ING GROEP NV
Form 6-K
February 13, 2013

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 6-K

Report of Foreign Private Issuer

Pursuant to Rule 13a-16 or 15d-16

of the Securities Exchange Act of 1934

For February 13, 2013

Commission File Number 1-14642

ING Groep N.V.

Bijlmerplein 888

1102 MG Amsterdam

The Netherlands

Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F.

Form 20-F x Form 40-F ¨

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T rule 101(b)(1): ¨

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T rule 101(b)(7): ¨

Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to rule 12g3-2(b) under the Securities Exchange Act of 1934.

Yes ¨ No x

If Yes is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b).

This Report contains a copy of the following:

(1) The Press Release issued on February 13, 2013.

SIGNATURE

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

ING Groep N.V.
(Registrant)

By: /s/ H. van Barneveld
H.van Barneveld
General Manager Group Finance & Control

By: /s/ C. Blokbergen
C. Blokbergen
Head Legal Department
Dated: February 13, 2013

Page 3 of 3

PRESS RELEASE 13 February 2013

ING posts 2012 underlying net profit of EUR 2,603 million

ING Group s full-year 2012 net result was EUR 3,894 million, or EUR 1.03 per share, including divestments, discontinued operations and special items. The 4Q12 net result was EUR 1,434 million, or EUR 0.38 per share. The 4Q12 underlying net result was EUR 373 million, reflecting a solid quarter at Insurance and lower Bank results due to incidental items and the Dutch bank tax.

Bank 4Q12 underlying result before tax was EUR 184 million, reflecting negative CVA/DVA adjustments, de-risking losses and the Dutch bank tax. The interest margin was relatively stable at 1.33% versus 3Q12 while risk costs increased slightly to EUR 588 million.

Insurance 4Q12 operating result improved versus 3Q12 to EUR 296 million as the investment spread strengthened to 132 bps. Sales grew 12.7% from 4Q11 and 23.6% from 3Q12 at constant currencies. Underlying result before tax rose to EUR 272 million.

Chairman s Statement

2012 was a transformational year for ING as we worked decisively on the restructuring of the Group, preparing the Bank and Insurance companies for independent futures, said Jan Hommen, CEO of ING Group. In the fourth quarter we announced two major divestments of our Asian Insurance/IM businesses. We filed the IPO registration statement for our US insurance business, and we reached an agreement with the European Commission which gives us more time and greater flexibility for restructuring. The Bank made strides in optimising its balance sheet and generating capital to meet Basel III requirements while funding a payment of EUR 1.125 billion to the Dutch State and upstreaming an additional EUR 1 billion to the Group to reduce core debt.

Results for the year held up well, despite the sovereign debt crisis in Europe and weak economic climate which persisted throughout 2012. Underlying net results for the Group were EUR 2,603 million, down just 5.2% from 2011, despite EUR 626 million of de-risking losses at the Bank, a EUR 175 million Dutch bank tax, and higher loan losses as the economy weakened. At Insurance, de-risking and low interest rates put pressure on investment returns, but underlying results recovered as market-related items diminished.

As the environment around us changes, ING is also evolving as we work to meet our customers rapidly changing needs and to achieve operational excellence. In the Netherlands as well as in Belgium, we have made great progress in improving service and investing in IT as customers move swiftly towards mobile banking. As our business model evolves, so must our organisation. Retail Banking Netherlands is expanding the transformation programme started in 2011, leading to approximately 1,400 additional redundancies by the end of 2015 and reducing expenses by an additional EUR 120 million per annum from 2016 onwards. At ING Bank in Belgium, employee headcount is expected to decline by 1,000 FTEs by 2015, through natural attrition, leading to EUR 150 million in annual cost savings by 2015. These initiatives come on top of measures announced in Commercial Banking and Insurance Europe last quarter. Combined, all of these programmes accounted for EUR 452 million in after-tax restructuring provisions booked in 2012, but they are essential to drive future performance, reducing annual expenses by a combined EUR 1 billion by 2015.

Amid all of the changes we are going through, our employees have demonstrated consistent dedication and commitment to keeping our customers needs paramount. As we embark on 2013, the economic climate remains challenging, and we must be agile to respond quickly to the dynamic environment so that we can deliver sustainable results for the long-term benefit of all stakeholders.

Key Figures[1]	**4Q2012**	4Q2011	Change	3Q2012	Change	**FY2012**	FY2011	Change
ING Group key figures (in EUR million)								
Underlying result before tax Group	**455**	-849		1,028	-55.7%	**3,530**	3,803	-7.2%
of which Bank	**184**	664	-72.3%	983	-81.3%	**3,219**	4,128	-22.0%
of which Insurance	**272**	-1,513		44	518.2%	**311**	-325	
Underlying net result	**373**	-785		692	-46.1%	**2,603**	2,746	-5.2%
Net result	**1,434**	1,186	20.9%	609	135.5%	**3,894**	5,766	-32.5%
Net result per share (in EUR)[2]	**0.38**	0.31	22.6%	0.16	137.5%	**1.03**	1.52	-32.2%
Total assets (end of period, in EUR billion)				1,248	-6.4%	**1,169**	1,279	-8.6%
Shareholders equity (end of period, in EUR billion)				53	2.8%	**54**	47	16.5%

Underlying return on equity based on IFRS-EU equity[3]	**2.8%**	-6.9%		5.4%		**5.2%**	6.5%	
Banking key figures								
Interest margin	**1.33%**	1.38%		1.34%		**1.32%**	1.38%	
Underlying cost/income ratio	**75.7%**	66.8%		58.8%		**62.5%**	61.8%	
Underlying risk costs in bp of average RWA	**84**	62		76		**73**	48	
Core Tier 1 ratio				12.1%		**11.9%**	9.6%	
Underlying return on equity based on IFRS-EU equity[3]	**0.3%**	5.7%		7.6%		**5.9%**	8.8%	
Insurance key figures								
Operating result (in EUR million)	**296**	349	-15.2%	237	24.9%	**1,095**	1,658	-34.0%
Investment margin / life general account invested assets (in bps)[4]	**132**	129		130				
Administrative expenses / operating income (Life & ING IM)	**46.5%**	46.2%		47.6%		**47.5%**	43.3%	
Underlying return on equity based on IFRS-EU equity[3]	**5.1%**	-22.2%		-0.2%		**1.8%**	-1.1%	

The footnotes relating to 1-4 can be found on page 14 of this press release.

Note: Underlying figures are non-GAAP measures and are derived from figures according to IFRS-EU by excluding the impact from divestments and special items.

ING GROUP CONSOLIDATED RESULTS

The operating environment was challenging throughout 2012, with volatile financial markets and an uncertain macroeconomic environment. Against this backdrop, ING Group s full-year 2012 underlying net profit held up well at EUR 2,603 million, down 5.2% from a year earlier.

In 2012, results at the Bank were impacted by higher risk costs due to weak economic and business fundamentals, negative credit valuation and debt valuation adjustments (CVA/DVA), and losses from proactive de-risking in the investment portfolio. However, good progress was made on balance sheet optimisation and cost containment. The 2012 operating results of Insurance reflect lower Non-life results, as well as higher administrative expenses stemming primarily from currency impacts and non-recurring expense releases in 2011. The underlying result before tax at Insurance recovered strongly in 2012, as results in 2011 were severely impacted by an update to policyholder behavior assumptions on the US Closed Block VA. Furthermore, the impact of losses from de-risking and impairments on debt securities diminished at Insurance during 2012, supporting the improvement in underlying results.

In the fourth quarter of 2012, ING Group posted an underlying net result of EUR 373 million, reflecting a solid quarter at Insurance and lower results at the Bank, which were impacted by the Dutch bank tax and various market-related items. The quarterly net profit was EUR 1,434 million, supported by gains on the divestment of ING Direct Canada and Insurance Malaysia.

ING Bank recorded a fourth-quarter underlying result before tax of EUR 184 million, including EUR 175 million for the Dutch bank tax for the full year 2012, EUR 188 million of negative CVA/DVA adjustments, and EUR 126 million in losses from de-risking of mainly southern European debt securities. Excluding these impacts and other market-related items, results declined 20.0% from the fourth quarter of 2011, due to higher risk costs, and were 36.2% lower than the third quarter of 2012. The decline on a sequential basis was mainly due to higher liquidity costs following the lengthening of the Bank s funding profile, seasonally lower results at Financial Markets, and lower results at Retail Banking. The Bank s underlying interest margin was 1.33%, down just one basis point from the third quarter. Strong cost control remains a priority at the Bank; excluding the Dutch bank tax, expenses were stable year-on-year and increased only slightly from the previous quarter. Risk costs remained elevated and increased both year-on-year and sequentially, consistent with the weak economic environment.

ING Bank progressed further with its Ambition 2015 balance sheet optimisation priorities during the fourth quarter. The total Bank balance sheet declined following the sale of ING Direct Canada, and through the reduction of short-term professional funding and seasonally lower activity in Financial Markets. The funding profile improved as both customer deposits and long-term debt increased. The Bank attracted a net inflow of EUR 8.2 billion of funds entrusted. Total net lending declined by EUR 2.5 billion due to moderate demand for credit and pricing discipline.

The fourth-quarter operating result of Insurance increased 24.9% to EUR 296 million compared with EUR 237 million in the third quarter of 2012, supported by a higher investment margin as a release from the provision for profit sharing in the Netherlands offset the impact of de-risking and the low interest rate environment. Insurance operating results declined 15.2% year-on-year, as the fourth quarter of 2011 benefited from a non-recurring expense reduction in the US. The fourth-quarter underlying result before tax of Insurance improved significantly to EUR 272 million, reflecting a lower net impact from market-related items relative to both comparable quarters.

Insurance sales (APE) rose 12.7% from the fourth quarter of 2011, on a constant currency basis. Sales at Insurance US grew 18.9%, fuelled by the Retirement business. Central and Rest of Europe recorded a 13.3% increase in APE, driven by higher Pension sales in Turkey and the Czech Republic. APE in the Benelux declined 18.6% due to lower sales of Individual Life products in the Netherlands and lower sales in Belgium following a reduction in guaranteed rates. Compared with the previous quarter, total Insurance APE jumped 23.6% at constant currencies, mainly attributable to higher sales at Insurance US and in Central and Rest of Europe.

ING Group s quarterly net profit was EUR 1,434 million compared with EUR 1,186 million in the fourth quarter of 2011 and EUR 609 million in the third quarter.

Fourth-quarter net results included EUR 1,613 million of gains on divestments, of which EUR 1,135 million was attributable to ING Direct Canada, EUR 745 million to the sale of Insurance Malaysia and EUR -244 million to the announced sale of ING Direct UK. The net results from divested units was EUR 13 million and the net result from Insurance and Investment Management Asia, recorded under discontinued operations, totalled EUR 78 million. Special items after tax amounted to EUR -643 million and predominantly reflect costs for various restructuring programmes. After-tax separation and IPO preparation costs were EUR 61 million in the quarter and EUR 169 million for the full year 2012.

