs Unit, as of March 1, 2004.

	Proved Reserves			
State	Oil (Bbls)	Natural Gas (Mcf)	Total (Boe)[(1)]	Pre-Tax PV10 Value
Oklahoma	3,465,351	658,484	3,575,089	$ 32,623,882
Texas	860,588	1,107,544	1,045,179	11,557,113
New Mexico	2,724,228	394,484	2,789,975	20,820,341
Kansas		1,248,242	208,040	1,583,620
Total December 31, 2003	7,050,167	3,408,754	7,618,283	$ 66,584,956
East Hobbs Unit (New Mexico)	2,730,837	1,637,640	3,003,777	$ 38,702,806

(1) Boe is barrels of oil equivalent , with six thousand cubic feet of natural gas being equivalent to one barrel of oil.

Business Strategy

Our goal is to increase stockholder value by investing in oil and gas properties with attractive rates of return on capital employed. We plan to achieve this goal through the near- and intermediate-term strategy of acquiring properties with proved reserves that provide immediate cash flow with opportunities for further development. Once we have acquired a more substantial base of assets, our long-term plan is to increase our development activities. Specifically, we have focused, and plan to continue to focus, on the following:

Pursuing Profitable Acquisitions. We have pursued and intend to continue to pursue acquisitions of proved properties that we believe to have development potential, while immediately providing a source of cash flow. We target low-risk properties with the opportunity for further development, including drilling offset wells, waterfloods and multiple pay zones. We believe the key to successfully undertaking such a program is conducting substantial due diligence prior to purchasing a property. To allow us to do this, we utilize both an experienced team of in-house management, as well as independent engineers who can identify and evaluate acquisition opportunities, negotiate and close purchases and manage acquired properties. Our due diligence process results in our rejection of a significant number of properties that fail to suit our business model.

From August 2000 through May 2004, we acquired leases on 11 producing properties at an aggregate cost of approximately $18.8 million, representing approximately 10.6 million Boe of proved reserves (at an average cost of $1.77 per Boe).

Developing Existing Properties. We believe that there will be significant value created by conducting additional drilling activities on identified undeveloped opportunities on our current properties, and on properties we hope to acquire in the future. We own interests in a total of 14,273 gross (10,541 net) developed acres and operate essentially 100% of the net pre-tax PV10 value of our proved reserves. In addition, as of May 7, 2004, we owned interests in approximately 2,615 gross (2,106 net) undeveloped acres that contain many development opportunities. We currently estimate that an additional $6 million to $8 million in acquisitions will put us in a position where the cash flow from our properties will be sufficient to fund our development activities; however, these estimates are subject to numerous factors beyond our control, including the prices at which we may be able to acquire properties that fit our business plan.

Controlling Costs through Efficient Operation of Existing Properties. We operate essentially 100% of the pre-tax PV10 value of our total proved reserves, which we believe enables us to better manage expenses, capital allocation and the decision-making processes related to our production, development and exploration activities. For the year ended December 31, 2003, our lease operating expense (which includes only oil and gas production costs) per Boe averaged $8.92 and general and administrative costs averaged $4.33 per Boe produced. For the three months ended March 31, 2004, our lease operating expense per Boe produced averaged $8.54 and general and administrative costs averaged $4.82 per Boe produced.

Recent and Proposed Activities

During the year ended December 31, 2003, we invested $2.62 million in new lease acquisitions, and $351,000 in drilling advances. As of May 7, 2004, we acquired the East Hobbs Unit in Lea County, New Mexico, for approximately $10 million. With this most recent acquisition, we are closer to having a base of producing properties that we believe sufficient to fund the development phase of our business plan. However, we anticipate seeking one or two more acquisitions in 2004, prior to commencing a more aggressive development program. We discuss our recent and proposed activities below under Business and Properties.

Risk Factors

An investment in our securities involves certain risks that should be carefully considered by prospective investors. See Risk Factors.

Corporate Information

Arena Resources, Inc. was incorporated in Nevada on August 31, 2000. Our principal executive offices are located at 4920 South Lewis Avenue, Suite 107, Tulsa, Oklahoma 74105, and our telephone number is (918) 747-6060.

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The Offering

Securities Offered	1,320,000 units, with each unit consisting of one share of our common stock priced at $ and one warrant to purchase one share of our common stock priced at $0.10, for an aggregate offering price of $ per unit.
Warrant attributes	Each warrant is exercisable to purchase one share of our common stock at an exercise price of $ (120% of the public offering price of the unit) during the four years ending July , 2008, subject to redemption rights.
Common stock to be outstanding after the offering	8,512,097 shares (prior to exercise of warrants to acquire 1,320,000 shares).
Use of proceeds	We plan to use the net proceeds to repay a portion of bank financing incurred in connection with the acquisition of the East Hobbs Unit, and to acquire additional oil and gas prospects.
Risk factors	Please read Risk Factors for a discussion of factors you should consider carefully before deciding to invest in shares of our common stock.
American Stock Exchange symbol stock	ARD .
American Stock Exchange symbol units	ARD.u
American Stock Exchange symbol warrants	ARD.ws

Our common stock is currently traded on the American Stock Exchange. Following the conclusion of this offering until the units are divided into their separate components of one share of common stock and one warrant, the units will trade on the American Stock Exchange (at the same time, but separately from, the currently issued shares of our common stock already trading on the American Stock Exchange). In an effort to avoid potential disruption in the market, each unit will be divided into its separate component of one share of common stock and one warrant upon the earlier of one year from the date of this prospectus, or upon thirty (30) days prior written notice from us. However, we will not allow separation of the units until the earlier to occur of 60 days immediately following this offering or the exercise by the underwriters of the entire over-allotment option. Following the separation of the units, the shares of common stock will trade on the American Stock Exchange (and will be indistinguishable from our common stock currently trading on such exchange), and the warrants will trade separately from the common stock on such exchange. The units will cease to exist at that time.

