

ARENA RESOURCES INC  
Form 10-Q  
November 04, 2009

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, 2009

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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes  No  Not Applicable

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act:

Large accelerated filer   
Non-accelerated filer

Accelerated filer   
Smaller reporting company

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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 3, 2009, the Company had outstanding 38,423,789 shares of common stock (\$0.001 par value).

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For the Quarter Ended September 30, 2009

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## 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.

## 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 nine months ended September 30, 2009 are not necessarily indicative of the results to be expected for the year ending December 31, 2009.

ARENA RESOURCES, INC.  
CONDENSED BALANCE SHEETS  
(UNAUDITED)

September 30,  
2009

December 31,  
2008

**ASSETS**

Current Assets

Cash	\$ 67,779,486	\$ 58,489,574
Accounts receivable	12,716,863	8,637,308
Joint interest billing receivable	2,352,537	2,836,948
Receivable from oil derivative	-	2,508,396
Fair value of oil derivative	-	16,210,478
Prepaid expenses	1,554,886	847,433
<b>Total Current Assets</b>	<b>84,403,772</b>	<b>89,530,137</b>

Property and Equipment

Oil and gas properties subject to amortization	620,132,699	548,714,235
Inventory for property development	1,015,769	1,670,067
Drilling rigs	7,235,008	6,899,433
Land, buildings, equipment and leasehold improvements	5,828,348	5,799,045
<b>Total Property and Equipment</b>	<b>634,211,824</b>	<b>563,082,780</b>
Less: Accumulated depreciation and amortization	(84,971,991 )	(60,928,142 )

Net Property and Equipment 549,239,833 502,154,638

**Total Assets** **\$ 633,643,605** **\$ 591,684,775**

**LIABILITIES AND STOCKHOLDERS'**

**EQUITY**

Current Liabilities

Accounts payable	\$ 11,057,376	\$ 12,877,084
Deferred income taxes	-	6,046,508
Accrued liabilities	1,782,036	865,955
<b>Total Current Liabilities</b>	<b>12,839,412</b>	<b>19,789,547</b>

Long-Term Liabilities

Asset retirement liability	6,091,856	5,066,348
Deferred income taxes	103,901,036	84,533,419
<b>Total Long-Term Liabilities</b>	<b>109,992,892</b>	<b>89,599,767</b>

Stockholders' Equity

Preferred stock - \$0.001 par value; 10,000,000 shares authorized;  
no shares issued or outstanding

- -

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Common stock - \$0.001 par value; 100,000,000  
shares authorized;

38,423,789 shares and 38,210,187 shares

outstanding, respectively

38,424

38,210

Additional paid-in capital

324,415,070

318,701,383

Retained earnings

186,357,807

153,343,267

Accumulated other comprehensive income (loss)

-

10,212,601

Total Stockholders' Equity

510,811,301

482,295,461

Total Liabilities and Stockholders' Equity

\$ 633,643,605

\$ 591,684,775

See the accompanying notes to unaudited condensed consolidated financial statements.

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

	For the Three Months Ended		For the Nine Months Ended	
	September 30,		September 30,	
	2009	2008	2009	2008
Oil and Gas Revenues	\$ 36,060,878	\$ 68,412,686	\$ 83,890,733	\$ 175,884,359
Costs and Operating Expenses				
Oil and gas production costs	3,137,035	5,790,236	10,614,882	12,979,837
Oil and gas production taxes	1,904,924	3,629,326	4,455,164	8,942,914
Realized loss (gain) on oil derivatives	-	3,462,283	(15,870,007)	9,008,822
Depreciation, depletion and amortization	8,994,389	9,841,972	23,634,894	23,556,695
Accretion expense	102,499	79,502	294,189	222,119
General and administrative expense	2,967,852	3,420,589	9,106,731	9,696,477
Total Costs and Operating Expenses	17,106,699	26,223,908	32,235,853	64,406,864
Other Income (Expense)				
Interest income	202,340	546,089	678,646	835,755
Interest expense	-	-	-	(1,145,456)
Net Other Income (Expense)	202,340	546,089	678,646	(309,701)
Income Before Provision for Income Taxes	19,156,519	42,734,867	52,333,526	111,167,794
Provision for Deferred Income Taxes	(7,043,493)	(15,811,901)	(19,318,986)	(41,132,084)
Net Income	\$ 12,113,026	\$ 26,922,966	\$ 33,014,540	\$ 70,035,710
Basic Net Income Per Common Share				
	\$ 0.32	\$ 0.71	\$ 0.86	\$ 1.93
Diluted Net Income Per Common Share				
	0.31	0.69	0.85	1.87
Other Comprehensive Income (Loss)				
Net income	\$ 12,113,026	\$ 26,922,966	\$ 33,014,540	\$ 70,035,710
Realized loss (gain) on hedge derivative contract				



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settlements reclassified from other comprehensive				
loss (income), net of tax	-	4,940,665	(10,222,546 )	6,950,305
Change in unrealized				
deferred hedging gains				
(losses), net of tax	44,281	2,863,848	9,945	(1,979,521 )
Total Comprehensive				
Income	\$ 12,157,307	\$ 34,727,479	\$ 22,801,939	\$ 75,006,494

See the accompanying notes to unaudited condensed consolidated financial statements.

