

ARENA RESOURCES INC
Form 10QSB
August 13, 2004

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

FORM 10-QSB

(Mark One)

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

For the Quarterly Period Ended June 30, 2004

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

FOR THE TRANSITION PERIOD From _____ to _____.

Commission File Number 001-31657

ARENA RESOURCES, INC.

(Exact name of registrant as specified in its charter)

Nevada

73-1596109

(State or other jurisdiction of

(I.R.S. Employer

Incorporation or organization)

Identification No.)

4920 South Lewis Street, Suite 107

Tulsa, Oklahoma 74105

(Address of principal executive officers)

(918) 747-6060

(Issuer's telephone number)

Check whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months, and (2) has been subject to such filing requirements for the past 90 days. 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 August 10, 2004, the Company had outstanding 7,192,097 shares of common stock (\$0.001 par value).

Transitional Small Business Disclosure Format (check one): Yes

No

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Part I Financial Information

Item I. Financial Statements:

The condensed 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 financial position of the Company and the results of its operations and its cash flows have been made. The results of its operations and its cash flows for the six months ended June 30, 2004 are not necessarily indicative of the results to be expected for the year ending December 31, 2004.

ARENA RESOURCES, INC.
CONDENSED BALANCE SHEETS
(UNAUDITED)

	June 30, 2004	December 31, 2003
ASSETS		
Current Assets		
Cash	\$ 1,921,984	\$ 1,076,676
Account receivable	699,214	388,910
Short-term investments	25,234	25,234
Prepaid expenses	33,564	28,935
Total Current Assets	2,679,996	1,519,755
Property and Equipment, Using Full Cost Accounting		
Oil and gas properties subject to amortization	19,128,135	8,463,400
Drilling advances	244,795	351,000
Equipment	26,687	48,480
Office equipment	37,013	18,978
Total Property and Equipment	19,436,630	8,881,858
Less: Accumulated depreciation and amortization	(869,347)	(559,229)
Net Property and Equipment	18,567,283	8,322,629
Deferred Offering Costs	335,573	130,872
Total Assets	\$ 21,582,852	\$ 9,973,256
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Accounts payable	\$ 271,529	\$ 229,522
Accrued liabilities	79,089	18,440

Put option	-	2,905
Short-term note payable	2,000,000	-
Total Current Liabilities	2,350,618	250,867
Long-Term Liabilities		
Notes payable	8,008,440	-
Notes payable to related parties	400,000	400,000
Asset retirement liability	664,712	607,200
Deferred income taxes	1,111,962	656,759
Total Long-Term Liabilities	10,185,114	1,663,959
Stockholders' Equity		
Preferred stock - \$0.001 par value; 10,000,000 shares authorized; no shares issued or outstanding	-	-
Common stock - \$0.001 par value; 100,000,000 shares authorized; 7,192,097 shares and 7,162,097 shares outstanding, respectively	7,192	7,162
Additional paid-in capital	7,142,419	6,994,925
Options and warrants outstanding	796,140	813,164
Retained earnings	1,101,369	243,179
Total Stockholders' Equity	9,047,120	8,058,430
Total Liabilities and Stockholders' Equity	\$ 21,582,852	\$ 9,973,256

See the accompanying notes to unaudited condensed financial statements.

(UNAUDITED)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2004	2003	2004	2003
Oil and Gas Revenues	\$ 1,792,414	\$ 841,619	\$ 2,992,814	\$ 1,648,640
Costs and Operating Expenses				
Oil and gas production costs	403,531	281,546	719,820	523,618
Oil and gas production taxes	133,026	57,374	211,733	111,324
Depreciation, depletion and amortization	204,706	89,167	315,826	133,371
General and administrative expense	163,569	120,451	341,771	264,082
Total Costs and Operating Expenses	904,832	548,538	1,589,150	1,032,395
Other Income (Expense)				
Gain from change in fair value of put options	2,905	31,615	2,905	36,390
Accretion expense	(12,770)	(7,843)	(25,065)	(12,624)
Interest expense	(58,998)	(9,973)	(68,111)	(19,836)
Net Other Income (Expense)	(68,863)	13,799	(90,271)	3,930
Income Before Provision for Income Taxes and Cumulative Effect of Change in Accounting Principle	818,719	306,880	1,313,393	620,175
Provision for Deferred Income Taxes	270,171	114,328	455,203	225,760
Income Before Cumulative Effect of Change in Accounting Principle	548,548	192,552	858,190	394,415
Cumulative Effect of Change in Accounting Principle	-	-	-	(11,813)

Net Income	\$ 548,548	\$ 192,552	\$ 858,190	\$ 382,602
Basic Income Per Common Share				
Before cumulative effect of change in accounting principle	\$ 0.08	\$ 0.03	\$ 0.12	\$ 0.06
Net Income	0.08	0.03	0.12	0.06
Diluted Income Per Common Share				
Before cumulative effect of change in accounting principle	\$ 0.07	\$ 0.03	\$ 0.11	\$ 0.06
Net Income	0.07	0.03	0.11	0.06

See the accompanying notes to unaudited condensed financial statements.

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ARENA RESOURCES, INC.

CONDENSED STATEMENTS OF CASH FLOWS

(UNAUDITED)

<i>For the Six Months Ended June 30,</i>	2004	2003
Cash Flows From Operating Activities		
Net income	\$ 858,190	\$ 382,602
Adjustments to reconcile net income to net cash provided by operating activities:		
Shares issued for services	-	75,040
Depreciation, depletion and amortization	315,826	133,371
Gain from change in fair value of put option	(2,905)	(36,390)
Cumulative effect of change in accounting principle		11,813

	-	-
Loss on sale of equipment	5,585	
Accretion of discounted liabilities	57,511	12,625
Changes in assets and liabilities:		
Accounts receivable	(310,304)	(75,585)
Prepaid expenses	(4,629)	(57,280)
Accounts payable and accrued liabilities	102,657	14,354
Deferred income taxes	455,203	225,760
Net Cash Provided by Operating Activities	1,477,134	686,310

Cash Flows from Investing Activities

		-
Proceeds from sale of equipment	10,500	
Purchase of oil and gas properties	(1,550,090)	(1,186,971)
	-	
Purchase of property, plant & equipment		(26,686)
Purchase of office equipment	(18,035)	(643)
Net Cash Used in Investing Activities	(1,557,625)	(1,214,300)

Cash Flows From Financing Activities

Proceeds from issuance of common stock and warrants, net of offering costs	(204,701)	1,135,165
Proceeds from exercise of warrants	130,500	