ING Group s net profit per share was EUR 0.38 for the fourth quarter and EUR 1.03 for the full year 2012. The Group s underlying net return on IFRS-EU equity was 5.2% for the full year 2012.

Subsequent Events

On 1 February 2013, the nationalisation of SNS Reaal, a Dutch financial institution, was announced. As a consequence of the arrangements made by the Dutch government, ING Bank and other Dutch banks will be required to pay a one-time levy of EUR 1 billion in 2014. For ING, based on current limited information, this is estimated to result in a charge of EUR 300-350 million. ING will carefully assess further details on form, amount and timing of the levy as they become available. Furthermore, the Dutch Ministry of Finance has decided to postpone the introduction of the new Deposit Guarantee Scheme from 2013 to 2015.

BANKING

Banking key figures	**4Q2012**	4Q2011	Change	3Q2012	Change	**FY2012**	FY2011	Change
Profit and loss data (in EUR million)								
Underlying interest result	**2,866**	3,046	-5.9%	2,981	-3.9%	**11,712**	11,975	-2.2%
Underlying income	**3,172**	3,341	-5.1%	3,736	-15.1%	**14,241**	14,289	-0.3%
Underlying operating expenses	**2,400**	2,231	7.6%	2,199	9.1%	**8,900**	8,824	0.9%
Underlying addition to loan loss provision	**588**	445	32.1%	554	6.1%	**2,122**	1,336	58.8%
Underlying result before tax	**184**	664	-72.3%	983	-81.3%	**3,219**	4,128	-22.0%
Key figures								
Interest margin	**1.33%**	1.38%		1.34%		**1.32%**	1.38%	
Underlying cost/income ratio	**75.7%**	66.8%		58.8%		**62.5%**	61.8%	
Underlying risk costs in bp of average RWA	**84**	62		76		**73**	48	
Risk-weighted assets (end of period, in EUR billion, adjusted for divestm.)				283	-1.5%	**279**	294	-5.1%
Underlying return on equity based on IFRS equity[1]	**0.3%**	5.7%		7.6%		**5.9%**	8.8%	
Underlying return on equity based on 10% core Tier 1[2]	**0.7%**	7.1%		10.0%		**7.7%**	10.9%	

1 Annualised underlying net result divided by average IFRS-EU equity.

2 Annualised underlying, after-tax return divided by average equity based on 10% core Tier-1 ratio.

Challenging economic conditions and incidental items weighed on the Bank s fourth-quarter results. ING Bank posted an underlying result before tax of EUR 184 million, including EUR 188 million of negative CVA/DVA adjustments and a EUR 175 million charge for the Dutch bank tax. Excluding those and other market-related items, results declined 20.0% from a year ago, mainly due to higher risk costs, and were down 36.2% sequentially primarily due to seasonally lower activity in Financial Markets, higher liquidity costs, and lower results at Retail Banking. The underlying interest margin was largely unchanged at 1.33%. Excluding the Dutch bank tax, expenses were stable year-on-year and up 1.2% sequentially, reflecting strong cost control. Risk costs remained elevated amid the weak economic environment.

Total underlying income decreased 5.1% year-on-year to EUR 3,172 million, primarily due to de-risking and the impact of CVA/ DVA adjustments. ING sold EUR 0.9 billion of mainly southern European debt securities, which led to EUR 126 million of de-risking losses, but released EUR 1 billion of risk-weighted assets. CVA/DVA adjustments amounted to EUR -188 million compared with positive CVA/DVA adjustments of EUR 120 million one year ago. The year-ago quarter also included EUR 165 million of impairments (mainly on Greek government bonds) and EUR 109 million of de-risking losses. Excluding CVA/DVA and all market-related items, income was up 1.0%. On a sequential basis, total underlying income declined 15.1%, due in part to the third-quarter EUR 323 million gain on the sale of ING s stake in Capital One. Excluding that impact, CVA/DVA adjustments and other market-related items, income decreased 8.2% quarter-on-quarter. This was primarily due to higher liquidity costs as the Bank lengthened its funding profile (recorded within Bank Treasury), seasonality at Financial Markets, and lower margins on savings as interest rates declined. Furthermore, the third quarter of 2012 included the positive impact on the revaluation of derivatives used for hedging purposes at Bank Treasury.

INTEREST RESULT (in EUR million) AND INTEREST MARGIN (in %)

The underlying interest margin declined modestly to 1.33% from 1.34% in the third quarter of 2012, as a decrease in interest results was largely offset by the impact of a lower average balance sheet as a result of balance sheet optimisation. The interest result declined 5.9% from a year ago and 3.9% sequentially, primarily due to lower Financial Markets results, higher liquidity costs due to the lengthening of the funding profile, and lower returns on the bond portfolio due to de-risking and declining interest rates. The interest result for lending activities improved versus both comparable quarters, supported by re-pricing and moderate volume growth in mortgages, which more than offset the impact of lower volumes in other lending. The interest result on savings declined, reflecting lower returns from the investment portfolio, while client savings rates were kept largely unchanged in the quarter. ING continued to attract strong retail deposit inflows in the fourth quarter, and rates were subsequently reduced in the Netherlands in early 2013.

The Bank continued to make progress on its Ambition 2015 priorities to optimise the balance sheet by growing customer deposits and focusing on loan growth with strong pricing discipline. The Bank generated EUR 8.2 billion of net funds entrusted inflow during the quarter, including EUR 6.2 billion in Retail Banking and EUR 1.9 billion in Commercial Banking, mainly from higher corporate deposits. Despite a EUR 1.8 billion net production in mortgages, total net lending declined by EUR 2.5 billion, reflecting moderate demand.

Stringent expense management remained a high priority at ING Bank. Nonetheless, operating expenses rose 7.6% from a year ago due to the EUR 175 million annual charge for the Dutch bank tax, which was introduced in 2012. Excluding this charge, operating expenses were stable, as lower impairments and strong cost control offset the impact of annual salary increases, higher costs related to other regulatory measures, and negative currency effects. On a sequential basis, expenses rose 1.2%, excluding the Dutch bank tax, mainly due to higher marketing costs in Retail Banking for year-end campaigns. The underlying cost/income ratio was 75.7%, or 63.4% excluding market impacts, the Dutch bank tax and CVA/DVA adjustments.

OPERATING EXPENSES (in EUR million) AND COST/INCOME RATIO (in %)

In November 2011, Retail Netherlands announced a strategic transformation programme to maintain its competitive position. Retail Netherlands is now entering a second phase of initiatives which will increase operational excellence primarily through the additional streamlining of IT systems, as well as further development and integration of our mobile banking offerings to adapt to changing customer preferences. These measures, combined with steps to respond to lower volumes and a leaner business environment in certain product areas, are expected to result in a further reduction of the workforce by around 1,400 FTEs (of which 400 external FTEs) over the next three years. Apart from these redundancies, about 250 new front-office jobs will be created within Personal and Private Banking to maintain high-quality customer service and attract liabilities. Approximately EUR 100 million of investments will be made over the next three years to support this second phase. An after-tax provision of EUR 111 million was recorded as a special item in the fourth quarter. Structural cost savings are expected to reach an annual run-rate of EUR 120 million from 2016 onwards. The first phase of this programme, which is nearing completion, will lead to EUR 330 million of structural cost savings as of 2014. Combined, the two phases are already expected to generate EUR 430 million of annual cost savings in 2015.

ING Bank Belgium is also accelerating strategic projects aimed at further aligning its products and services with the new mobile banking environment. Customers in Belgium have been embracing new technologies faster than anticipated, leading to greater use of digital services and prompting further process automation. The shift to the digital banking channel is expected to reduce employment by approximately 1,000 FTEs by the end of 2015, through natural attrition, leading to EUR 150 million in annual cost savings by 2015.

Underlying risk costs remained elevated in the fourth quarter, consistent with the ongoing weak macroeconomic environment. ING Bank added EUR 588 million to the provision for loan losses, up from EUR 554 million in the previous quarter and EUR 445 million in the fourth quarter of 2011. The increase compared with the third quarter was fully attributable to Commercial Banking due to higher risk costs in Structured Finance, while risk costs at Real Estate Finance were relatively stable. Net additions to the loan loss provisions declined slightly at Retail International and remained elevated in Retail Benelux. Total non-performing loans at ING Bank rose in the fourth quarter by EUR 0.4 billion to EUR 14.9 billion. Total underlying risk costs were 84 basis points of average risk-weighted assets. ING expects risk costs to remain elevated, in line with the weak economic climate.

The underlying result before tax of Retail Banking declined to EUR 289 million in the fourth quarter of 2012 from EUR 329 million a year earlier. Results decreased due to lower margins on savings in the current low interest rate environment and from losses on selective de-risking of the investment portfolio to protect capital. Retail Banking continued to optimise its balance sheet: fourth-quarter net production in funds entrusted was EUR 6.2 billion, the lending portfolio grew by EUR 1.8 billion, and another EUR 0.8 billion of European debt securities were sold at a loss of EUR 115 million. Risk costs remained elevated, but were down slightly from the third quarter, while operating expenses increased mainly due to higher marketing costs.

Commercial Banking results were heavily impacted by negative CVA/DVA adjustments as credit spreads contracted in the fourth quarter. The underlying result before tax declined to EUR 122 million, including a EUR 131 million negative impact from CVA/ DVA. Excluding that impact, results declined 2.7% year-on-year, due to higher risk costs. On a sequential basis, results excluding CVA/DVA fell 51.9%, reflecting seasonality in Financial Markets, higher liquidity costs and positive revaluations of derivatives in the third quarter. Income in the core lending businesses held up well as lower volumes were offset by higher margins. Expenses remained under control, supported by lower impairments on real estate development projects.

The Corporate Line Banking posted an underlying result before tax of EUR -227 million, primarily reflecting the EUR 175 million Dutch bank tax recorded in the current quarter.

ING Bank s quarterly net result was EUR 583 million, including the impact of divestments and special items. The sale of ING Direct Canada closed on 15 November 2012, resulting in a net transaction gain of EUR 1,135 million. ING Bank s underlying results for all prior quarters have been restated to reflect this sale. A loss of EUR 244 million was booked in the fourth quarter for the announced sale of ING Direct UK, bringing the total expected after-tax loss for this transaction to EUR 260 million. Special items after tax amounted to EUR -348 million and mainly related to restructuring programmes and separation costs.