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

For the Nine Months Ended September 30,	2009	2008
<b>Cash Flows From Operating Activities</b>		
Net income	\$ 33,014,540	\$ 70,035,710
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, depletion and amortization	23,634,894	23,556,695
Provision for income taxes	19,318,986	41,132,084
Stock based compensation	3,648,020	5,095,580
Accretion of asset retirement obligation	294,189	222,119
Changes in assets and liabilities:		
Accounts, joint interest and oil derivative receivable	(1,086,748 )	388,103
Income taxes payable	-	(612,480 )
Prepaid expenses	(707,453 )	(732,837 )
Accounts payable and accrued liabilities	(903,627 )	3,373,813
<b>Net Cash Provided by Operating Activities</b>	<b>77,212,801</b>	<b>142,458,787</b>
<b>Cash Flows from Investing Activities</b>		
Purchase and development of oil and gas properties	(65,362,425 )	(151,469,679 )
Purchase of inventory for property development	(4,261,467 )	(1,392,728 )
Purchase of buildings, drilling rigs & equipment	(364,878 )	(1,350,237 )
<b>Net Cash Used in Investing Activities</b>	<b>(69,988,770 )</b>	<b>(154,212,644 )</b>
<b>Cash Flows From Financing Activities</b>		
Proceeds from issuance of common stock, net	-	116,130,189
Proceeds from exercise of warrants	537,341	236,179
Proceeds from exercise of options	1,528,540	4,417,260
Proceeds from issuance of notes payable	-	11,000,000
Payment of notes payable	-	(46,000,000 )
<b>Net Cash Provided by Financing Activities</b>	<b>2,065,881</b>	<b>85,783,628</b>
<b>Net Increase in Cash</b>	<b>9,289,912</b>	<b>74,029,771</b>
<b>Cash at Beginning of Period</b>	<b>58,489,574</b>	<b>5,213,459</b>
<b>Cash at End of Period</b>	<b>\$ 67,779,486</b>	<b>\$ 79,243,230</b>
<b>Supplemental Cash Flow Information</b>		
Cash paid for income taxes	\$ -	\$ 612,480
Cash paid for interest	-	1,280,122
<b>Non-Cash Investing and Financing Activities</b>		

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Asset retirement obligation incurred in property development	731,319	1,076,648
Depreciation on drilling rigs capitalized as oil and gas properties	408,955	480,380
Use of inventory in property development	4,915,765	-

See the accompanying notes to unaudited condensed consolidated financial statements.

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ARENA RESOURCES, INC.  
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
SEPTEMBER 30, 2009

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, 2008. The financial position and results of operations for the three and nine months ended September 30, 2009 are not necessarily indicative of the results to be expected for the full year ending December 31, 2009.

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

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

Fair Values of Financial Instruments — The carrying amounts reported in the balance sheets for joint interest billings receivable, prepaid expenses and accrued liabilities approximate fair value because of the immediate or short-term maturity of these financial instruments. The carrying amounts reported for notes payable and long-term debt approximate fair value because the underlying instruments are at interest rates which approximate current market rates. The fair value estimates for oil derivatives are derived from published market prices for the underlying commodities to determine discounted expected future cash flows as of the date of the estimate. See Note 8—Derivative Instruments.

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

Concentration of Credit Risk and Major Customer – The Company has cash in excess of federally insured limits at September 30, 2009. During the nine months ended September 30, 2009, sales to two customers represented 76% and 12%, respectively, of oil and gas revenues. At September 30, 2009, these customers made up 71% and 18%, respectively, of accounts receivable.

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.

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ARENA RESOURCES, INC.  
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
SEPTEMBER 30, 2009

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, 2009 was \$8,994,389 and \$23,634,894, respectively, based on depletion at the rate of \$13.55 per barrel of oil equivalent compared to \$9,841,972 and \$23,556,695, respectively, for the three and nine months ended September 30, 2008, based on depletion at the rate of \$13.81 per barrel of oil equivalent. These amounts include \$74,740 and \$222,263 of depreciation for the three and nine months ended September 30, 2009, respectively, compared to \$55,723 and \$165,427 of depreciation for the three and nine months ended September 30, 2008, respectively.