The number of shares outstanding after the offering excludes shares reserved for issuance under outstanding options and warrants. As of March 31, 2004, we had granted options to directors and employees to purchase 1,000,000 shares of common stock at an average price of $3.76 per share, of which options to acquire 190,000 shares are currently exercisable. In addition, at March 31, 2004, there were outstanding warrants to purchase 1,430,723 shares of our common stock at an average price of $4.47 per share, all of which are currently exercisable. See Capitalization.

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Summary Historical Financial Information

The summary historical financial information set forth below should be read in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations and with our financial statements and the notes to those financial statements included elsewhere in this prospectus. The income statement information for the year ended December 31, 2001, and the balance sheet information as of December 31, 2001 and March 31, 2003, were derived from our financial statements that are not included herein.

	Year Ended December 31,			For the Three Months Ended March 31,	
	2001	2002	2003	2003	2004
Income Statement Information:					
Revenues and other income					
Oil and gas revenues	$ 311,733	$ 1,657,037	$ 3,665,477	$ 807,021	$ 1,200,400
Gain from change in fair value of put options		36,665	47,699	4,775	
Total revenues and other income	311,733	1,693,702	3,713,176	811,796	1,200,400
Costs and expenses					
Lease operating	106,927	594,863	1,149,136	242,071	316,290
Production taxes	14,797	117,164	269,563	53,950	78,707
Depreciation, depletion and amortization	44,148	127,847	338,157	51,091	97,555
General and administrative expense	127,696	248,018	557,576	143,631	178,202
Interest expense		15,923	38,798	9,863	9,113
Accretion expense			32,212	4,782	12,295
Total costs and expenses	293,568	1,103,815	2,385,442	505,388	692,162
Income before taxes	18,165	589,887	1,327,734	306,408	508,238
Provision for deferred income taxes		(187,193)	(491,599)	(114,289)	(189,508)
Cumulative effect of change in accounting principles			(11,813)	(11,813)	
Net income	18,165	402,694	824,322	180,306	318,730
Preferred stock dividends	(63,092)	(798,018)			
Income (loss) attributable to common shares	$ (44,927)	$ (395,324)	$ 824,322	$ 180,306	$ 318,730
Operating Data:					
Net production:					
Oil (Bbl)	12,895	58,717	117,646	23,590	33,783
Natural gas (Mcf)	4,776	46,819	67,329	10,912	19,323
Total (Boe)	13,691	66,520	128,868	25,408	37,003
Average sales price:					
Oil (Bbl)	$ 22.36	$ 26.09	$ 29.06	$ 32.18	$ 33.23
Natural gas (Mcf)	1.79	2.67	3.67	4.40	4.00
Total (per Boe)	21.69	24.91	28.44	31.76	32.43
Other Financial Information:					

Net cash provided by operating activities	$ 84,023	$ 570,748	$ 1,652,950	$ 278,265	$ 568,710
Capital expenditures	1,584,645	3,268,373	4,015,313	153,715	314,066
EBITDA(1)	62,313	696,992	1,689,202	367,369	627,201

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	As of December 31,			As of March 31, 2004	
	2001	2002	2003	Actual	Pro Forma[(2)]
Balance Sheet Information:					
Total assets	$ 2,137,689	$ 6,050,493	$ 10,018,731	$ 10,550,832	$ 20,721,355
Long-term liabilities		637,797	1,678,965	1,880,769	9,921,656
Stockholders equity	2,037,954	5,124,837	8,088,899	8,429,379	8,429,379

(1) We define EBITDA as earnings before interest, taxes, depreciation, depletion and amortization. We further include in our calculation of EBITDA the effects of any cumulative change in accounting principle, accretion expense and the gain (loss) from changes in the fair value of certain outstanding put options. EBITDA is not a measure of performance calculated in accordance with generally accepted accounting principles in the United States, or GAAP. Although not prescribed under GAAP, we believe the presentation of EBITDA is relevant and useful because it helps our investors to understand our operating performance and makes it easier to compare our results with other companies that have different financing and capital structures or tax rates. EBITDA should not be considered in isolation of, or as a substitute for, net income as an indicator of operating performance or cash flows from operating activities as a measure of liquidity. EBITDA, as we calculate it, is likely not comparable to EBITDA measures reported by other companies. In addition, EBITDA does not represent funds available for discretionary use.

The following table presents a reconciliation of our net income to EBITDA:

	Year Ended December 31,			For the Three Months Ended March 31,	
	2001	2002	2003	2003	2004
Net income	$ 18,165	$ 402,694	$ 824,322	$ 180,306	$ 318,730
Cumulative effect of change in accounting principle			11,813	11,813	
Deferred income taxes		187,193	491,599	114,289	189,508
Interest expense		15,923	38,798	9,863	9,113
Accretion expense			32,212	4,782	12,295
Gain from change in fair value of put options		(36,665)	(47,699)	(4,775)	
Depreciation, depletion and amortization	44,148	127,847	338,157	51,091	97,555
EBITDA	$ 62,313	$ 696,992	$ 1,689,202	$ 367,369	$ 627,201

(2) On May 7, 2004 we acquired the East Hobbs Unit for approximately $10,000,000. Our unaudited pro forma balance sheet included with our financial statements herein (at page F-2) reflects the impact of this acquisition as if it had occurred as of March 31, 2004. The summary pro forma balance sheet information as of March 31, 2004 reflects only the effect of the acquisition and the related financing and does not include any of the potential effects from this offering.

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Summary Historical Reserve and Operating Data

The following table presents summary information regarding our estimated net proved oil and natural gas reserves as of December 31, 2001, 2002 and 2003 and, with respect to the East Hobbs Unit, as of March 1, 2004. All calculations of estimated net proved reserves have been made in accordance with the rules and regulations of the Securities and Exchange Commission, or the SEC, and, except as otherwise indicated, give no effect to federal or state income taxes. For additional information regarding our reserves, please read Business and Properties Summary of Oil and Natural Gas Properties and Projects.