INSURANCE

Insurance key figures	4Q2012	4Q2011	Change	3Q2012	Change	FY2012	FY2011	Change
Margin analysis (in EUR million)								
Investment margin	**447**	413	8.2%	410	9.0%	**1,757**	1,660	5.8%
Fees and premium-based revenues	**786**	726	8.3%	784	0.3%	**3,135**	3,061	2.4%
Technical margin	**118**	118	0.0%	122	-3.3%	**414**	589	-29.7%
Income non-modelled life business	**6**	11	-45.5%	3	100.0%	**20**	45	-55.6%
Life & ING IM operating income	**1,356**	**1,269**	**6.9%**	**1,319**	**2.8%**	**5,325**	**5,354**	**-0.5%**
Administrative expenses	**631**	586	7.7%	628	0.5%	**2,529**	2,319	9.1%
DAC amortisation and trail commissions	**323**	288	12.2%	334	-3.3%	**1,299**	1,167	11.3%
Life & ING IM operating expenses	**954**	**874**	**9.2%**	**962**	**-0.8%**	**3,827**	**3,485**	**9.8%**
Life & ING IM operating result	**402**	**394**	**2.0%**	**357**	**12.6%**	**1,498**	**1,869**	**-19.9%**
Non-life operating result	**39**	38	2.6%	11	254.5%	**89**	184	-51.6%
Corporate line operating result	**-146**	-84		-131		**-491**	-394	
Operating result	**296**	**349**	**-15.2%**	**237**	**24.9%**	**1,095**	**1,658**	**-34.0%**
Non-operating items	**-24**	-1,863		-193		**-783**	-1,984	
Underlying result before tax	**272**	**-1,513**		**44**	**518.2%**	**311**	**-325**	
Key figures								
Administrative expenses / operating income (Life & ING IM)	**46.5%**	46.2%		47.6%		**47.5%**	43.3%	
Life general account invested assets (end of period, in EUR billion)				133	-0.8%	**132**	133	-0.8%
Investment margin / life general account invested assets[1] (in bps)	**132**	129		130				
ING IM Assets under Management (end of period, in EUR billion)				316	1.6%	**321**	294	9.2%
Underlying return on equity based on IFRS-EU equity[2]	**5.1%**	-22.2%		-0.2%		**1.8%**	-1.1%	

1 Four-quarter rolling average
2 Annualised underlying net result divided by average IFRS-EU equity

Operating results from Insurance improved from the third quarter, supported by a higher investment margin, as a release from the provision for profit sharing in the Netherlands helped offset the impact of de-risking and low interest rates. The operating result rose 24.9% compared with the third quarter to EUR 296 million, but declined 15.2% from a year earlier, when earnings benefited from a EUR 45 million non-recurring expense reduction in the US Underlying results improved sharply from the fourth-quarter of 2011, which included a charge for assumption changes in the US Closed Block VA and negative results on hedges to protect regulatory capital. Sales were up 12.7% year-on-year and up 23.6% sequentially (at constant currencies), mainly driven by strong Retirement sales in the US.

OPERATING RESULT (in EUR million)

The operating result from Life Insurance and Investment Management rose 2.0% from a year earlier to EUR 402 million as higher fees and premium-based revenues and a higher investment margin more than offset an increase in expenses. Compared with the third quarter of 2012, the operating result rose 12.6%, almost fully attributable to an increase in the investment margin.

The investment margin increased 8.2% from a year ago and 9.0% from the third quarter to EUR 447 million, reflecting a release

from the provision for profit sharing in the Netherlands, and growth in general account assets in the US Retirement business. These factors offset the effects of de-risking in the Benelux and the US and the impact of the low interest rate environment, which continue to put pressure on investment returns. The four-quarter rolling average investment spread strengthened to 132 basis points as the higher average investment margin outweighed the higher average Life general account invested assets.

INVESTMENT MARGIN (in EUR million)

Fees and premium-based revenues totalled EUR 786 million, up 5.5% excluding currency effects compared with the fourth quarter of 2011 and up 2.3% from the third quarter. The year-on-year increase was largely due to higher fees and premium-based revenues in the US, driven by the improvement in equity markets, higher inflows in the Retirement business, and higher fees in Investment Management. On a sequential basis, the increase was mainly attributable to higher performance-related fees and higher inflows at Investment Management US.

The technical margin was EUR 118 million, on par with the fourth quarter of 2011, as a decline in the Benelux from lower mortality and morbidity results and a one-off addition to unit-linked guarantee provisions was offset by an improvement in the US due to improved Individual Life mortality results and improved stop loss ratios in the Employee Benefits business. Compared with the third quarter of 2012, the technical margin declined 3.3%, reflecting non-recurring reserve releases in the US Closed Block VA in the third quarter and lower mortality results in the Benelux in the current quarter.

Life & Investment Management administrative expenses rose 5.5% year-on-year, excluding currency effects, primarily due to a EUR 45 million non-recurring reduction in pension plan liabilities in the US in the fourth quarter of 2011. Expenses were lower in the Benelux and Central and Rest of Europe, reflecting cost control and non-recurring expenses in the fourth quarter of 2011, offset by platform investments in ING Investment Management. Compared with the third quarter, administrative expenses were up 2.4%, driven by higher staff expenses in ING Investment Management, and restructuring costs. The ratio of administrative expenses to operating income was 46.5%.

ADMINISTRATIVE EXPENSES (in EUR million)

The operating result from Non-life insurance was stable at EUR 39 million, compared with EUR 38 million in the fourth quarter of 2011, which included EUR 24 million of positive non-recurring items. Lower claims in Property & Casualty (P&C) more than offset continued high claims experience in Disability & Accident amid the economic downturn in the Netherlands. Compared with the previous quarter, the Non-life operating result increased from EUR 11 million, mainly due to the lower claims in P&C.

The Corporate Line operating result was EUR -146 million compared with EUR -84 million in the fourth quarter of 2011. The decline was mainly due to higher Solvency II expenses and lower reinsurance results.

The fourth-quarter underlying result before tax of ING Insurance improved to EUR 272 million, including the impact of market-related items.

Gains/losses and impairments on investments in the quarter were EUR -5 million, including EUR 96 million of losses resulting from the sale of CMBS securities in Insurance US and Asset Backed Securities and real estate in the Benelux, as well as gains of EUR 97 million on the sale of equity investments, also in the Benelux. These sales reflect ongoing efforts to reduce risk and optimise the capital positions in Europe and the US as both companies prepare for stand-alone futures.

Revaluations totalled EUR 26 million as EUR 72 million of positive CMO revaluations in Insurance US were partly offset by EUR 55 million of negative real estate revaluations in the Benelux.

Market and other impacts amounted to EUR -45 million. The Benelux recorded a EUR 166 million charge related to guarantees on separate account pension contracts (net of hedging). The current quarter also reflects EUR 163 million of market and other impacts in US Closed Block VA, related to reserve changes and gains on hedges focused on protecting regulatory capital, as well as EUR -34 million in DAC amortisation in Insurance US.

The fourth-quarter net result for Insurance was EUR 851 million, including net gains on divestments of EUR 721 million as well as a EUR 78 million net result from Insurance and ING Investment Management Asia reported under discontinued operations. Net gains on divestments mainly related to a EUR 745 million realised gain on the sale of Insurance Malaysia and a EUR 15 million goodwill write-off for ING Vysya Life Insurance. Special items after tax amounted to EUR -295 million, primarily reflecting EUR 172 million of net restructuring costs, of which EUR 149 million related to the accelerated transformation programme at Insurance Europe announced in the third quarter. Special items also included EUR 37 million of separation and IPO preparations costs and a EUR 49 million goodwill write-off for Insurance Benelux triggered by the annual impairment test. As a result, there is no remaining goodwill in Insurance Benelux.

Total new sales (APE) were up 12.7% year-on-year, on a constant currency basis. APE at Insurance US grew 18.9%, fuelled by higher Retirement sales, which offset lower Individual Life sales. APE in the Benelux fell 18.6% due to lower sales of Individual Life products in the Netherlands and lower sales in Belgium following a reduction in guaranteed rates. Central and Rest of Europe recorded a 13.3% increase in APE, driven by higher Pension sales in Turkey and the Czech Republic. On a sequential basis, total Insurance sales grew 23.6% at constant currencies, mainly due to higher Retirement sales at Insurance US, and higher Pension and Life sales in Central and Rest of Europe.

BALANCE SHEET AND CAPITAL MANAGEMENT

Balance Sheet and Capital Management key figures

	ING Group		ING Bank N.V.		ING Verzekeringen N.V.		Holdings/Eliminations	
End of period, in EUR million	**31 Dec. 12**	30 Sep. 12	**31 Dec. 12**	30 Sep. 12	**31 Dec. 12**	30 Sep. 12	**31 Dec. 12**	30 Sep. 12
Balance sheet data								
Financial assets at fair value through P&L	**232,371**	251,432	**126,163**	142,560	**106,458**	109,103	**-250**	-231
Investments	**200,129**	199,335	**80,824**	81,654	**119,305**	117,681		
Loans and advances to customers	**563,404**	572,873	**541,546**	549,606	**25,823**	27,100	**-3,965**	-3,833
Other assets	**104,256**	120,741	**80,754**	96,998	**26,586**	31,733	**-3,084**	-7,990
Total assets excl. assets held for sale	**1,100,160**	**1,144,381**	**829,287**	**870,818**	**278,172**	**285,617**	**-7,299**	**-12,053**
Assets held for sale	**68,472**	103,714	**6,781**	38,316	**61,691**	65,398		
Total assets	**1,168,632**	**1,248,096**	**836,068**	**909,134**	**339,863**	**351,015**	**-7,299**	**-12,053**
Shareholders equity	**54,357**	52,877	**36,669**	37,602	**27,299**	26,570	**-9,612**	-11,295
Minority interests	**1,081**	1,020	**843**	795	**217**			

PDP	14,920,662	18,859,572	18,063,924	26	%	$332,309	$224,184	$-
PDBP	1,243,307	2,589,005	1,674,808	2	%	$34,795	23,474	10,236
PUD	31,809,092	26,498,216	36,225,461	52	%	$510,773	344,580	483,567
Total Proved:	47,973,061	47,946,793	55,964,193	80	%	$877,877	$592,238	$493,803
Oklahoma:								
PDP	408,803	99,760	425,430	1	%	$7,084	$4,609	$-
PUD	2,321,258	129,199	2,342,791	3	%	$49,965	32,508	6,270
Total Proved:	2,730,061	228,959	2,768,221	4	%	$57,049	$37,117	$6,270
Kansas:								
PDP	-	1,059,210	176,535	1	%	$805	$1,015	$-
Total Proved:	-	1,059,210	176,535	1	%	$805	$1,015	$-
Total:								
PDP	18,445,489	24,439,027	22,518,661	33	%	$393,978	$265,694	$-
PDBP	2,699,417	3,863,442	3,343,324	5	%	69,448	46,597	12,971
PUD	38,570,606	28,912,219	43,389,309	62	%	657,932	441,943	530,052
Total Proved:	59,715,512	57,214,688	69,251,294	100	%	$1,121,358	$754,234	$543,023

Estimated Costs Related to Conversion of Proved Undeveloped Reserves to Proved Developed Reserves

The following table indicates projected reserves that we currently estimate will be converted from proved undeveloped or proved developed non-producing to proved developed, as well as the estimated costs per year involved in such development.