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

**Drilling Rigs** – Drilling rigs are valued at historical cost adjusted for impairment loss less accumulated depreciation. Historical costs include all direct costs associated with the acquisition of drilling rigs and placing them in service. Drilling rigs are depreciated over 10 years and the depreciation is capitalized as part of oil and gas properties subject to amortization. For the three and nine months ended September 30, 2009 the Company had depreciation of \$176,426 and \$408,955, respectively, on the Company owned drilling rigs, compared to \$160,597 and \$480,380 for the three and nine months ended September 30, 2008.

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

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

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

**Inventory for Property Development** – Inventories consist primarily of tubular goods used in development and are stated at the lower of specific cost of each inventory item or market value.

**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, 2009

Recent Accounting Pronouncements – In December 2008, the SEC announced that it had approved revisions to modernize the oil and gas reserve reporting disclosures. The new disclosure requirements include provisions that:

- Introduce a new definition of oil and gas producing activities. This new definition allows companies to include in their reserve base volumes from unconventional resources. Such unconventional resources include bitumen extracted from oil sands and oil and gas extracted from coal beds and shale formations.
- Report oil and gas reserves using an unweighted average price using the prior 12-month period, based on the closing prices on the first day of each month, rather than year-end prices. The SEC indicated that they will continue to communicate with the FASB staff to align their accounting standards with these rules. The FASB currently requires a single-day, year-end price for accounting purposes.
- Permit companies to disclose their probable and possible reserves on a voluntary basis. In the past, proved reserves were the only reserves allowed in the disclosures.
  - Requires companies to provide additional disclosure regarding the aging of proved undeveloped reserves.
- Permit the use of reliable technologies to determine proved reserves if those technologies have been demonstrated empirically to lead to reliable conclusions about reserves volumes.
- Replace the existing “certainty” test for areas beyond one offsetting drilling unit from a productive well with a “reasonable certainty” test.
- Require additional disclosures regarding the qualifications of the chief technical person who oversees the company’s overall reserve estimation process. Additionally, disclosures regarding internal controls over reserve estimation, as well as a report addressing the independence and qualifications of its reserves preparer or auditor will be mandatory.

The Company will begin complying with the disclosure requirements in our annual report on Form 10-K for the year ending December 31, 2009. The new rules may not be applied to disclosures in quarterly reports prior to the first annual report in which the revised disclosures are required.

The SEC is coordinating with the FASB to obtain the revision necessary to US GAAP concerning financial accounting and reporting by oil and gas producing companies and disclosures about oil and gas producing activities to provide consistency with the new rules. During September 2009, the FASB issued an exposure draft of a proposed Accounting Standards Update, “Oil and Gas Reserves Estimation and Disclosures”. The proposed Update would amend existing standards to align the reserves calculation and disclosure requirements under US GAAP with the requirements in the SEC rules. As proposed, the Update would be effective for annual reporting periods ending on or after December 31, 2009, and would be applied prospectively as a change in estimate.

We are currently in the process of evaluating the new requirements.

In June 2009, the FASB established the FASB Accounting Standards Codification (Codification), which officially commenced July 1, 2009, to become the source of authoritative US GAAP recognized by the FASB to be applied by nongovernmental entities. Rules and interpretive releases of the SEC under authority of federal securities laws are also sources of authoritative US GAAP for SEC registrants. Generally, the Codification is not expected to change US GAAP. All other accounting literature excluded from the Codification will be considered nonauthoritative. The



Codification is effective for financial statements issued for interim and annual periods ending after September 15, 2009. We adopted the new standards for our quarter ending September 30, 2009. All references to authoritative accounting literature are now referenced in accordance with the Codification.

ARENA RESOURCES, INC.  
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
SEPTEMBER 30, 2009

In May 2009, the FASB issued new standards which establish the accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued. In particular, the new standards set forth:

the period after the balance sheet date during which management of a reporting entity should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements (through the date that the financial statements are issued or are available to be issued);  
the circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements; and  
the disclosures that an entity should make about events or transactions that occurred after the balance sheet date.

We adopted the new standards as of June 30, 2009. We have evaluated subsequent events after the balance sheet date of September 30, 2009 through the time of filing with the Securities and Exchange Commission (SEC) on November 4, 2009 which is the date the financial statements were issued. See Note 10 – Subsequent Events.

