ARENA RESOURCES INC
Form SB-2/A
July 07, 2004
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As filed with the Securities and Exchange Commission on July 7, 2004.

Registration No. 333-113712

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

AMENDMENT NO. 2

to

FORM SB-2

REGISTRATION STATEMENT

UNDER

THE SECURITIES ACT OF 1933

ARENA RESOURCES, INC.

(Name of small business issuer in its charter)

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

Arena Resources, Inc. **4920 South Lewis Avenue** **Suite 107** **Tulsa, Oklahoma 74105** **(918)747-6060** **(Address and telephone number of registrant s principal executive offices and principal place of business)**	**John B. Johnson, Jr., Esq.** **15 West Sixth Street** **Suite 2200** **Tulsa, Oklahoma 74119** **(918) 584-6644** **(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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Subject to completion, dated July 7, 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**

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 9.5 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 $92 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 6.4 million Boe. With this acquisition, we estimate our total proved reserves to be approximately 15.9 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 93% of our proved reserves consisting of oil and approximately 7% consisting of natural gas. Approximately 18% of our proved reserves are classified as proved developed producing, or PDP. Approximately 4% of our proved reserves are classified as proved developed non-producing, or PDNP, and approximately 78% 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	3,575,099	$ 32,623,882
Texas	2,729,338	1,107,544	2,913,929	36,937,529
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	8,918,917	3,408,754	9,487,043	$ 91,965,372
East Hobbs Unit (New Mexico)	5,867,132	3,342,901	6,424,282	$ 73,083,241

(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 15.9 million Boe of proved reserves (at an average cost of $1.18 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

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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			