Year	Estimated Oil Reserves Developed (Bbls)	Estimated Gas Reserves Developed (Mcf)	Total Boe	Estimated Development Costs	
2010	15,262,194	12,262,170	17,305,889	$	153,627,173
2011	11,963,553	8,237,414	13,336,455		179,091,886
2012	9,818,416	9,494,082	11,400,763		182,626,316
2013	2,166,220	1,343,823	2,390,191		19,897,500
Remaining	2,059,640	1,438,172	2,299,335		7,780,000
	41,270,023	32,775,661	46,732,633	$	543,022,875

Production

Our estimated average daily production for the month of December, 2009, is summarized below. These tables indicate the percentage of our estimated December 2009 average daily production of 7,254 Boe/d attributable to each state and to oil versus natural gas production.

State	Average Daily Production		Oil		Natural Gas	
Texas	88.23	%	75.48	%	12.75	%
New Mexico	8.73	%	7.09	%	1.65	%
Oklahoma	2.26	%	2.16	%	0.10	%
Kansas	0.77	%	0.00	%	0.77	%
Total	100.00	%	84.73	%	15.27	%

Summary of Oil and Natural Gas Properties and Projects

Significant New Mexico Operations

East Hobbs San Andres Unit – Lea County, New Mexico. In May, 2004 we acquired an 82.24% working interest and a 67.60% net revenue interest in this lease. The property has been in continuous production since that time. “Net revenue interest” is the owner’s percentage share of the monthly income realized from the sale of a well’s produced oil and gas. The net revenue interest is a lesser number as compared to the working interest, due to the mineral owner royalty and other overriding royalties on the well. The lease contains approximately 920 acres, all held by production, on which there are 31 producing wells. We believe the property has additional potential through waterflooding. A waterflood operation is a method of secondary recovery in which water is injected into the reservoir formation to displace residual oil. The water from injection wells physically sweeps the displaced oil to adjacent production wells. These estimates are included in our estimates of PUD potential.

18

Humphrey Queen Unit – Lea County, New Mexico. We acquired a 100% working interest and a 75.08% net revenue interest in this mature waterflood in December, 2007. The property contains 16 producing wells and approximately 760 acres, all held by production. We believe the property can support activities to drill 12 additional PUD wells, which are included in our reserve estimates.

Langlie Mattix Queen Unit – Lea County, New Mexico. We acquired a 100% working interest and a 75.09% net revenue interest in this mature waterflood property in December, 2007. The property has 16 producing wells on approximately 1,040 acres, all held by production. We believe the property can support activity to drill 14 additional PUD wells, which are included in our reserve estimates.

South Leonard Queen Unit – Lea County, New Mexico. We acquired a 100% working interest and a 75.09% net revenue interest in this mature waterflood in December, 2007. The property contains seven producing wells on approximately 680 acres with all of the acreage being held by production. We believe the property can support activity to drill four additional PUD wells, which are included in our reserve estimates.

North Benson Queen Unit – Eddy County, New Mexico. We acquired a 100% working interest and a 69.44% net revenue interest in this mature waterflood property in October, 2003. The property has 27 producing wells and contains approximately 1,800 acres, all held by production. We have reactivated the waterflood by constructing a new water supply system, building new injection facilities, and returning previously idle water injection wells to service. We think the property can support workovers in existing wells to open additional zones and drilling 28 additional wells which are included as PUD in our reserve estimate.

Red Lake Unit – Eddy County, New Mexico. In October, 2007 we acquired a 100% working interest and an 80.56% net revenue interest in this property. The lease has 16 producing wells on approximately 1,090 acres, all held by production. We believe the property can support activity to drill three additional PUD wells, which are included in our reserve estimates.

Phillips Lea, Hale State, State 36 and Corbin 35 leases – Lea County, New Mexico. In June, 2008 we acquired a 100% working interest with net revenue interests ranging from 80.31% to 82.81% in these leases. The leases have 16 producing wells on approximately 800 acres, all held by production. We think the property can support workovers in existing wells to open new zones in existing wells and drilling 10 additional wells which are included as PUD in our reserve estimate.

Significant Texas Operations

Fuhrman Mascho leases – Andrews County, Texas. In December 2004 we acquired a 100% working interest and a 75% net revenue interest in these leases. Throughout 2005 through 2009 we acquired working and net revenue interests in additional producing leases and acquired additional undeveloped acreage in and around our Fuhrman Mascho leases. The working interests range from 20-100% and the net revenue interests range from 16-80%. In total, we now own 46,888 acres, with 35,246 acres developed and held by production and the remaining 11,642 acres being undeveloped. We believe the Fuhrman Mascho leases contain considerable remaining potential drilling. Our reserve estimate includes 941 PUD wells. Our reserve estimates include potential development expenditures.

Y6 lease – Fisher County, Texas. We acquired a 100% working interest and an 80% net revenue interest in this partially developed waterflood property in June, 2001. There are 15 producing wells on approximately 1,697 acres, which is held by production. We believe the property can support activity to drill four additional PUD wells, which are included in our reserve estimates.

Significant Oklahoma Operations

Ona Morrow Sand Unit – Cimarron and Texas Counties, Oklahoma. We acquired a 100% working interest and an 81.32% net revenue interest in this waterflood property in June, 2001. There are 13 producing wells on approximately 2,120 acres, which is held by production. We believe the property can support three additional PUD wells, which are included in our estimate of PUD.

Midwell, Appleby, Smaltz, and Hanes Leases – Cimarron County, Oklahoma. We acquired a 100% working interest and an 80% net revenue interest in these leases in September, 2002. The leases contain 11 wells on approximately 2,280 acres, which is held by production. We believe the leases contain PUD potential from waterflood operations and six PUD wells, which are included in our estimate of PUD. We began implementing the waterflood operations and will continue those efforts.

Acreage

The following table summarizes gross and net developed and undeveloped acreage at December 31, 2009 by region (net acreage is our percentage ownership of gross acreage). Acreage in which our interest is limited to royalty and overriding royalty interests is excluded.

	Developed Acreage		Undeveloped Acreage		Total Acreage	
	Gross	Net	Gross	Net	Gross	Net
New Mexico	9,850	9,038	-	-	9,850	9,038
Texas	34,569	33,923	16,116	14,411	50,685	48,335
Oklahoma	5,529	5,046	-	-	5,529	5,046
Kansas	5,200	5,200	0	0	5,200	5,200
Total	55,148	53,206	16,116	14,411	71,264	67,618

Production History

The following table presents the historical information about our produced natural gas and oil volumes.

	Year Ended December 31,		
	2007	2008	2009
Oil production (Bbls)	1,316,025	2,018,335	2,004,498
Natural gas production (Mcf)	1,503,611	1,911,713	2,172,790
Total production (Boe)	1,566,627	2,336,954	2,366,630
Daily production (Boe/d)	4,292	6,385	6,484
Average sales price:			
Oil (per Bbl)	$ 66.89	$ 94.16	$ 57.51
Natural gas (per Mcf)	8.02	9.84	5.04
Total (per Boe)	63.89	89.37	53.34
Average production cost (per Boe)	$ 7.34	$ 7.63	$ 6.57
Average production taxes (per Boe)	3.61	4.50	2.73

The average oil sales price amounts above are calculated by dividing revenue from oil sales by the volume of oil sold, in Bbl. The average gas sales price amounts above are calculated by dividing revenue from gas sales by the volume of gas sold, in Mcf. The total average sales price amounts are calculated by dividing total revenues by total volume sold, in Boe. The average production costs above are calculated by dividing production costs by total production in Boe.

Productive Wells

The following table presents our ownership at December 31, 2009, in productive oil and natural gas wells by region (a net well is our percentage ownership of a gross well).

	Oil Wells		Gas wells		Total Wells	
	Gross	Net	Gross	Net	Gross	Net
New Mexico	194	173	-	-	194	173
Texas	893	876	-	-	893	876
Oklahoma	36	32	-	-	36	32
Kansas	-	-	10	10	10	10
Total	1,123	1,080	10	10	1,133	1,090

Drilling Activity

The following table represents our drilling activity for the years ended December 31, 2007, 2008 and 2009:

	2007		2008		2009	
	Gross	Net	Gross	Net	Gross	Net
Productive development wells						
Texas	133	130	223	219	176	173
Oklahoma	1	1	-	-	-	-
New Mexico	-	-	1	1	5	4
Total productive development wells	134	131	224	220	181	177
Dry development wells	-	-	-	-	-	-
Total development wells	134	131	224	220	181	177
Productive exploratory wells	-	-	-	-	-	-
Dry exploratory wells						
Texas	-	-	-	-	1	1
Total dry exploratory wells	-	-	-	-	1	1
Total exploratory wells	-	-	-	-	-	-
Total productive wells	134	131	224	220	181	177
Total dry wells	-	-	-	-	1	1
Total wells drilled	134	131	224	220	182	178

As of December 31, 2009, we were in the process of drilling five wells with an additional fourteen wells in various stages of completion, all in Texas. While we have small working interest partners in three of these wells, we own the majority of the working interest; therefore this information is correct for both gross and net wells.

Cost Information

We conduct our oil and natural gas activities entirely in the United States. As noted previously in the table appearing under "Production History", our average production costs, per Boe, were $7.34 in 2007, $7.63 in 2008 and $6.57 in 2009 and our average production taxes, per BOE, were $3.61 in 2007, $4.50 in 2008 and $2.73 in 2009. These amounts are calculated by dividing our total production costs or total production taxes by our total volume sold, in Boe.

Costs incurred for property acquisition, exploration and development activities during the years ended December 31, 2007, 2008 and 2009 are shown below.

	For the Years Ended December 31,					
		2007 (1)		2008		2009
Acquisition of proved properties	$	53,554,064	$	16,782,225	$	3,942,103
Acquisition of unproved properties		542,650		-		-
Exploration costs		-		-		-
Development costs		113,084,344		190,584,617		107,064,257
Total Costs Incurred	$	167,181,058	$	207,366,842	$	111,006,360

(1) The amount shown for 2007 for acquisition of proved properties is net of proceeds received from the sale of our interest in the West San Andres property.

Reserve Quantity Information

Our estimates of proved reserves and related valuations were based on internal reports and audited by Williamson Petroleum Consultants, Inc. independent petroleum engineers. The estimates of proved reserves are inherently imprecise and are continually subject to revision based on production history, results of additional exploration and development, price changes and other factors.

Our oil and natural gas reserves are attributable solely to properties within the United States. A summary of the changes in quantities of proved (developed and undeveloped) oil and natural gas reserves is shown below.

	Oil (Bbls)	Natural Gas (Mcf)
Balance, December 31, 2006	36,064,273	42,424,199
Purchase of minerals in place	7,021,972	4,330,246
Extensions and discoveries	6,016,660	6,852,346
Production	(1,316,023)	(1,503,611)
Revisions of estimates	(373,560)	(4,028,218)
Balance, December 31, 2007	47,413,322	48,074,962
Purchase of minerals in place	3,638,095	2,364,908
Extensions and discoveries	9,547,981	11,391,853
Production	(2,018,335)	(1,911,713)
Revisions of estimates	(2,735,806)	(1,115,348)
Balance, December 31, 2008	55,845,257	58,804,662
Purchase of minerals in place	1,589,141	2,791,611
Extensions and discoveries	14,360,492	13,605,184
Production	(2,004,498)	(2,172,790)
Revisions of estimates	(10,074,880)	(15,813,979)
Balance, December 31, 2009	59,715,512	57,214,688

Our proved oil and natural gas reserves are shown below.