## NOTE 2 – EARNINGS PER SHARE INFORMATION

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2009	2008	2009	2008
Net Income	\$ 12,113,026	\$ 26,922,966	\$ 33,014,540	\$ 70,035,710
Basic Weighted-Average Common Shares Outstanding	38,385,073	37,976,326	38,281,141	36,251,182
Effect of dilutive securities				
Warrants	43,972	209,236	100,626	221,063
Stock options	563,213	792,439	519,752	1,027,044
Diluted Weighted-Average Common Shares Outstanding	38,992,258	38,978,001	38,901,519	37,499,289
Basic Income Per Common Share				
Net income	\$ 0.32	\$ 0.71	\$ 0.86	\$ 1.93
Diluted Income Per Common Share				
Net Income	0.31	0.69	0.85	1.87

For the three and nine months ended September 30, 2009, 700,000 stock options were not included in the computation of diluted income per share as their effects are anti-dilutive.

## NOTE 3 – NOTES PAYABLE

Credit facility - Effective as of June 30, 2009, the Company entered into a new agreement that provides for a credit facility of \$150 million with a borrowing base of \$75 million with the structure in place to increase that borrowing base an additional \$75 million. The new facility has an interest rate grid with a range of LIBOR plus 2.25% to 3.25%, depending upon our level of utilization of the credit facility with the total interest rate to be charged being no less than 4.00%. As of September 30, 2009, we were in compliance with all covenants and did not have any amount outstanding under this credit facility.

ARENA RESOURCES, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
SEPTEMBER 30, 2009

## NOTE 4 – 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, 2009 is as follows:

Balance, January 1, 2009	\$5,066,348
Liabilities incurred	731,319
Accretion expense	294,189
Balance, September 30, 2009	\$6,091,856

## NOTE 5 – STOCKHOLDERS' EQUITY

Warrants exercised – During the nine months ended September 30, 2009, the Company issued 126,602 shares of common stock from the exercise of warrants. Of these warrants, 42,772 had an exercise price of \$3.74 per share and 83,830 had an exercise price of \$4.50 per share, for total proceeds of \$537,341.

Options exercised – During the nine months ended September 30, 2009, the Company issued 87,000 shares of common stock from the exercise of options for proceeds of \$1,528,540. Of these options, 20,000 had an exercise price of \$4.15 per share, 20,000 had an exercise price of \$13.70 per share, 27,000 had an exercise price of \$23.42 per share and 20,000 had an exercise price of \$26.96 per share.

## NOTE 6 – EMPLOYEE STOCK OPTIONS

Compensation expense charged against income for stock based awards during the three and nine months ended September 30, 2009 was \$1,098,081 and \$3,648,020, respectively, as compared to \$1,845,863 and \$5,095,580 for the three and nine months ended September 30, 2008, respectively, and is included in general and administrative expense in the accompanying financial statements.

The Company did not grant any nonqualified stock options to directors and employees during the three or nine months ended September 30, 2009. Additionally, there were no forfeitures during the three or nine months ended September 30, 2009. However, a total of 87,000 options were exercised to purchase shares. Of these options, 20,000 had an exercise price of \$4.15 per share, 20,000 had an exercise price of \$13.70 per share, 27,000 had an exercise price of \$23.42 per share and 20,000 had an exercise price of \$26.96 per share. A summary of the status of the stock options as of September 30, 2009 is as follows:

	Options	Weighted-Average Exercise Price
Outstanding at December 31, 2008	2,252,000	\$ 22.12
Exercised	(87,000 )	\$ 17.57
Outstanding at September 30, 2009	2,165,000	22.30
Exercisable at September 30, 2009	840,000	\$ 15.04



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ARENA RESOURCES, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
SEPTEMBER 30, 2009

As of September 30, 2009, there was approximately \$5,813,352 of unrecognized compensation cost related to stock options that will be recognized over a weighted average period of 2.19 years. The aggregate intrinsic value of options expected to vest at September 30, 2009 was \$30,779,450. The aggregate intrinsic value of options exercisable at September 30, 2009 was \$17,186,100. The intrinsic value is based on a September 30, 2009 closing price of the Company's common stock of \$35.50. The 87,000 options exercised during the nine months ended September 30, 2009 had an intrinsic value of \$1,295,020 on the dates of exercise.

NOTE 7 – 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 \$686,969 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 8 – DERIVATIVE INSTRUMENTS

The Company uses commodity-based derivative contracts to manage exposures to commodity price fluctuations. The Company does not enter into these arrangements for speculative or trading purposes. These contracts consist of costless collars. The Company does not utilize complex derivatives such as swaptions, knockouts or extendable swaps. During the nine months ended September 30, 2009, the Company monetized a costless collar for 1,000 barrels of oil per day for the period June 2009 through December 2009 with a floor of \$100 and a ceiling of \$197, thereby eliminating that hedge. At September 30, 2009, the Company had three costless collar contracts. The fair value of all hedges, represented by the estimated amount that would be realized upon termination, based on a comparison of the contract prices and the reference price, on September 30, 2009, was zero.