	As of December 31,		
	2001	2002	2003
Reserve Data:			
Total estimated net proved reserves:			
Oil (Bbls)	494,823	5,982,687	7,050,167
Natural gas (Mcf)	2,960,373	3,187,757	3,408,754
Total (Boe)	988,219	6,513,980	7,618,283
Estimated net proved developed reserves:			
Oil (Bbls)	142,371	750,464	1,580,521
Natural gas (Mcf)	1,038,564	1,151,985	1,612,738
Total (Boe)	315,465	942,462	1,849,311
Estimated future net revenues before income taxes	$ 11,071,319	$ 112,237,773	$ 140,259,673
Present value of estimated future net revenues before income taxes (1)(2)	$ 7,373,058	$ 69,958,528	$ 66,584,956
Standardized measure of discounted future net cash flows (3)	$ 5,203,372	$ 42,476,827	$ 45,006,098

(1) The present value of estimated future net revenues attributable to our reserves was prepared using constant prices, as of the calculation date, discounted at 10% per year on a pre-tax basis.

(2) The December 31, 2001 amount was calculated using a period end average realized oil price of $19.25 per barrel and a period end average realized natural gas price of $2.52 per Mcf; the December 31, 2002 amount was calculated using a period end average realized oil price of $24.00 per barrel and a period end average realized natural gas price of $3.00 per Mcf; the December 31, 2003 amount was calculated using a period end average realized oil price of $29.25 per barrel and a period end average realized natural gas price of $3.46 per Mcf.

(3) The standardized measure of discounted future net cash flows represents the present value of future cash flows after income tax discounted at 10%.

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	As of March 1, 2004
East Hobbs Unit Reserve Data:	
Total estimated net proved reserves:	
Oil (Bbls)	2,730,837
Natural gas (Mcf)	1,637,640
Total (Boe)	3,003,777
Estimated net proved developed reserves:	
Oil (Bbls)	509,486
Natural gas (Mcf)	447,839
Total (Boe)	584,126
Estimated future net revenues before income taxes	$ 76,110,344
Present value of estimated future net revenues before income taxes(1)(2)	$ 38,702,806
Standardized measure of discounted future net cash flows(3)	$ 25,543,852

(1) The present value of estimated future net revenues attributable to the East Hobbs reserves were prepared using constant prices, as of the calculation date, discounted at 10% per year on a pre-tax basis.

(2) The March 1, 2004 amount was calculated using an oil price of $35.00 per barrel and a natural gas price of $4.73 per Mcf.

(3) The standardized measure of discounted future net cash flows represents the present value of future cash flows after income tax discounted at 10%.

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The following table presents summary information regarding our historical operating data for the years ended December 31, 2001, 2002 and 2003 and as of March 31, 2003 and 2004 (which are derived from our financial statements):

	Year Ended December 31,			Three Months Ended March 31,	
	2001	2002	2003	2003	2004
Operating Data:					
Net production:					
Oil (Bbls)	12,895	58,717	117,646	23,590	33,783
Natural gas (Mcf)	4,776	46,819	67,329	10,912	19,323
Total (Boe)	13,691	66,520	128,868	25,408	37,003
Net sales:					
Oil	$ 302,424	$ 1,532,045	$ 3,418,480	$ 759,038	$ 1,123,034
Natural gas	9,309	124,992	246,997	47,983	77,366
Total	$ 311,733	$ 1,657,037	$ 3,665,477	$ 807,021	$ 1,200,400
Average sales price:					
Oil (per Bbl)	$ 22.36	$ 26.09	$ 29.06	$ 32.18	$ 33.23
Natural gas (per Mcf)	1.79	2.67	3.67	4.40	4.00
Total (per Boe)	21.69	24.91	28.44	31.76	32.43
Average (per Boe):					
Lease operating expenses	$ 7.81	$ 8.94	$ 8.92	$ 9.53	$ 8.54
Production taxes	1.08	1.76	2.09	2.12	2.13
Depreciation, depletion and amortization expense	3.22	1.92	2.62	2.01	2.64
General and administrative expenses	9.33	3.73	4.33	5.65	4.82
Net income (loss) after preferred stock dividends	(3.28)	(5.94)	6.41	7.10	8.61

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RISK FACTORS

You should carefully consider each of the risks described below, together with all of the other information contained in this prospectus, before deciding to invest in our securities. If any of the following risks develop into actual events, our business, financial condition or results of operations could be materially adversely affected, the trading prices of the securities could decline and you may lose all or part of your investment.

Risks Relating to the Oil and Natural Gas Industry and Our Business

A substantial or extended decline in oil and natural gas prices may adversely affect our business, financial condition or results of operations and our ability to meet our capital expenditure obligations and financial commitments.

The price we receive for our oil and natural gas production heavily influences our revenue, profitability, access to capital and future rate of growth. Oil and natural gas are commodities and, therefore, their prices are subject to wide fluctuations in response to relatively minor changes in supply and demand. Historically, the markets for oil and natural gas have been volatile. These markets will likely continue to be volatile in the future. The prices we receive for our production, and the levels of our production, depend on numerous factors beyond our control. These factors include, but are not limited to, the following:

- changes in global supply and demand for oil and natural gas;
- the actions of the Organization of Petroleum Exporting Countries, or OPEC;
- the price and quantity of imports of foreign oil and natural gas;
- political conditions, including embargoes, in or affecting other oil-producing activity;
- the level of global oil and natural gas exploration and production activity;
- the level of global oil and natural gas inventories;
- weather conditions;
- technological advances affecting energy consumption; and
- the price and availability of alternative fuels.

Lower oil and natural gas prices may not only decrease our revenues on a per unit basis but also may reduce the amount of oil and natural gas that we can produce economically. Lower prices will also negatively impact the value of our proved reserves. A substantial or extended decline in oil or natural gas prices may materially and adversely affect our future business, financial condition, results of operations, liquidity or ability to finance planned capital expenditures.