	For the Years Ended December 31,		
	2007	2008	2009
Oil (Bbls)			
Developed	14,951,794	20,231,477	21,144,906
Undeveloped	32,461,428	35,613,780	38,570,606
Total	47,413,222	55,845,257	59,715,512
Natural Gas (Mcf)			
Developed	30,783,255	28,659,033	28,302,469
Undeveloped	17,291,707	30,145,629	28,912,219
Total	48,074,962	58,804,662	57,214,688
Total (Boe)			
Developed	20,082,337	25,007,982	25,861,985
Undeveloped	35,343,379	40,638,052	43,389,309
Total	55,425,716	65,646,034	69,251,294

Standardized Measure of Discounted Future Net Cash Flows

Our standardized measure of discounted future net cash flows relating to proved oil and natural gas reserves and changes in the standardized measure as described below were prepared in accordance with generally accepted accounting principles.

Future income tax expenses are calculated by applying appropriate year-end tax rates to future pre-tax net cash flows relating to proved oil and natural gas reserves, less the tax basis of properties involved. Future income tax expenses give effect to permanent differences, tax credits and loss carryforwards relating to the proved oil and natural gas reserves. Future net cash flows are discounted at a rate of 10% annually to derive the standardized measure of discounted future net cash flows. This calculation procedure does not necessarily result in an estimate of the fair market value or the present value of our oil and natural gas properties.

The standardized measure of discounted future net cash flows relating to the proved oil and natural gas reserves are shown below.

December 31,		2009		2008		2007
Future cash flows	$	3,721,873,750	$	2,391,888,946	$	4,634,645,500
Future production costs		(902,963,847)		(716,121,604)		(790,284,047)
Future development costs		(543,022,875)		(330,672,457)		(321,485,125)
Future income taxes		(746,548,080)		(394,800,287)		(1,254,982,170)
Future net cash flows		1,529,338,948		950,294,598		2,267,894,158
10% annual discount for estimated timing of cash flows		(775,105,191)		(489,607,688)		(991,727,804)
Standardized Measure of Discounted Cash Flows	$	754,233,757	$	460,686,910	$	1,276,166,354

The changes in the standardized measure of discounted future net cash flows relating to the proved oil and natural gas reserves are shown below.

		2009		2008		2007
Beginning of the year	$	460,686,910	$	1,276,166,354	$	545,439,675
Purchase of minerals in place		28,329,307		41,597,736		325,058,027
Extensions, discoveries and improved recovery, less related costs		253,485,559		129,110,323		297,610,301
Development costs incurred during the year		107,237,470		190,631,820		113,109,335
Sales of oil and gas produced, net of production costs		(110,697,316)		(190,374,853)		(82,949,751)
Accretion of discount		48,058,341		131,684,244		69,291,660
Net changes in price and production costs		619,543,318		(1,526,963,575)		592,749,069
Net change in estimated future development costs		6,550,757		(22,637,628)		(111,175,136)
Revision of previous quantity estimates		(447,110,784)		293,723,576		(7,424,163)
Revision of estimated timing of cash flows		(35,543,586)		(409,158,356)		(62,546,312)
Net change in income taxes		(176,306,219)		546,907,269		(402,996,351)
End of the Year	$	754,233,757	$	460,686,910	$	1,276,166,354

Management's Business Strategy Related to Properties

Our goal is to increase stockholder value by investing in oil and gas projects with attractive rates of return on capital employed. We plan to achieve this goal by exploiting and developing our existing oil and natural gas properties and pursuing acquisitions of additional properties. Specifically, we have focused, and plan to continue to focus, on the following:

Developing and Exploiting Existing Properties. We believe that there is significant value to be created by drilling the identified undeveloped opportunities on our properties. We own interests in a total of 58,092 gross (43,607 net) developed acres and operate essentially all of the net pre-tax PV10 value of our proved undeveloped reserves. In addition, as of December 31, 2009, we owned interests in approximately 13,172 gross undeveloped acres (9,879 net). We believe that our current and future cash flow will enable us to undertake the exploitation of our properties through additional drilling activities. We will closely manage our capital expenditures to our cash flow. As commodity prices change we will consider the resulting impact on our cash flow and adjust our capital expenditures accordingly, be it up or down.

Pursuing Profitable Acquisitions. We have historically pursued acquisitions of properties that we believe to have exploitation and development potential comparable to our existing inventory of drilling locations. We have developed and refined an acquisition program designed to increase reserves and complement our existing core properties. We have an experienced team of management and engineering professionals who identify and evaluate acquisition opportunities, negotiate and close purchases and manage acquired properties. While our emphasis in 2010 and beyond is anticipated to focus on the further development of our existing properties, we will continue to look for acquisition opportunities with existing cash flow from production and future development potential.

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 exploitation and exploration activities. For the year ended December 31, 2009, our oil and gas production costs per Boe averaged $6.57, our oil and gas production taxes per Boe averaged $2.73 and general and administrative costs averaged $5.68 per Boe produced.

Other Properties and Commitments

Our principal executive offices are in a company owned building in Tulsa, Oklahoma. This office building has approximately 16,000 square feet. Additionally, we own the building in Hobbs, New Mexico which serves as our primary field office. This office building has approximately 7,500 square feet. We also own an office building in Andrews, Texas for the operation of our wholly-owned subsidiary Arena Drilling Company and for use by additional Arena Resources field personnel. This office building has approximately 6,000 square feet. At December 31, 2009, we were expanding the office in Andrews by an additional 5,000 up to 11,000 square feet. Subsequent to year end the expansion was completed and the additional space will be used by Arena Resources field personnel. Lastly, we are currently leasing approximately 1,869 square feet of space in Midland, Texas. Our Midland office is maintained for the purchase of developed and undeveloped leaseholds and for land department support. We believe the office space will be adequate for our current operations as well as allowing for continued growth.

Item 3: Legal Proceedings

In the ordinary course of business, we may be, from time to time, a claimant or a defendant in various legal proceedings. We do not presently have any material litigation pending or threatened.

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

Our annual shareholders' meeting was held on December 11, 2009. The shareholder's re-elected Messrs. Stanley M. McCabe, Lloyd T. Rochford, Clayton E. Woodrum, Anthony B. Petrelli and Carl F. Fiddner as Directors with terms ending in 2010. The shareholders approved an amendment to the Company's executive stock option plan to increase the number of shares of Common Stock that may be granted under the plan from 5,500,000 to 6,000,000. The shareholders also approved a restricted stock award plan that will use shares from that same pool available for grant as restricted stock awards. The following reflects the votes cast for each matter voted on at the annual meeting:

	Votes for	Votes against	Abstain
Lloyd T. Rochford	33,035,317	2,797,173	-
Stanley M. McCabe	27,834,068	7,998,422	-
Clayton E. Woodrum	27,820,843	8,011,647	-
Anthony B. Petrelli	33,734,756	2,097,734	-
Carl H. Fiddner	33,733,780	2,098,710	-
Amendment to stock option plan	23,285,445	9,184,761	3,362,284
Restricted stock award plan	21,516,700	10,958,283	3,357,507

PART II

Item 5: Market for Registrant's Common Stock, Related Stockholder Matters and Issuer Purchases of Equity Securities

Market for our Common Stock

Our common stock is been traded on the New York Stock Exchange, under the symbol "ARD". The following table shows the high and low sales prices for each quarter during the last two years.

Period		High Sale		Low Sale
1st Quarter 2008	$	44.17	$	29.25
2nd Quarter 2008		57.60		38.00
3rd Quarter 2008		56.59		32.47
4th Quarter 2008		39.03		17.63
1st Quarter 2009	$	31.51	$	18.62
2nd Quarter 2009		38.04		26.03
3rd Quarter 2009		36.06		27.57
4th Quarter 2009		45.24		32.76
1st Quarter 2010 (through March 1, 2010)	$	45.06	$	38.34

Record Holders

As of February 23, 2010, there are approximately 30,521 holders of record of our common stock. As of February 23, 2010, 532,606 shares, or approximately 1.4%, of the 38,793,963 shares issued and outstanding as of such date are held by management or affiliated parties.

Dividend Policy

We have not paid any dividends on our common stock during the last three years, and 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.

Securities Authorized for Issuance Under Equity Compensation Plans

In March 2003, our board of directors adopted an executive stock option plan which was subsequently approved by our shareholders at our annual meeting in July 2003, and which has been subsequently amended by votes of our shareholders. Additionally, in December 2009 the shareholders approved a restricted stock award plan. Information regarding these plan and the options and stock that have been granted under this plan may be found in this Annual Report under Part III, Items 10 and 11.

Issuer Repurchases

We did not make any repurchases of our equity securities during the quarter ending December 31, 2009.

Item 6: Selected Financial Data

The selected consolidated financial information set forth below is derived from our consolidated balance sheets and statements of operations as of and for the years ended December 31, 2009, 2008, 2007, 2006 and 2005. The data set forth below should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the consolidated financial statements and related notes thereto included in this Annual Report.

	For the Year Ended December 31,				
	2009	2008	2007	2006	2005
Statement of Operations Data:					
Revenues	$126,240,777	$208,858,645	$100,089,698	$59,760,117	$25,843,077
Cost of revenues	21,999,046	28,351,514	17,156,338	9,960,178	5,772,225
Realized loss (gain) on oil derivative	(14,884,846)	4,275,330	932,361	-	-
Depreciation, depletion and amortization	8,957,641	29,789,794	17,968,062	7,900,099	2,781,504
Accretion	410,926	309,402	190,904	127,132	102,585
General and administrative	13,453,384	13,557,202	7,815,721	3,617,309	1,365,590
Net income	42,294,179	83,617,201	34,441,939	23,267,968	9,460,683
Basic income per common share	$1.10	$2.28	$1.07	$0.83	$0.42
Diluted income per common share	1.09	2.20	1.02	0.77	0.38

	As of December 31,				
	2009	2008	2007	2006	2005
Balance Sheet Data:					
Current assets	$80,655,878	$89,530,137	$30,823,214	$14,674,345	$7,673,860
Oil and gas properties subject to amortization	661,453,134	548,714,235	339,887,859	171,708,200	69,770,685
Total assets	657,554,954	591,684,775	350,980,663	176,312,978	74,421,907
Total current liabilities	18,256,893	19,789,547	19,216,475	14,995,870	6,737,806
Total long-term liabilities	116,631,301	89,599,767	73,953,223	41,273,056	8,919,826
Total Stockholders Equity	522,666,730	482,295,461	257,810,965	120,044,052	58,728,755

Item 7: Management's Discussion and Analysis of Financial Condition and Results of Operations

Introduction

The following discussion and analysis should be read in conjunction with our accompanying financial statements and the notes to those financial statements included elsewhere in this Annual Report. The following discussion includes forward-looking statements that reflect our plans, estimates and beliefs. Our actual results could differ materially from those discussed in these forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those discussed below and elsewhere in this Annual Report.