The following table sets forth our derivative volumes as of September 30, 2009:

Commodity	Remaining Period	Volume (Bbls)	Floor	Ceiling
WTI Crude Oil	October 2009 - December 2009	276,000	\$ 50.00	\$ 72.60
WTI Crude Oil	January 2010 - December 2010	730,000	\$ 65.00	\$ 93.00
Commodity	Remaining Period	Volume (MMBTU)	Floor	Ceiling
El Paso Permian Gas	January 2010 - December 2010	1,825,000	\$ 4.00	\$ 7.87

Every derivative instrument is required to be recorded on the balance sheet as either an asset or a liability measured at its fair value. Fair value is generally determined based on the difference between the fixed contract price and the underlying estimated market price at the determination date. Changes in the fair value of effective cash flow hedges are recorded as a component of "Accumulated other comprehensive income (loss)," ("AOCI") which is later transferred to earnings when the underlying physical transaction occurs. As of September 30, 2009, there was no unrealized gain or loss on derivative recorded in AOCI.

For those derivative instruments that qualify for hedge accounting, settled transaction gains and losses are determined monthly, and are included in the operating section of our income statement as "Realized loss (gain) on oil derivatives" in the period the hedged production is sold. During the nine months ended September 30, 2009, the Company monetized an existing costless collar, resulting in our realizing a gain during the period of \$7,992,900, part of which would not

have been realized until later in 2009. As a result of this monetization, our realized gain on oil derivatives includes \$0 million and \$15.9 million of gains in the three and nine months ended September 30, 2009, respectively, compared to losses of \$3.5 million and \$9.0 million in the three and nine months ended September 30, 2008. Any ineffectiveness associated with these hedges would be reflected in the income statement caption called "Derivative fair value income (loss)." Our hedging contracts are all fully effective.

ARENA RESOURCES, INC.

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SEPTEMBER 30, 2009

To designate a derivative as a cash flow hedge, the Company documents at the hedge's inception our assessment that the derivative will be highly effective in offsetting expected changes in cash flows from the item hedged. This assessment, which is updated at least quarterly, is generally based on the most recent relevant historical correlation between the derivative and the item hedged. The ineffective portion of the hedge is calculated as the difference between the change in fair value of the derivative and the estimated change in cash flows from the item hedged. If, during the derivative's term, the Company determines the hedge is no longer highly effective, hedge accounting is prospectively discontinued and any remaining unrealized gains or losses, based on the effective portion of the derivative at that date, are reclassified to earnings as realized gain or loss on oil derivatives when the underlying transaction occurs. If it is determined that the designated hedge transaction is not probable to occur, any unrealized gains or losses are recognized immediately in the statement of operations as a "Derivative fair value income or loss." Our hedges are considered to be effective and therefore no amounts have been recorded for ineffectiveness.

## Derivative Fair Value Income (Loss)

The following table presents information about the components of derivative fair value income (loss) in the three and nine months ended September 30, 2009 and 2008:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2009	2008	2009	2008
Realized loss (gain) on oil derivatives	-	(3,462,283 )	15,870,007	(9,008,822 )

The combined fair value of derivatives included in our consolidated balance sheets as of September 30, 2009 and December 31, 2008 is summarized below. The Company conducts derivative activities with two corporations. The Company believes these corporations are an acceptable credit risk. The credit worthiness of our counterparties is subject to periodic review.

	September 30, 2009	December 31, 2008
Derivative assets, crude oil collars	\$ -	\$ 16,210,478
Derivative liabilities, crude oil collars	\$ -	\$ -

The Company does not have any derivatives that do not qualify for hedge accounting. The table below provides data about the carrying values of derivatives that qualify for hedge accounting:

	September 30, 2009			December 31, 2008		
	Asset Carrying value	(Liabilities) Carrying value	Net Carrying value	Asset Carrying value	(Liabilities) Carrying value	Net Carrying value
Derivative that qualify for cash flow hedge accounting						
Collars	-	-	-	16,210,478	-	16,210,478

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The tables below provides data about the amount of gains and losses related to cash flow derivatives that qualify for hedge accounting included in the balance sheet caption “Accumulated other comprehensive income” (AOCI) and in our statement of operations:

	Amount of Gain/(Loss) recognized in AOCI		Amount of Gain/(Loss) reclassified from AOCI to Operations	
	As of September 30,		September 30,	
	2009	2008	2009	2008
Collar	\$ -	\$ 4,545,791	\$ 16,226,263	\$ (11,032,230 )
Income taxes	44,281	(1,681,943 )	(6,003,717 )	4,081,925
Total	\$ 44,281	\$ 2,863,848	\$ 10,222,546	\$ (6,950,305 )