A substantial percentage of our proven properties are undeveloped; therefore the risk associated with our success is greater than would be the case if the majority of our properties were categorized as proved developed producing.

Because a substantial percentage of our proven properties are proved undeveloped (approximately 73.5%), or proved developed non-producing (approximately 5%), we will require significant additional capital to develop such properties before they may become productive. Further, because of the inherent uncertainties associated with drilling for oil and gas, some of these properties may never be developed to the extent that they result in positive cash flow. Even if we are successful in our development efforts, it could take several years for a significant portion of our undeveloped properties to be converted to positive cash flow.

While our current business plan is to fund the development costs with cash flow from our other producing properties, if such cash flow is not sufficient we may be forced to seek alternative sources for cash, through the issuance of additional equity or debt securities, increased borrowings or other means. See, Business and Properties Estimated Costs Related to Conversion of Proved Undeveloped Reserves to Proved Developed Reserves.

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Drilling for and producing oil and natural gas are high risk activities with many uncertainties that could adversely affect our business, financial condition or results of operations.

Our future success will depend on the success of our exploitation, exploration, development and production activities. Our oil and natural gas exploration and production activities are subject to numerous risks beyond our control, including the risk that drilling will not result in commercially viable oil or natural gas production. Our decisions to purchase, explore, develop or otherwise exploit prospects or properties will depend in part on the evaluation of data obtained through geophysical and geological analyses, production data and engineering studies, the results of which are often inconclusive or subject to varying interpretations. Please read Reserve estimates depend on many assumptions that may turn out to be inaccurate (below) for a discussion of the uncertainty involved in these processes. Our cost of drilling, completing and operating wells is often uncertain before drilling commences. Overruns in budgeted expenditures are common risks that can make a particular project uneconomical. Further, many factors may curtail, delay or cancel drilling, including the following:

- delays imposed by or resulting from compliance with regulatory requirements;
- pressure or irregularities in geological formations;
- shortages of or delays in obtaining equipment and qualified personnel;
- equipment failures or accidents;
- adverse weather conditions;
- reductions in oil and natural gas prices;
- title problems; and
- limitations in the market for oil and natural gas.

If we are not successful in acquiring additional producing properties, rather than utilizing cash flow from existing production to finance future development, we may be forced to delay production, or incur debt or sell additional equity as sources of financing our development program.

Our current business strategy is to continue our program of acquiring properties that satisfy our business model, until we have a base of producing properties from which we can utilize cash flow from production to further finance additional development of those properties. We anticipate using approximately $6 million of the proceeds of this offering for such acquisition purposes. If, after utilizing the proceeds of this offering to conclude our acquisition program, our cash flow from production is not sufficient to develop our properties to their complete potential, we will be required to delay or curtail anticipated development activities, or alter or increase our capitalization substantially through the issuance of debt or other equity securities, the sale of production payments, increase borrowings or other means. Each of these alternatives involves more risk to investors (and enhances the possibility that the trading price of our stock and the units would be negatively impacted by reason of a balance sheet reflecting a less favorable capital structure or dilution of existing shareholders) than if we are able to fund development activities from existing cash flow.

If our assessments of recently purchased properties are materially inaccurate, it could have significant impact on future operations and earnings.

We have aggressively expanded our base of producing properties, including the recent acquisition of the East Hobbs Unit. The successful acquisition of producing properties requires assessments of many factors, which are inherently inexact and may be inaccurate, including the following:

- the amount of recoverable reserves;
- future oil and natural gas prices;
- estimates of operating costs;

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estimates of future development costs;

estimates of the costs and timing of plugging and abandonment; and

potential environmental and other liabilities.

Our assessment will not reveal all existing or potential problems, nor will it permit us to become familiar enough with the properties to assess fully their capabilities and deficiencies. As noted previously, we plan to undertake further development of our properties through the use of cash flow from existing production. Therefore, a material deviation in our assessments of these factors could result in less cash flow being available for such purposes than we presently anticipate, which could either delay future development operations (and delay the anticipated conversion of reserves into cash), or cause us to seek alternative sources to finance development activities.

If oil and natural gas prices decrease, we may be required to take write-downs of the carrying values of our oil and natural gas properties, potentially requiring earlier than anticipated debt repayment and negatively impacting the trading value of our securities.

Accounting rules require that we review periodically the carrying value of our oil and natural gas properties for possible impairment. Based on specific market factors and circumstances at the time of prospective impairment reviews, and the continuing evaluation of development plans, production data, economics and other factors, we may be required to write down the carrying value of our oil and natural gas properties. Because our properties serve as collateral for advances under our existing credit facilities, a write-down in the carrying values of our properties could require us to repay debt earlier than we would otherwise be required. A write-down could also constitute a non-cash charge to earnings. It is likely the cumulative effect of a write-down could also negatively impact the trading price of our securities.

Reserve estimates depend on many assumptions that may turn out to be inaccurate. Any material inaccuracies in these reserve estimates or underlying assumptions will materially affect the quantities and present value of our reserves.

The process of estimating oil and natural gas reserves is complex. It requires interpretations of available technical data and many assumptions, including assumptions relating to economic factors. Any significant inaccuracies in these interpretations or assumptions could materially affect the estimated quantities and present value of reserves shown in this prospectus. Please read Business and Properties Summary of Oil and Natural Gas Properties and Projects for information about our oil and natural gas reserves.

In order to prepare our estimates, we must project production rates and timing of development expenditures. We must also analyze available geological, geophysical, production and engineering data. The extent, quality and reliability of this data can vary. The process also requires economic assumptions about matters such as oil and natural gas prices, drilling and operating expenses, capital expenditures, taxes and availability of funds. Therefore, estimates of oil and natural gas reserves are inherently imprecise.

Actual future production, oil and natural gas prices, revenues, taxes, development expenditures, operating expenses and quantities of recoverable oil and natural gas reserves most likely will vary from our estimates. Any significant variance could materially affect the estimated quantities and present value of reserves shown in this prospectus. In addition, we may adjust estimates of proved reserves to reflect production history, results of exploration and development, prevailing oil and natural gas prices and other factors, many of which are beyond our control.