Overview

We are engaged in oil and natural gas acquisition, exploration and exploitation activities in the states of Oklahoma, Texas, New Mexico and Kansas. Over the last six years, we have emphasized the acquisition of properties that provided current production and upside potential through further development.

We have increased our reserves significantly by investing approximately $111 million in acquisitions and development in 2009, following total capital expenditures of approximately $207.4 million in 2008 and $167.2 million in 2007.

We will closely manage our capital expenditures to our cash flow. As commodity prices change we will consider the resulting impact on our cash flow and adjust our capital expenditures accordingly, be it up or down. We also intend to continue seeking acquisition opportunities which compliment our current portfolio. We could draw on our credit facility or funds derived from future equity transactions for future acquisitions.

Our business plan has involved increasing our base of proven reserves until we have acquired a sufficient core to enable us to utilize cash from existing production to fund further development activities. When we originated our business plan we believed this would allow us to lessen our risks, including risks associated with borrowing funds to undertake exploration activities at an earlier time. We increased our base of proven properties and initiated development activities as oil and natural gas prices increased.

While our focus has shifted to include more development activity, we plan to continue our strategy of acquiring producing properties with additional development, exploitation and exploration potential. Our focus has been on acquiring operated properties (i.e. properties with respect to which we serve as the operator on behalf of all joint interest owners) so that we can better control the timing and implementation of capital spending.

Our revenue, profitability and future growth rate depend substantially on factors beyond our control, such as economic, political and regulatory developments and competition from other sources of energy. Oil and natural gas prices historically have been volatile and may fluctuate widely in the future. Sustained periods of low prices for oil or natural gas could materially and adversely affect our financial position, our results of operations, the quantities of oil and natural gas reserves that we can economically produce and our access to capital.

In a worst case scenario, future drilling operations could be largely unsuccessful, oil and gas prices could further decline and/or other factors beyond our control could cause us to greatly modify or substantially curtail our development plans, which could negatively impact our earnings, cash flow and most likely the trading price of our securities, as well as the acceleration of debt repayment and a reduction in our borrowing base under our credit facilities.

Results of Operations

The following table sets forth selected operating data for the periods indicated:

	For the Years Ended December 31, 2007	2008	2009
Net production:			
Oil (Bbls)	1,316,025	2,018,335	2,004,498
Natural gas (Mcf)	1,503,612	1,911,713	2,172,791
Net sales:			
Oil	$ 88,025,225	$ 190,050,617	$ 115,284,731
Natural gas	12,064,473	18,808,028	10,956,046
Average sales price:			
Oil (per Bbl)	$ 66.82	$ 94.16	$ 57.51
Natural gas (per Mcf)	8.02	9.84	5.04
Production costs and expenses			
Oil and gas production costs	$ 11,500,461	$ 17,833,144	$ 15,543,461
Production taxes	5,655,877	10,518,370	6,455,585
Realized loss (gain) on oil derivative	932,361	4,275,330	(14,884,846)
Depreciation, depletion and amortization expense	17,968,062	29,789,794	38,957,461
Accretion expense	190,904	309,402	410,926
General and administrative expenses	7,815,721	13,557,202	13,453,384

Year Ended December 31, 2009 Compared to Year Ended December 31, 2008

Oil and natural gas sales. Oil and natural gas sales revenue decreased approximately $82.6 million to $126.2 million in 2009. Oil sales decreased $74.8 million and natural gas sales decreased $7.8 million. The oil sales decrease was caused by a 39% decrease in the average realized per barrel oil price from $94.16 in 2008 to $57.51 in 2009 and a reduction in sales volume of 13,837 barrels in 2009. These per barrel amounts are calculated by dividing revenue from oil sales by the volume of oil sold, in barrels. The natural gas sales decrease was caused by a 49% decrease in the average realized per Mcf gas price from $9.84 in 2008 to $5.04 in 2009, partially offset by an increase in the sales volume of 261,078 Mcf. These per Mcf amounts are calculated by dividing revenue from gas sales by the volume of gas sold, in Mcf. The volume increase for natural gas primarily resulted from development of our existing properties in 2009.

Oil and gas production costs. Our aggregate oil and gas production costs decreased from $17,833,144 in 2008 to $15,543,461, and decreased on a Boe basis from $7.63 in 2008 to $6.57 in 2009. These per Boe amounts are calculated by dividing our total production costs by our total volume sold, in Boe. This decrease in the aggregate and on a per Boe basis was the result of lower average costs for services and equipment.

Oil and gas production taxes. Oil and gas production taxes as a percentage of oil and natural gas sales were 5.04% during 2008 and increased slightly to 5.11% in 2009. Production taxes vary from state to state. Therefore, these taxes are likely to vary in the future depending on the mix of production we generate from various states, and on the possibility that any state may raise its production tax.

Realized loss (gain) on oil derivative. Realized loss (gain) on oil derivative changed from a loss of $4,275,330 in 2008 to a gain of $14,884,846 in 2009. This change is the result of significantly lower prices for the majority of 2009 as compared to 2008.

Depreciation, depletion and amortization. Our depreciation, depletion and amortization expense increased by $9,269,371 to $39,368,567 in 2009. The increase was a result of an increase in the average depreciation, depletion and amortization rate from $12.88 per Boe during 2008 to $16.63 per Boe during 2009. These per Boe amounts are calculated by dividing our total depreciation, depletion and amortization expense by our total volume sold, in Boe. The increased depreciation, depletion and amortization were the result of an increase in estimated future development costs.

General and administrative expenses. General and administrative expenses remained relatively steady, decreasing by $103,818 to $13, 452,384 during 2009. This decrease was primarily related to a decrease in compensation expense related to our stock option plan, partially offset by increases in other areas, such as insurance and taxes and fees.

Interest income. Interest income decreased $470,947 to $828,992 in 2009. The decrease was primarily due to lower interest rates between periods.

Interest expense. Interest expense decreased $1,145,456 to $0 in 2009. The decrease was due to not having any amounts outstanding on our credit facility during 2009.

Income tax expense. Our effective tax rate was 37% during 2008 and 37% during 2009.

Net income. Net income decreased from $83,617,201 for 2008 to $42,294,179 for 2009. The primary reason for this decrease was the lower average crude oil and natural gas prices received between periods.

Year Ended December 31, 2008 Compared to Year Ended December 31, 2007

Oil and natural gas sales. Oil and natural gas sales revenue increased approximately $108.8 million to $208.9 million in 2008. Oil sales increased $102.1 million and natural gas sales increased $6.7 million. The oil sales increase was caused by a sales volume increase of 702,310 barrels in 2008, and a 41% increase in the average realized per barrel oil price from $66.82 in 2007 to $94.16 in 2008. These per barrel amounts are calculated by dividing revenue from oil sales by the volume of oil sold, in barrels. The natural gas sales increase was caused by a sales volume increase of 408,102 Mcf in 2008, and a 23% increase in the average realized per barrel oil price from $8.02 in 2007 to $9.84 in 2008. These per Mcf amounts are calculated by dividing revenue from gas sales by the volume of gas sold, in Mcf. The volume increase for crude oil and natural gas primarily resulted from development of our existing properties in 2008.

Oil and gas production costs. Our aggregate oil and gas production costs increased from $11,500,461 in 2007 to $17,833,144, and increased on a Boe basis from $7.34 in 2007 to $7.63 in 2008. These per Boe amounts are calculated by dividing our total production costs by our total volume sold, in Boe. This aggregate increase was the result of the drilling of new wells in 2008 and cost increases. The increase on a per Boe basis is attributable to rising rates for labor and services.

Oil and gas production taxes. Oil and gas production taxes as a percentage of oil and natural gas sales were 5.65% during 2007 and decreased to 5.04% in 2008. Production taxes vary from state to state. Therefore, these taxes are likely to vary in the future depending on the mix of production we generate from various states, and on the possibility that any state may raise its production tax.

Realized loss on oil derivative. Realized loss on oil derivative increased from $932,361 in 2007 to $4,275,330 in 2008. This increase is the result of commodity price increases during most of 2008.

Depreciation, depletion and amortization. Our depreciation, depletion and amortization expense increased by $11,940,230 to $30,099,196 in 2008. The increase was a result of an increase in the average depreciation, depletion and amortization rate from $11.59 per Boe during 2007 to $12.88 per Boe during 2008. These per Boe amounts are calculated by dividing our total depreciation, depletion and amortization expense by our total volume sold, in Boe. The increased depreciation, depletion and amortization were the result of increased sales volume and an increase in estimated future development costs.

General and administrative expenses. General and administrative expenses increased by $5,741,481 to $13,557,202 during 2008. This increase was primarily related to increases in compensation expense associated with an increase in personnel required to administer our growth and compensation expense related to our stock option plan.

Interest income. Interest income increased $414,949 to $1,299,939 in 2008. The increase was due to higher cash balances during periods of the year in 2008.

Interest expense. Interest expense decreased $266,064 to $1,145,456 in 2008. The increase was due to lower amounts of debt being outstanding during periods of the year in 2008.

Income tax expense. Our effective tax rate was 37% during 2008 and 38% during 2007.

Net income. Net income increased from $34,441,939 for 2007 to $83,617,201 for 2008. The primary reasons for this increase include higher crude oil and natural gas prices between periods and an increase in volumes sold, partially offset by higher oil and gas production costs, oil and gas production taxes and general and administrative expenses due to our growth.

Liquidity and Capital Resources

Historical Financing. We have historically funded our operations through cash available from operations, and from equity offerings of our stock and warrants in 2007 and 2008.

Credit Facility. In June 2009, we entered into an amended and restated credit 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%. All other terms and conditions that existed under our prior credit facility remained the same. As of December 31, 2009, we were in compliance with all covenants and did not have any amount outstanding under this credit facility.

Cash Flows. Our primary sources of cash have been cash flows from operations and equity offerings. During the three years ended December 31, 2009, we generated $349,504,656 from operating activities and financed $222,388,933 through proceeds from the sale of stock and warrants and exercise of warrants and options. We primarily used this cash generation to fund our capital expenditures and development aggregating $497,777,217 over the three years end December 31, 2009. At December 31, 2009, we had cash on hand of $63,635,078 and working capital of $62,398,985, compared to December 31, 2008 when our cash was $58,489,574 and working capital of $69,740,590.

We continually evaluate our capital needs and compare them to our capital resources. We will closely manage our capital expenditures to our cash flow. As commodity prices change we will consider the resulting impact on our cash flow and adjust our capital expenditures accordingly, be it up or down. The level of capital expenditures is largely discretionary, and the amount of funds devoted to any particular activity may increase or decrease significantly depending on available opportunities, commodity prices, cash flows and development results, among others.