NOTE 9 – FAIR VALUE MEASUREMENTS

The FASB’s fair value measurement standards establish a single authoritative definition of fair value based upon the assumptions market participants would use when pricing an asset or liability and create a fair value hierarchy that prioritizes the information used to develop those assumptions. The standards require additional disclosures, including disclosures of fair value measurements by level within the fair value hierarchy. As of January 1, 2008, we adopted the new standards as they related to our financial assets and liabilities. The initial adoption of the FASB’s new fair value measurement standards had no material impact on the Company’s Consolidated Financial Statements. As of January 1, 2009, we adopted the new standards as they related to our nonfinancial assets and liabilities, including nonfinancial assets and liabilities measured at fair value in a business combination; impaired property, plant and equipment; goodwill impairment assessments; and initial recognition of asset retirement obligations. Upon adopting the new fair value measurement standards, the Company applied a prospective transition as it did not have financial instrument transactions that required a cumulative-effect adjustment to beginning retained earnings.

Fair value is the price that would be received to sell an asset or the amount paid to transfer a liability in an orderly transaction between market participants (an exit price) at the measurement date. Fair value is a market based measurement considered from the perspective of a market participant. The Company uses market data or assumptions that market participants would use in pricing the asset or liability, including assumptions about risk and the risks inherent in the inputs to the valuation. These inputs can be readily observable, market corroborated, or unobservable. The Company primarily applies a market approach for recurring fair value measurements using the best available information while utilizing valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs.

Generally accepted accounting principals establish a fair value hierarchy that prioritizes the inputs used to measure fair value. The hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1 measurement) and the lowest priority to unobservable inputs (Level 3 measurement). The Company’s fair value balances are based on the observability of those inputs. The three levels of the fair value hierarchy are as follows:

- Level 1 — Quoted prices in active markets for identical assets or liabilities that the Company has the ability to access. Active markets are those in which transactions for the asset or liability occur in sufficient frequency and volume to provide pricing information on an ongoing basis. The Company does not have any fair value balances classified as Level 1.





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- Level 2 — Inputs are other than quoted prices in active markets included in Level 1, that are either directly or indirectly observable. These inputs are either directly observable in the marketplace or indirectly observable through corroboration with market data for substantially the full contractual term of the asset or liability being measured. The Company's Level 2 items consist of a costless collar.
- Level 3 — Includes inputs that are not observable for which there is little, if any, market activity for the asset or liability being measured. These inputs reflect management's best estimate of the assumptions market participants would use in determining fair value. Level 3 would include instruments valued using industry standard pricing models and other valuation methods that utilize unobservable pricing inputs that are significant to the overall fair value. The Company does not have any fair value balances classified as Level 3.

In valuing certain contracts, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. For disclosure purposes, assets and liabilities are classified in their entirety in the fair value hierarchy level based on the lowest level of input that is significant to the overall fair value measurement. Our assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the placement within the fair value hierarchy levels.

The following table sets forth by level within the fair value hierarchy the Company's liability that is measured at fair value on a recurring basis:

	Fair Value Measurements at September 30, 2009 Using:			
	Quoted Prices			
	in			
	Active	Significant	Significant	
	Markets for	Other	Unobservable	
	Identical	Observable	Inputs	
	Liabilities:	Inputs		
	(Level 1)	(Level 2)	(Level 3)	Total
Assets/(Liabilities):				
2009 - \$50 - \$72.60 oil hedge	\$ -	\$ -	\$ -	\$ -
2010 - \$65 - \$93 oil hedge	-	-	-	-
2010 - \$4 - 7.87 gas hedge	-	-	-	-

NOTE 10 – SUBSEQUENT EVENTS

Subsequent to September 30, 2009, the Company entered into an agreement for zero-cost collars on a portion of oil production, equal to 1,000 barrels of oil per day, beginning in January 2010 and continuing through December 2010. Under the collar agreements, the floor price is \$70.00 and the ceiling price is \$92.85 based on the WTI index price.



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

Results of Operations – For the Three Months Ended September 30, 2009

Oil and natural gas sales. For the three months ended September 30, 2009, oil and natural gas sales revenue decreased \$32,351,808 to \$36,060,878, compared to \$68,412,686 for the same period during 2008. Oil sales decreased \$28,153,050 and natural gas sales decreased \$4,198,758. The decreases were the result of significantly lower oil and gas prices between periods and lower oil production. For the three months ended September 30, 2009, oil sales volume decreased 16,940 barrels to 511,104 barrels, compared to 528,044 barrels for the same period in 2008. The average realized per barrel oil price decreased 44% from \$115.41 for the three months ended September 30, 2008 to \$64.16 for the three months ended September 30, 2009. For the three months ended September 30, 2009, gas sales volume increased 64,283 thousand cubic feet (MCF) to 609,030 MCF, compared to 544,746 MCF for the same period in 2008. The average realized natural gas price per MCF decreased 61% from \$13.71 for the three months ended September 30, 2008 to \$5.37 for the three months ended September 30, 2009.