You should not assume that the present value of future net revenues from our proved reserves referred to in this prospectus is the current market value of our estimated oil and natural gas reserves. In accordance with SEC requirements, we generally base the estimated discounted future net cash flows from our proved reserves on

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prices and costs on the date of the estimate. Actual future prices and costs may differ materially from those used in the present value estimate. If future values decline or costs increase it could negatively impact our ability to finance operations, and individual properties could cease being commercially viable, affecting our decision to continue operations on producing properties or to attempt to develop properties. All of these factors would have a negative impact on earnings and net income, and most likely the trading price of our securities. These factors could also result in the acceleration of debt repayment and a reduction in our borrowing base under our credit facilities.

Prospects that we decide to drill may not yield oil or natural gas in commercially viable quantities.

We describe some of our current prospects and our future plans to explore those prospects in this prospectus. A prospect is a property on which we have identified what we believe, based on available seismic and geological information, to be indications of oil or natural gas. Our prospects are in various stages of evaluation, ranging from a prospect which is ready to drill to a prospect that will require substantial additional seismic data processing and interpretation. There is no way to predict in advance of drilling and testing whether any particular prospect will yield oil or natural gas in sufficient quantities to recover drilling or completion costs or to be economically viable. This risk may be enhanced in our situation, due to the fact that a significant percentage (73.5%) of our proved reserves are currently proved undeveloped reserves. The use of seismic data and other technologies and the study of producing fields in the same area will not enable us to know conclusively prior to drilling whether oil or natural gas will be present or, if present, whether oil or natural gas will be present in commercial quantities. We cannot assure you that the analogies we draw from available data from other wells, more fully explored prospects or producing fields will be applicable to our drilling prospects.

We may incur substantial losses and be subject to substantial liability claims as a result of our oil and natural gas operations.

We are not insured against all risks. Losses and liabilities arising from uninsured and underinsured events could materially and adversely affect our business, financial condition or results of operations. Our oil and natural gas exploration and production activities are subject to all of the operating risks associated with drilling for and producing oil and natural gas, including the possibility of:

- environmental hazards, such as uncontrollable flows of oil, natural gas, brine, well fluids, toxic gas or other pollution into the environment, including groundwater and shoreline contamination;
- abnormally pressured formations;
- mechanical difficulties, such as stuck oil field drilling and service tools and casing collapse;
- fires and explosions;
- personal injuries and death; and
- natural disasters.

Any of these risks could adversely affect our ability to conduct operations or result in substantial losses to our company. We may elect not to obtain insurance if we believe that the cost of available insurance is excessive relative to the risks presented. In addition, pollution and environmental risks generally are not fully insurable. If a significant accident or other event occurs and is not fully covered by insurance, then it could adversely affect us.

We are subject to complex laws that can affect the cost, manner or feasibility of doing business.

Exploration, development, production and sale of oil and natural gas are subject to extensive federal, state, local and international regulation. We may be required to make large expenditures to comply with governmental regulations. Matters subject to regulation include:

- discharge permits for drilling operations;

- drilling bonds;
- reports concerning operations;
- the spacing of wells;
- unitization and pooling of properties; and
- taxation.

Under these laws, we could be liable for personal injuries, property damage and other damages. Failure to comply with these laws also may result in the suspension or termination of our operations and subject us to administrative, civil and criminal penalties. Moreover, these laws could change in ways that substantially increase our costs. Any such liabilities, penalties, suspensions, terminations or regulatory changes could materially adversely affect our financial condition and results of operations.

Our operations may incur substantial liabilities to comply with the environmental laws and regulations.

Our oil and natural gas operations are subject to stringent federal, state and local laws and regulations relating to the release or disposal of materials into the environment or otherwise relating to environmental protection. These laws and regulations may require the acquisition of a permit before drilling commences, restrict the types, quantities and concentration of substances that can be released into the environment in connection with drilling and production activities, limit or prohibit drilling activities on certain lands lying within wilderness, wetlands and other protected areas, and impose substantial liabilities for pollution resulting from our operations. Failure to comply with these laws and regulations may result in the assessment of administrative, civil and criminal penalties, incurrence of investigatory or remedial obligations or the imposition of injunctive relief. Changes in environmental laws and regulations occur frequently, and any changes that result in more stringent or costly waste handling, storage, transport, disposal or cleanup requirements could require us to make significant expenditures to maintain compliance, and may otherwise have a material adverse effect on our results of operations, competitive position or financial condition as well as the industry in general. Under these environmental laws and regulations, we could be held strictly liable for the removal or remediation of previously released materials or property contamination regardless of whether we were responsible for the release or if our operations were standard in the industry at the time they were performed.

The recent increase in debt associated with property acquisitions could reduce our financial flexibility.

As of December 31, 2003, we had a $20 million credit facility in place with a current borrowing base of $4 million. On April 14, 2004, we established a new $15 million credit facility with an $8.5 million initial borrowing base. Also on April 14, 2004, we entered into to a bridge financing arrangement for $2 million from the same lender. On May 7, 2004, we drew approximately $8 million under the revolving credit facility and borrowed the entire $2 million under the bridge financing arrangement to fund the acquisition of the East Hobbs Unit.

While we intend to repay approximately $2 million of this borrowing with a portion of the proceeds of this offering, this increase in the level of our indebtedness could affect our operations in several ways, including the following:

a significant portion of our cash flow could be used to service the indebtedness,

a high level of debt increases our vulnerability to general adverse economic and industry conditions,

the covenants contained in our credit facility limit our ability to borrow additional funds, dispose of assets, pay dividends and make certain investments,

a high level of debt could impair our ability to obtain additional financing in the future for working capital, capital expenditures, acquisitions, general corporate or other purposes.