Schedule of Contractual Obligations. The following table summarizes our future estimated lease payments for periods subsequent to December 31, 2009. This lease pertains to an office building in Midland, Texas and involves approximately 1,869 square feet of space.

Year		Lease Obligation
2010		20,715
2011		21,649
2012		22,584
2013		19,469
	$	84,417

Off-Balance Sheet Financing Arrangements

As of December 31, 2009 we had no off-balance sheet financing arrangements.

Critical Accounting Policies and Estimates

Our discussion of financial condition and results of operations is based upon the information reported in our financial statements. The preparation of these statements requires us to make assumptions and estimates that affect the reported amounts of assets, liabilities, revenues and expenses as well as the disclosure of contingent assets and liabilities at the date of our financial statements. We base our assumptions and estimates on historical experience and other sources that we believe to be reasonable at the time. Actual results may vary from our estimates due to changes in circumstances, weather, politics, global economics, mechanical problems, general business conditions and other factors. Our significant accounting policies are detailed in Note 1 to our financial statements included in this Annual Report. We have outlined below certain of these policies as being of particular importance to the portrayal of our financial position and results of operations and which require the application of significant judgment by our management.

Revenue Recognition. We predominantly derive our revenue from the sale of produced crude oil and natural gas. Revenue is recorded in the month the product is delivered to the purchaser. We receive payment from one to three months after delivery. At the end of each month, we estimate the amount of production delivered to purchasers and the price we will receive. Variances between our estimated revenue and actual payment are recorded in the month the payment is received; however, differences have been insignificant.

Full Cost Method of Accounting. We account for our oil and natural gas operations using the full cost method of accounting. Under this method, all costs associated with property 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 cost of drilling and equipping productive and non-productive wells. Drilling costs include directly related overhead costs. All of our properties are located within the continental United States.

Oil and Natural Gas Reserve Quantities. Reserve quantities and the related estimates of future net cash flows affect our periodic calculations of depletion and impairment of our oil and natural gas properties. Proved oil and natural gas reserves are the estimated quantities of crude oil, natural gas and natural gas liquids which geological and engineering data demonstrate with reasonable certainty to be recoverable in future periods from known reservoirs under existing economic and operating conditions. Reserve quantities and future cash flows included in this Annual Report are prepared in accordance with guidelines established by the SEC and FASB. The accuracy of our reserve estimates is a function of:

- the quality and quantity of available data;
- the interpretation of that data;
- the accuracy of various mandated economic assumptions; and
- the judgments of the persons preparing the estimates.

Our proved reserve information included in this Annual Report were based on internal reports and audited by Williamson Petroleum Consultants, Inc., independent petroleum engineers. Because these estimates depend on many assumptions, all of which may differ substantially from actual results, reserve estimates may be different from the quantities of oil and natural gas that are ultimately recovered. We continually make revisions to reserve estimates throughout the year as additional properties are acquired. We make changes to depletion rates and impairment calculations in the same period that changes to the reserve estimates are made.

All capitalized costs of oil and gas properties, including estimated future costs to develop proved reserves and estimated future costs of 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.

Impairment of Oil and Natural Gas Properties. We review the value of our oil and natural gas properties whenever management judges that events and circumstances indicate that the recorded carrying value of properties may not be recoverable. We provide for impairments on undeveloped property when we determine that the property will not be developed or a permanent impairment in value has occurred. Impairments of proved producing properties are calculated by comparing future net undiscounted cash flows using escalated prices to the net recorded book cost at the end of each period ("Ceiling test"). If the net capitalized cost exceeds net future cash flows, the cost of the property is written down to "fair value," which is determined using net discounted future cash flows from the producing property. Current market conditions, in the form of low commodity prices, have had a dramatic effect on this calculation. The net discounted future cash flow from producing properties is directly impacted by commodity prices. Different pricing assumptions or discount rates could result in a different calculated impairment. We have never recorded property impairments as a result of the ceiling test.

Our reserve estimates as of December 31, 2009 are based on an average price of $57.628 for oil and $4.904 for gas. We have run an impairment test analysis to determine at approximately what price level impairment would result. Because our reserves are predominantly oil, at approximately 85% of total reserves, this analysis was based solely on the oil price while leaving gas prices at the levels used for preparing the reserve estimates as of December 31, 2009. Based on this analysis, our contracted oil price would have to drop below $37 per barrel for the ceiling test to result in impairment to our producing properties.

Income Taxes. Deferred income taxes are provided for the difference between the tax basis of assets and liabilities and the carrying amount in our financial statements. This difference will result in taxable income or deductions in future years when the reported amount of the asset or liability is settled. Since our tax returns are filed after the financial statements are prepared, estimates are required in valuing tax assets and liabilities. We record adjustments to actual in the period we file our tax returns.

Derivative Instruments. The estimated fair values of our commodity derivative instruments are recorded in the consolidated balance sheet. At inception, all of our commodity derivative instruments represent hedges of the price of future oil and gas production. The changes in fair value of those derivative instruments that qualify for hedge accounting treatment are recorded in other comprehensive income until the hedged oil or natural gas quantities are produced. If a hedge becomes ineffective because the hedged production does not occur, or the hedge otherwise does not qualify for hedge accounting treatment, the changes in the fair value of the derivative are recorded in the income statement as derivative income or expense.

Our hedges are specifically referenced to NYMEX prices. We evaluate the effectiveness of our hedges at the time we enter the contracts, and periodically over the life of the contracts, by analyzing the correlation between NYMEX prices and the posted prices we receive from our designated production. Through this analysis, we are able to determine if a high correlation exists between the prices received for the designated production and the NYMEX prices at which the hedges will be settled.

Effects of Inflation and Pricing

We experienced increases and decreases in costs during 2009 due to fluctuating demand for oil field products and services as a result of fluctuating oil and gas prices. The oil and natural gas industry is very cyclical and the demand for goods and services of oil field companies, suppliers and others associated with the industry puts extreme pressure on the economic stability and pricing structure within the industry. Typically, as prices for oil and natural gas increase, so do all associated costs. Material changes in prices impact the current revenue stream, estimates of future reserves, borrowing base calculations of bank loans and value of properties in purchase and sale transactions. Material changes in prices can impact the value of oil and natural gas companies and their ability to raise capital, borrow money and retain personnel. We anticipate business costs will vary in accordance with commodity prices for oil and natural gas, and the associated increase or decrease in demand for services related to production and exploration.

Item 7A Quantitative and Qualitative Disclosure About Market Risk

Commodity Price Risk

Our major market risk exposure is in the pricing applicable to our oil and natural gas production. Market risk refers to the risk of loss from adverse changes in oil and natural gas prices. Realized pricing is primarily driven by the prevailing domestic price for crude oil and spot prices applicable to the region in which we produce natural gas. Historically, prices received for oil and natural gas production have been volatile and unpredictable. We expect pricing volatility to continue. Oil prices we received during 2009 ranged from a low of $30.87 per barrel to a high of $74.81 per barrel. Natural gas prices we received during 2009 ranged from a low of $0.72 per Mcf to a high of $11.92 per Mcf. A significant decline in the prices of oil or natural gas could have a material adverse effect on our financial condition and results of operations.

As of December 31, 2009 the Company's only 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 position as of December 31, 2009.

Commodity	Remaining Period	Volume (Bbls)	Floor	Ceiling
WTI Crude Oil	January 2010 - December 2010	730,000	$ 65.00	$ 93.00
WTI Crude Oil	January 2010 - December 2010	365,000	$ 70.00	$ 92.85

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

There were no hedges in effect as of December 31, 2009, therefore the Company did not record an asset or a liability. The after tax impact of the change in the fair value of the hedge of $10,212,601 is reflected in other comprehensive income as unrealized gain on oil derivative for the period ended December 31, 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 or loss on derivatives in the operating section of the Company's statement of operations. Our statement of operations includes a gain on derivative instruments of $14,884,846 for 2009 and a loss on derivative instrument of $4,275,330 for 2008 and $932,361 for 2007.

Interest Rate Risk

Our current credit facility has a floating interest rate. Therefore, if we draw funds on this credit facility, interest rate changes will impact future results of operations and cash flows.

Item 8: Financial Statements and Supplementary Data

The financial statements and supplementary data required by this item are included at page 53.

Item 9: Changes in and Disagreements with Accountants And Accounting and Financial Disclosure

None.

Item 9A: Controls and Procedures

Evaluation of Disclosure Controls and Procedures.

We maintain controls and procedures designed to ensure that information required to be disclosed in the reports that we file or submit 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. As of the end of the fiscal year ended December 31, 2009, our chief executive officer and chief financial officer evaluated the effectiveness of our disclosure controls and procedures. Based upon their evaluation of those controls and procedures, the chief executive officer and the chief financial officer of the Company concluded that as of the end of such period our disclosure controls and procedures are effective in alerting them to material information in a timely manner that is required to be included in the reports we file or submit under the Securities Exchange Act of 1934.

Management's Annual Report on Internal Control Over Financial Reporting.

Our management is responsible for establishing and maintaining adequate internal controls over financial reporting. Our internal control system was designed to provide reasonable assurance to our management and Board of Directors regarding the preparation and fair presentation of published financial statements.

All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

In making our assessment of internal control over financial reporting, our management used the criteria issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control – Integrated Framework. Based on our assessment, we believe that, as of December 31, 2009, our internal control over financial reporting is effective based on those criteria.

Hansen, Barnett & Maxwell, P.C., our independent registered public accounting firm, has issued an attestation report on management's assessment of Arena's internal control over financial reporting.

Date: March 1, 2010

/s/ Phillip W. Terry
Chief Executive Officer

/s/ William R. Broaddrick
Chief Financial Officer

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Registered with the Public Company
Accounting Oversight Board

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders
of Arena Resources, Inc.

We have audited Arena Resources, Inc.'s internal control over financial reporting as of December 31, 2009, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Arena Resources, Inc.'s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Arena Resources, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2009, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the balance sheets and the related statements of operations and comprehensive income, stockholders' equity, and cash flows of Arena Resources, Inc. and our report dated March 1, 2010 expressed an unqualified opinion thereon.

/s/ HANSEN, BARNETT & MAXWELL, P.C.

Salt Lake City, Utah
March 1, 2010

Changes in Internal Control Over Financial Reporting

We made no change in our internal control over financial reporting during our fourth quarter of 2009 that has materially affected, or is reasonably likely to materially affect our internal control over financial reporting.

Item 9B: Other Information

None

PART III

Item 10: Directors, Executive Officers and Corporate Governance

Executive Officers and Directors

The following table sets forth information regarding our executive officers, certain other officers and directors as of December 31, 2009:

Name	Age	Position
Lloyd T. Rochford	63	Chairman of the Board of Directors
Phillip W. Terry	62	President and Chief Executive Officer
William R. Broaddrick	32	Vice President and Chief Financial Officer
David D. Ricks	49	Vice President of Operations
Stanley M. McCabe	77	Director
Clayton E. Woodrum	69	Director
Anthony B. Petrelli	57	Director
Carl H. Fiddner	64	Director

Each of the directors identified above were elected for a term of one year (or until their successors are elected and qualified) at our annual meeting of shareholders in December 2009.