Oil and gas production costs. Our lease operating expenses (LOE) decreased from \$5,790,236 or \$9.36 per barrel of oil equivalent (BOE) for the three months ended September 30, 2008 to \$3,137,035 or \$5.12 per BOE for the three months ended September 30, 2009. The decreases in total LOE and on a per BOE basis were the result of lower costs for services and equipment.

Production taxes. Production taxes as a percentage of oil and natural gas sales were 5% during the three months ended September 30, 2008 and remained steady at 5% for the three months ended September 30, 2009. 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 decreased by \$847,583 to \$8,994,389 for the three months ended September 30, 2009, compared to the same period in 2008. The decrease was primarily a result of slightly lower production volume and a decrease in the average depletion rate from \$13.81 per BOE during the three months ended September 30, 2008 to \$13.55 per BOE during the three months ended September 30, 2009.

General and administrative expenses. General and administrative expenses decreased by \$452,737 to \$2,967,852 for the three months ended September 30, 2009, compared to the same period in 2008. The decrease was primarily the result of a decrease in stock-based compensation expense from \$1,845,863 for the three months ended September 30, 2008 to \$1,098,081 for the three months ended September 30, 2009 partially offset by higher overall compensation expense between periods.

Interest income. Interest income was \$202,340 for the three months ended September 30, 2009, compared to \$546,089 for the three months ended September 30, 2008. The decrease was due to lower interest rates and a lower cash balance in 2009.

Income tax expense. Our effective tax rate was 37% during the three months ended September 30, 2008 and remained steady at 37% for the three months ended September 30, 2009.

Net income. Net income decreased from \$26,922,966 for the three months ended September 30, 2008 to \$12,113,026 for the same period in 2009. The primary reason for this decrease is the lower commodity prices between periods.

Results of Operations – For the Nine Months Ended September 30, 2009

Oil and natural gas sales. For the nine months ended September 30, 2009, oil and natural gas sales revenue decreased \$91,993,626 to \$83,890,733, compared to \$175,884,359 for the same period during 2008. Oil sales decreased \$83,266,046 and natural gas sales decreased \$8,727,580. The decreases were the result of significantly lower oil and gas prices between periods partially offset by higher production. For the nine months ended September 30, 2009, oil sales volume increased 3,314 barrels to 1,461,844 barrels, compared to 1,458,530 barrels for the same period in 2008. The average realized per barrel oil price decreased 52% from \$109.42 for the nine months ended September 30, 2008 to \$52.21 for the nine months ended September 30, 2009. For the nine months ended September 30, 2009, gas sales volume increased 184,155 thousand cubic feet (MCF) to 1,599,142 MCF, compared to 1,414,987 MCF for the same period in 2008. The average realized natural gas price per MCF decreased 59% from \$11.51 for the nine months ended September 30, 2008 to \$4.73 for the nine months ended September 30, 2009.

Oil and gas production costs. Our lease operating expenses (LOE) decreased from \$12,979,837 or \$7.66 per barrel of oil equivalent (BOE) for the nine months ended September 30, 2008 to \$10,614,882 or \$6.14 per BOE for the nine months ended September 30, 2009. The decrease in total LOE was the result of variations in costs for services and equipment between periods.

Production taxes. Production taxes as a percentage of oil and natural gas sales were 5% during the nine months ended September 30, 2008 and remained steady at 5% for the nine months ended September 30, 2009. 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 \$78,199 to \$23,634,894 for the nine months ended September 30, 2009, compared to the same period in 2008. The increase was primarily a result of higher production volume, partially offset by a decrease in the average depletion rate from \$13.81 per BOE during the nine months ended September 30, 2008 to \$13.55 per BOE during the nine months ended September 30, 2009.

General and administrative expenses. General and administrative expenses decreased by \$589,746 to \$9,106,731 for the nine months ended September 30, 2009, compared to the same period in 2008. The decrease was primarily the result of a decrease in stock-based compensation expense from \$5,095,580 for the nine months ended September 30, 2008 to \$3,648,020 for the nine months ended September 30, 2009 partially offset by higher overall compensation expense between periods.

Interest income. Interest income was \$678,646 for the nine months ended September 30, 2009, compared to \$835,755 for the nine months ended September 30, 2008. The decrease was due to lower interest rates and a lower cash balance in 2009.