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In addition, our bank borrowing base is subject to semi-annual redeterminations. We could be forced to repay a portion of our bank borrowings due to redeterminations of our borrowing base. If we are forced to do so, we may not have sufficient funds to make such repayments. If we do not have sufficient funds and are otherwise unable to negotiate renewals of our borrowings or arrange new financing, we may have to sell significant assets. Any such sale could have a material adverse effect on our business and financial results.

Unless we replace our oil and natural gas reserves, our reserves and production will decline, which would adversely affect our cash flows and income.

Unless we conduct successful development, exploitation and exploration activities or acquire properties containing proved reserves, our proved reserves will decline as those reserves are produced. Producing oil and natural gas reservoirs generally are characterized by declining production rates that vary depending upon reservoir characteristics and other factors. Our future oil and natural gas reserves and production, and, therefore our cash flow and income, are highly dependent on our success in efficiently developing and exploiting our current reserves and economically finding or acquiring additional recoverable reserves. If we are unable to develop, exploit, find or acquire additional reserves to replace our current and future production, our cash flow and income will decline as production declines, until our existing properties would be incapable of sustaining commercial production.

The loss of senior management could adversely affect us.

To a large extent, we depend on the services of our senior management. The loss of our senior management Stanley McCabe, our Chairman, or Tim Rochford, our President and Chief Executive Officer could have a material adverse effect on our operations. We are in the process of obtaining key man life insurance policies on Messrs. McCabe and Rochford. While we expect to obtain such coverage in the near future, any amounts that we may recover under policies that are issued may not adequately compensate us for the loss of the services of either of such key senior management. We do not have employment agreements with either Mr. McCabe or Mr. Rochford.

The unavailability or high cost of drilling rigs, equipment, supplies, personnel and oil field services could adversely affect our ability to execute on a timely basis our exploration and development plans within our budget.

Shortages or the high cost of drilling rigs, equipment, supplies or personnel could delay or adversely affect our development and exploration operations. As the price of oil and natural gas increases, the demand for production equipment and personnel will likely also increase, potentially resulting, at least in the near-term, in shortages of equipment and personnel. In addition, larger producers may be more likely to secure access to such equipment by virtue of offering drilling companies more lucrative terms. If we are unable to acquire access to such resources, or can obtain access only at higher prices, not only would this potentially delay our ability to convert our reserves into cash flow, but could also significantly increase the cost of producing those reserves, thereby negatively impacting anticipated net income.

If our access to markets is restricted, it could negatively impact our production, our income and ultimately our ability to retain our leases.

Market conditions or the unavailability of satisfactory oil and natural gas transportation arrangements may hinder our access to oil and natural gas markets or delay our production. The availability of a ready market for our oil and natural gas production depends on a number of factors, including the demand for and supply of oil and natural gas and the proximity of reserves to pipelines and terminal facilities. Our ability to market our production depends in substantial part on the availability and capacity of gathering systems, pipelines and processing facilities owned and operated by third parties. Our failure to obtain such services on acceptable terms could materially harm our business.

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Currently, the majority of our production is sold to marketers and other purchasers that have access to nearby pipeline facilities. However, as we begin to further develop our properties, we may find production in areas with limited or no access to pipelines, thereby necessitating delivery by other means, such as trucking, or requiring compression facilities. Such restrictions on our ability to sell our oil or natural gas have several adverse affects, including higher transportation costs, fewer potential purchasers (thereby potentially resulting in a lower selling price) or, in the event we were unable to market and sustain production from a particular lease for an extended time, possibly causing us to lose a lease due to lack of production.

Competition in the oil and natural gas industry is intense, which may adversely affect our ability to compete.

We operate in a highly competitive environment for acquiring properties, marketing oil and natural gas and securing trained personnel. Many of our competitors possess and employ financial, technical and personnel resources substantially greater than ours, which can be particularly important in the areas in which we operate. Those companies may be able to pay more for productive oil and natural gas properties and exploratory prospects and to evaluate, bid for and purchase a greater number of properties and prospects than our financial or personnel resources permit. Our ability to acquire additional prospects and to find and develop reserves in the future will depend on our ability to evaluate and select suitable properties and to consummate transactions in a highly competitive environment. Also, there is substantial competition for capital available for investment in the oil and natural gas industry. We may not be able to compete successfully in the future in acquiring prospective reserves, developing reserves, marketing hydrocarbons, attracting and retaining quality personnel and raising additional capital.

Risks Relating to the Offering and Our Common Stock and Warrants

The market price of our stock and warrants may be affected by low volume float

Prior to this offering (partly because approximately 34% of our stock has been held by our Chairman and our President and, therefore, is restricted stock see, Stock Ownership of Certain Beneficial Owners and Management), our common stock has had a relatively low public float . In addition, there has been no public market for our warrants. The public offering price of our units under this offering may not be indicative of the market price of our common stock either before or after this offering, or of the market price of the units after this offering. In addition, our stock price may be volatile.

Additionally, approximately 2,049,000 shares of our common stock are restricted shares under Rule 144, but could be currently sold with little difficulty under the provisions of Rule 144(k). We also estimate that approximately 1,840,000 additional shares of common stock that are currently restricted , will soon be capable of being resold under Rule 144. See Shares Eligible for Future Sale.

Finally, as of the date of this prospectus there are warrants outstanding to purchase 1,405,723 shares of common stock, as well as options to purchase 1,000,000 shares of common stock (vesting at 20% per year over the next four years).

Substantial sales of our common stock, including shares issued upon the exercise of outstanding options and warrants, in the public market following this offering, or the perception that these sales could occur, may have a depressive effect on the market price of the units and the market price of our common stock. Such sales or the perception of such sales could also impair our ability to raise capital or make acquisitions through the issuance of our common stock. See Shares Eligible for Future Sale.

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The determination of the public offering price of the units and the stock and warrants comprising the units was determined by negotiation, and may not reflect the actual trading price of the units, the stock or warrants on any market that may develop.