Interest expense. Interest expense was zero for the nine months ended September 30, 2009, compared to \$1,145,456 for the nine months ended September 30, 2008. The decrease was due to no amounts being outstanding on our credit facility during the nine months ended September 30, 2009 while there were amounts outstanding on our credit facility during the nine months ended September 30, 2008.

Income tax expense. Our effective tax rate was 37% during the nine months ended September 30, 2008 and remained steady at 37% for the nine months ended September 30, 2009.

Net income. Net income decreased from \$70,035,710 for the nine months ended September 30, 2008 to \$33,014,540 for the same period in 2009. The primary reason for this decrease is the lower commodity prices between periods.



## 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	1,276,351 BBLs	\$ 66,657,204
Oklahoma Leases	28,248 BBLs	\$ 1,565,549
New Mexico Leases	157,245 BBLs	\$ 8,102,127

## GAS

	Net Production Volume	Net Revenue
Texas Leases	1,232,259 MCF	\$ 6,030,302
Oklahoma Leases	14,468 MCF	\$ 43,201
New Mexico Leases	243,586 MCF	\$ 1,207,858
Kansas Leases	108,829 MCF	\$ 284,492

## Significant Subsequent Events occurring after September 30, 2009:

Subsequent to September 30, 2009, the Company entered into an agreement for zero-cost collars on a portion of oil production, equal to 1,000 barrels of oil per day, beginning in January 2010 and continuing through December 2010. Under the collar agreements, the floor price is \$70.00 and the ceiling price is \$92.85 based on the WTI index price.

## Capital Resources and Liquidity

As shown in the financial statements for the nine months ended September 30, 2009, the Company had cash on hand of \$67,779,486, compared to \$58,489,574 as of December 31, 2008. The Company had net cash provided by operating activities for the nine months ended September 30, 2009 of \$77,212,801, compared to \$142,458,787 for the same period 2008. Other significant sources of cash inflow include proceeds from option and warrant exercises of \$2,065,881 and \$4,653,439 for 2009 and 2008, respectively, and proceeds from issuance of common stock of \$116,130,189 and \$11,000,000 drawn down on the Company's credit facility in 2008. The most significant cash outflows during the nine months ended September 30, 2009 and 2008 were capital expenditures of \$69,988,770 and \$154,212,644, respectively, and \$46,000,000 payment on notes payable in 2008.

Effective as of June 30, 2009, we entered into a new agreement that provides for a credit facility of \$150 million with a borrowing base of \$75 million with the structure in place to increase that borrowing base an additional \$75 million. The new facility has an interest rate grid with a range of LIBOR plus 2.25% to 3.25%, depending upon our level of utilization of the credit facility with the total interest rate to be charged being no less than 4.00%. As of September 30, 2009, we were in compliance with all covenants and did not have any amount outstanding under this credit facility.

## 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.

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 cleanup 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.



## 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.

In 2008 and 2009 the Company entered into derivative contracts in order to manage the commodity price risk for a portion of production through 2010. The Company's current derivative contracts are costless collars. 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 positions as of September 30, 2009.

Commodity	Remaining Period	Volume (Bbls)	Floor	Ceiling
WTI Crude Oil	October 2009 - December 2009	276,000	\$ 50.00	\$ 72.60
WTI Crude Oil	January 2010 - December 2010	730,000	\$ 65.00	\$ 93.00

  

Commodity	Remaining Period	Volume (MMBTU)	Floor	Ceiling
El Paso Permian Gas	January 2010 - December 2010	1,825,000	\$ 4.00	\$ 7.87

The change in fair value of the oil hedging contracts in place at September 30, 2009, resulted in a decrease in the liability from \$70,287 to zero. The after tax impact of the change in the fair value of the hedge of \$44,281 is reflected in other comprehensive loss. During the nine months ended September 30, 2009, the Company monetized an existing costless collar, resulting in a larger decrease in the asset as the gain on that hedge was realized during the three months ended June 30, 2009, rather than over the remaining life of the hedge, running through December 2009. 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.

Cash settlements of cash flow hedges are recorded as a gain on derivatives in the operating section of the Company's statement of operations. During the nine months ended September 30, 2009, the Company monetized an existing costless collar, resulting in our realizing a gain during the period of \$7,992,900, part of which would not have been realized until later in 2009. As a result of this monetization, our statement of operations for the three and nine months ended September 30, 2009 include gain on derivative instrument of zero and \$15,870,007, respectively, as compared to a loss of \$3,462,283 and \$9,008,822 for the three and nine months ended September 30, 2008, respectively.



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 4, 2009

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

President, Chief Executive Officer

Dated: November 4, 2009

By: /s/ William R. Broaddrick

William R. Broaddrick

Vice President, Chief Financial Officer