The public offering price of the stock and warrants comprising our units was determined by negotiations between the representatives of the underwriters and us, based on numerous factors, including the trading price of our common stock, which we discuss in the Underwriting section of this prospectus. This price may not be indicative of the market price for our common stock either before or after this offering. The market price of our common stock and the units could be subject to significant fluctuations after this offering, and may decline below the public offering price. In addition, at the time the units are split into their separate components of common stock and warrants, the market price of each of these separate components may be less than the market price at which the units were trading prior to separation. You may not be able to resell your units at or above the offering price. The following factors could affect our unit price:

- our operating and financial performance and prospects;
- quarterly variations in the rate of growth of our financial indicators, such as net income per share, net income and revenues;
- changes in revenue or earnings estimates or publication of research reports by analysts;
- speculation in the press or investment community;
- sales of significant shares of our common stock by stockholders who are not subject to lock-up agreements;
- actions by institutional investors;
- general market conditions, including fluctuations in commodity prices and;
- domestic and international economic, legal and regulatory factors unrelated to our performance.

The stock markets in general have experienced extreme volatility that has often been unrelated to the operating performance of particular companies. These broad market fluctuations may adversely affect the trading price of our common stock and the units.

Purchasers of our securities in prior unregistered offerings could be entitled to rescission rights.

Subsequent to our initial public offering completed in March 2001, we have issued our common stock and warrants in several private transactions as a source of raising capital to fund our acquisitions and operations. It is possible, by reason of certain procedural or similar failures (i.e., the failure to file certain notices in connection with the sales) that a technical violation of some securities laws may have occurred at the time. If a holder of our securities was successful in claiming that the securities were issued to such holder without a valid exemption from registration, we believe that the remedy to such holder would be a rescission of the sale, pursuant to which the holder could be entitled to recover the amount paid for the security, plus interest (usually at a statutory rate prescribed by state law).

Provisions under Nevada law could delay or prevent a change in control of our company, which could adversely affect the price of our common stock.

While we do not believe that we currently have any provisions in our organizational documents that could prevent or delay a change in control of our company (such as provisions calling for a staggered board of directors, or the issuance of stock with super-majority voting rights), the existence of some provisions under Nevada law could delay or prevent a change in control of our company, which could adversely affect the price of our common stock. Nevada law imposes some restrictions on mergers and other business combinations between us and any holder of 10% or more of our outstanding common stock. See Description of Capital Stock Nevada Anti-Takeover Law.

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This prospectus contains forward-looking statements that are subject to a number of risks and uncertainties, many of which are beyond our control, which may include statements about our:

- business strategy;
- reserves;
- financial strategy;
- production;
- uncertainty regarding our future operating results;
- plans, objectives, expectations and intentions contained in this prospectus that are not historical.

All statements, other than statements of historical fact included in this prospectus, regarding our strategy, future operations, financial position, estimated revenues and losses, projected costs, prospects, plans and objectives of management are forward-looking statements. When used in this prospectus, the words could, believe, anticipate, intend, estimate, expect, project and similar expressions are intended to identify forward-looking statements, although not all forward-looking statements contain such identifying words. All forward-looking statements speak only as of the date of this prospectus. You should not place undue reliance on these forward-looking statements. Although we believe that our plans, intentions and expectations reflected in or suggested by the forward-looking statements we make in this prospectus are reasonable, we can give no assurance that these plans, intentions or expectations will be achieved. We disclose important factors that could cause our actual results to differ materially from our expectations under Risk Factors, Management s Discussion and Analysis of Financial Condition and Results of Operations and elsewhere in this prospectus. These cautionary statements qualify all forward-looking statements attributable to us or persons acting on our behalf.

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USE OF PROCEEDS

We estimate that the Company will receive net proceeds of approximately $ million from the sale of the 1,320,000 units in this offering based upon an assumed offering price of $ per unit, after deducting underwriting discounts and commissions and estimated offering expenses. We intend to use these proceeds to repay approximately $2 million of the debt incurred in connection with our recent acquisition of the East Hobbs Unit, and utilize the balance to fund the acquisition of additional properties. We anticipate that the portion of the proceeds allocated for acquisitions will be utilized during the next twelve months. At this time, we have under consideration several potential prospects, but we have no firm commitments for the acquisition of any specific properties.

It is our current intention to continue to focus our acquisition strategy on properties in our present areas of operation Oklahoma, Texas, New Mexico and Kansas. Our business strategy is to expand our base of proven properties until such time as we believe the existing production from such properties will be sufficient to fund further development. We cannot specifically predict when we will have achieved this critical mass (i.e., the time when our base of producing properties will generate sufficient cash flow to finance our further development activities), because of several factors, including: the fluctuation in oil and gas prices; the inability to exactly predict the acquisition prices of properties that we may find suitable to include in our portfolio; and, the inability to accurately forecast production characteristics of our existing properties as well as those that we may acquire in the future. However, we currently estimate that if we are able to find additional properties with anticipated production characteristics generally similar to those we currently own, we will achieve this critical mass with acquisitions of additional properties valued at approximately $6 million to $8 million.

Because of the inherent uncertainties associated with an acquisition program such as ours, it is possible that we may later determine that a portion of the proceeds of this offering would be better utilized to commence exploitation and development opportunities on properties we already own. Factors such as a significant increase in oil and natural gas prices (which could have the effect of driving the cost of new acquisitions above what we are willing to pay) could also lead to our determination that it is more economically feasible to begin a more aggressive drilling and exploration program sooner than we currently anticipate.

If the underwriters over-allotment option is exercised in full, we estimate that our net proceeds will be up to an additional $. These additional net proceeds will also be allocated to fund acquisition costs for additional properties. We believe that with our current cash flow from existing properties and our bank facility, we will have sufficient working capital to carry on our intended operations.

DIVIDEND POLICY

We do not anticipate paying any cash dividends on our common stock in the foreseeable future. We currently intend to retain future earnings, if any, to finance the expansion of our business. Our future dividend policy is within the discretion of our board of directors and will depend upon various factors, including our results of operations, financial condition, capital requirements and investment opportunities. In addition, our credit facility prohibits us from paying dividends.

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CAPITALIZATION

The following table sets forth, as of March 31, 2004, the actual capitalization of Arena Resources, Inc., the pro forma capitalization to present the estimated effects of the financing transactions associated with the acquisition of the East Hobbs Unit on the financial position of the Company as if they had occurred on March 31, 2004 (see also our financial statements included herein beginning at page F-1), and the capitalization, on an as adjusted basis to reflect our receipt of the estimated net proceeds from the sale of units at an assumed offering price of $, after deducting underwriting discounts and other estimated offering expenses. You should read this table in conjunction with our financial statements and the notes to those financial statements included elsewhere in this prospectus.

	March 31, 2004		
	Actual	**Pro Forma**	**As Adjusted**
Cash and cash equivalents	$ 1,238,282	$ 1,238,282	$
Short-term debt	$	$ 2,000,000	$
Long-term debt	400,000	8,408,440	
Total debt	400,000	10,408,440	
Stockholders equity			
Common Stock: $0.001 par value, 100,000,000 shares authorized, 7,167,097 shares issued and outstanding (actual and pro forma); 8,487,097 shares issued and outstanding (as adjusted)[(1)]	7,167	7,167	
Preferred Stock: $0.001 par value, 100,000,000 shares authorized, no shares issued or outstanding (actual and pro forma); no shares issued and outstanding (as adjusted)			
Additional paid-in capital	7,019,494	7,019,494	
Options and warrants outstanding	810,340	810,340	
Retained Earnings	592,378	592,378	
Total stockholders equity	8,429,379	8,429,379	
Total capitalization	$ 8,829,379	$ 18,837,819	$

(1) The foregoing does not give effect to 2,430,723 shares of common stock issuable upon the exercise of outstanding options and warrants as of March 31, 2004, 1,320,000 shares of common stock issuable upon exercise of the warrants which are part of the units being offered hereby, 198,000 shares of common stock and 198,000 warrants issuable upon exercise of the underwriters over-allotment option for units, or 25,000 shares which have been issued pursuant to the exercise of warrants subsequent to March 31, 2004.

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PRICE RANGE OF COMMON STOCK

Since April 15, 2003, our common stock has been traded on the American Stock Exchange, under the symbol ARD . Prior to that time, our common stock traded on the OTC Bulletin Board. The following table shows the high and low sales prices for each quarter since listing on the American Stock Exchange, and the high and low bid prices prior to such time, during the last two and one-half years.

Period		High Sale or Bid		Low Sale or Bid
1st Quarter 2002	$	2.65	$	2.40
2nd Quarter 2002		4.00		2.40
3rd Quarter 2002		4.25		3.99
4th Quarter 2002		4.60		4.00
1st Quarter 2003	$	4.35	$	4.25
2nd Quarter 2003		5.99		4.35
3rd Quarter 2003		5.82		5.45
4th Quarter 2003		6.10		5.40
1st Quarter 2004	$	7.08	$	5.85
2nd Quarter 2004	$	9.65	$	6.98
3rd Quarter 2004 (through July)	$		$	

On July , 2004 the closing price of our common stock on the American Stock Exchange was $

The units have been approved for listing, subject to issuance, under the symbol ARD.u . The units will be traded on the American Stock Exchange in that form until the earlier of one year from the date of this prospectus, or upon thirty days prior written notice from us. However, we will not allow separation of the units until the earlier to occur of 60 days immediately following this offering or the exercise by the underwriters of the entire over-allotment option. Our common stock is currently traded on the American Stock Exchange. We believe that if the units were capable of being separated immediately following the closing of this offering, it could have an artificial impact on the trading price of our currently outstanding shares of common stock. By not allowing the units to be immediately split, we hope to avoid any such potential market impact.

When each unit is separated into its components, we will issue (by book entry transfer for those units held in street name) to each unit holder of record, one share of common stock and one warrant to purchase one share of common stock. At that time each share of common stock and each warrant will be freely and separately tradeable on the American Stock Exchange under the symbols ARD and ARD.ws , respectively. The units will cease to exist at that time.

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SELECTED HISTORICAL FINANCIAL INFORMATION

The selected historical financial information set forth below should be read in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations and with our financial statements and the notes to those financial statements included elsewhere in this prospectus. The income statement information and cash flow statement information for the year ended December 31, 2001 was derived from our financial statements, that are not included herein.

	Year Ended December 31,			For the Three Months Ended March 31,	
	2001	2002	2003	2003	2004
	(dollars in thousands except per share data)				
Income Statement Information:					
Revenues and other income:					
Oil and gas revenues	$ 312	$ 1,657	$ 3,665	$ 807	$ 1,200
Gain from change in fair value of put options		37	48	5	
Total revenues	312	1,694	3,713	812	1,200
Costs and expenses:					
Lease operating	107	595	1,149	242	316
Production taxes	15	117	270	54	79
Depreciation, depletion and amortization	44	128	338	51	98
General and administrative expense	128	248	558	144	178
Interest expense		16	39	10	9
Accretion expense			32	5	12
Total costs and expenses	294	1,104	2,386	506	692
Income before income taxes	18	590	1,327	306	508
Provision for income taxes:					
Current					
Deferred		(187)	(492)	(114)	(189)
Total provision for income taxes		(187)	(492)	(114)	(189)
Income before cumulative effect of change in accounting principle	18	403	836	192	319
Cumulative effect of change in accounting principle			(12)	(12)	
Preferred stock dividends	(63)	(798)			
Net income (loss) attributable to common shares	$ (45)	$ (395)	$ 824	$ 180	$ 319
Basic and Diluted Income (Loss) Per Common Share					
Before cumulative effect of change in accounting principle	$ (0.01)	$ (0.09)	$ 0.12	$ 0.03	$ 0.04
Cumulative effect of change in accounting principle					
Net Income (Loss) Attributable to Common Shares	$ (0.01)	$ (0.09)	$ 0.12	$ 0.03	$ 0.04