Messrs. Rochford and McCabe have served as directors since our inception in August 2000. Mr. Woodrum has served as a member of our Board since 2003. Mr. Petrelli was elected to the Board by the remaining members of the Board of Directors in January 2007 to fill the vacancy left by the death of Mr. Chris V. Kemendo, Jr. Mr. Fiddner was elected to the Board by the remaining members of the Board of Directors on May 1, 2007, to fill the vacancy left by the resignation of Charles Crawford.

The following biographies describe the business experience of our executive officers and directors:

Lloyd T. Rochford – Chairman of the Board of Directors.

Mr. Rochford, 63, has been active as an individual consultant and entrepreneur in the oil and gas industry since 1973. In this capacity, he has primarily been engaged in the organization and funding of private oil and gas drilling and completion projects and ventures within the mid-continent region of the United States. In 1990 Mr. Rochford was co-founder, director and CEO of a public company known as Magnum Petroleum, Inc. (Magnum) which was listed on the New York Stock Exchange. Subsequently, Magnum acquired Hunter Resources, Inc. in August, 1995. Mr. Rochford served as Chairman of the Board of the combined companies from August, 1995 to June, 1997. From July, 1997 until he committed to participate in Arena Resources, Mr. Rochford had primarily devoted his time and efforts to individual oil and gas acquisition and development. In 1982, Mr. Rochford was co-founder of Dana Niguel Bank, a publicly held California bank operation and served as a director until 1994. Mr. Rochford attended various college level courses in business from 1967 to 1970 in California.

Phillip W. Terry – President and Chief Executive Officer.

Mr. Terry, 62, has served as President and Chief Operating Officer since February 1, 2007 and as Chief Executive Officer since May 20, 2008. Mr. Terry joined the Company in April 2003, and since that time he has been in charge of all engineering and field operations. Immediately prior to joining the Company, Mr. Terry owned and operated an independent petroleum engineering consulting firm. The Company was one of his clients. In 2001 and 2002, Mr. Terry was Vice President of Drilling and Production for Bird Creek Resources, Inc. Mr. Terry received his Bachelor of Science degree in Mechanical Engineering from Oklahoma State University in 1970, and is a registered Professional Petroleum Engineer with over 35 years experience in engineering, production, drilling, completions, reservoir engineering, property evaluations and corporate management in the oil and gas industry.

William R. Broaddrick – Vice President and Chief Financial Officer.

Mr. Broaddrick, 32, was employed from 1997 to 2000 with Amoco Production Company, performing lease revenue accounting and state production tax regulatory reporting functions. During 2000, Mr. Broaddrick was employed by Duke Energy Field Services, LLC performing state production tax functions. In September 2001, Mr. Broaddrick joined us as chief accountant, and effective February 1, 2002, assumed responsibilities as Vice President and Chief Financial Officer.

Mr. Broaddrick received a Bachelor's Degree in Accounting from Langston University, through Oklahoma State University – Tulsa, in 1999. Mr. Broaddrick is a Certified Public Accountant.

David D. Ricks – Vice President of Operations.

Mr. Ricks, 49, joined the Company in November 2007 as Vice President of Operations, he has over 28 years of petroleum industry experience. Mr. Ricks began his career in 1982 as a production engineer in Southeast New Mexico for Gulf Oil Co. Since then he has served in various engineering capacities for Chevron USA, Amerada Hess Corp., Citation Oil and Gas Corp., Newfield Exploration Mid-Continent, Inc., Apache Corp., and Latigo Petroleum, Inc. His duties ranged from maintaining production, designing workovers and recompletions and facility installation, to field supervision of both primary and secondary production, including waterfloods and CO2 floods, primarily in Oklahoma, North and West Texas and Southeast New Mexico.

Stanley M. McCabe –Director.

Mr. McCabe, 77, served from 1979 to 1989, as Chairman and CEO of Stanton Energy, Inc., a Tulsa, Oklahoma natural resource company specializing in contract drilling and operation of oil and gas wells. In 1990, Mr. McCabe also became a co-founder and subsequently an officer and director of Magnum Petroleum, Inc., along with Mr. Rochford as previously discussed. Subsequently, Mr. McCabe served as a director of Magnum Hunter Resources, Inc., through December, 1996. From January, 1997, until he committed to participate in Arena Resources, Mr. McCabe had primarily devoted his time and efforts to individual oil and gas acquisition and development. Mr. McCabe attended college courses at the University of Maryland, primarily in business, in 1961 and 1962.

Clayton E. Woodrum – Director.

Mr. Woodrum, 69, is a Certified Public Accountant and has, from 1984 to present, been a principal shareholder in the accounting firm of Woodrum, Kemendo, Tate & Westemeir, P.L.L.C., and has been an owner of Computer Data Litigation Services, LLC and First Capital Management, LLC. Mr. Woodrum is currently the Chairman of our audit committee and compensation committee. From 1965 to 1975, Mr. Woodrum was employed by Peat, Marwick, Mitchell & Co., serving as partner in charge of the tax department during the final two years. From 1975 to 1980 he served as CFO for BancOklahoma Corp. and Bank of Oklahoma. From 1980 to 1984 Mr. Woodrum served as a partner in charge of the tax department at Peat, Marwick, Mitchell & Co.

Anthony B. Petrelli – Director.

Mr. Petrelli, 57, was elected to the Board by the remaining members of the Board of Directors in January 2007 to fill the vacancy left by the death of Mr. Chris V. Kemendo, Jr. Since 1987 Mr. Petrelli has been with the firm of Neidiger Tucker Bruner, Inc., which firm served as one of the lead underwriters in our secondary registration of common stock in August of 2004. Mr. Petrelli is currently a Director and Senior Vice President of such firm. From August 2007 until June 2009, Mr. Petrelli also served on the Board of Directors of XLR8 Inc., which had a class of securities registered with the Securities and Exchange Commission. Also, between January 2006 and March 2007 Mr. Petrelli also served on the Board of Directors of Whitney Information Network, Inc., which has a class of securities registered with the Securities and Exchange Commission.

Carl H. Fiddner – Director.

Mr. Fiddner, 64, joined to the Board in May 2007, to fill the vacancy left by the resignation of Charles Crawford. Mr. Fiddner is a certified public accountant who managed his own public accounting firm for 25 years, prior to joining Regier, Carr & Monroe, in Tulsa, Oklahoma, in December 2005. Mr. Fiddner worked at Regier, Carr & Monroe through September 30, 2007 at which time he became an independent financial consultant.

Our executive officers are elected by, and serve at the pleasure of, our Board of Directors. Our directors serve terms of one year each, with the current directors serving until the 2010 annual meeting of stockholders, and in each case until their respective successors are duly elected and qualified.

Board Committees

Our Board of Directors has established an Audit Committee, a Compensation Committee and a Nominating and Corporate Governance Committee, the composition and responsibilities of which are briefly described below. The charters for each of these committees can be found on our website (www.arenaresourcesinc.com). We shall also provide any person without charge, upon request, a copy of the charters for each of these committees. Requests may be directed to Arena Resources, Inc., 6555 S. Lewis Ave., Tulsa, Oklahoma 74136, attention William R. Broaddrick, or by calling (918) 747-6060.

The Audit Committee's principal functions are to assist the Board in monitoring the integrity of our financial statements, the independent auditor's qualifications and independence, the performance of our independent auditors and our compliance with legal and regulatory requirements. The Audit Committee has the sole authority to retain and terminate our independent auditors and to approve the compensation paid to our independent auditors. The Audit Committee is also responsible for overseeing our internal audit function. During 2009, the Audit Committee was comprised of our three independent directors, Messrs. Woodrum, Petrelli and Fiddner, with Mr. Woodrum acting as the chairman. Our Board of Directors determined that both Messrs. Woodrum and Fiddner qualified as "audit committee financial experts" under the rules of the SEC adopted pursuant to requirements of the Sarbanes-Oxley Act of 2002 (see the biographical information for Messrs. Woodrum and Fiddner, infra, in this discussion of "Directors and Executive Officers"). Each of Messrs. Woodrum, Petrelli and Fiddner further qualified as "independent" in accordance with the applicable regulations adopted by the SEC and Section 303A.02 of the New York Stock Exchange Corporate Governance Standards. (see the biographical information for Messrs. Woodrum, Petrelli and Fiddner, infra, in this discussion of "Directors and Executive Officers").

The Compensation Committee's principal function is to make recommendations regarding the compensation of the Company's officers. In accordance with the rules of the New York Stock Exchange, the compensation of our chief executive officer is recommended to the Board (in a proceeding in which the chief executive officer does not participate) by the Compensation Committee. Compensation for all other officers is also recommended to the Board for determination, by the Compensation Committee. During 2009, the Compensation Committee was comprised of our three independent directors, Messrs. Woodrum, Petrelli and Fiddner, with Mr. Woodrum acting as the chairman.

42

The Nominating and Corporate Governance Committee's principal functions are to (a) identify and recommend qualified candidates to the Board of Directors for nomination as members of the Board and its committees, and (b) develop and recommend to the Board corporate governance principles applicable to the Company. During 2009, the Compensation Committee was comprised of our three independent directors, Messrs. Woodrum, Petrelli and Fiddner, with Mr. Woodrum acting as the chairman.

There have been no material changes to the procedures by which security holders may recommend nominees to our Board of Directors.

Our Board may establish other committees from time to time to facilitate our management.

Code of Ethics

We have adopted a code of ethics (our Code of Business Conduct) that applies to our principal executive officer, principal financial officer and principal accounting officer or persons performing similar functions (as well as our other employees and directors). The Code of Business Conduct can be found on our website (www.arenaresourcesinc.com). We shall also provide any person without charge, upon request, a copy of such Code of Business Conduct. Requests may be directed to Arena Resources, Inc., 6555 S. Lewis Ave., Tulsa, Oklahoma 74136, attention William R. Broaddrick, or by calling (918) 747-6060.

Section 16(a) Beneficial Ownership Reporting Compliance

Based solely upon a review of Forms 4 furnished to us during our most recent fiscal year, we know of no director, officer or beneficial owner of more than ten percent of our common stock who failed to file on a timely basis reports of beneficial ownership of the our common stock as required by Section 16(a) of the Securities Exchange Act of 1934, as amended, other than the following:

William R. Broaddrick (Chief Financial Officer) filed two Form 4's late (one day each).

Lloyd T. Rochford (Chairman of the Board) filed two Form 4's late (one day and two days).

David D. Ricks (Vice President of Operations) filed a Form 4 late (regarding the grant of 470 shares pursuant to a restricted stock grant – 13 days).

Item 11: Executive Compensation

Compensation Discussion & Analysis

This section contains a discussion of the material elements of compensation awarded to, earned by or paid to our principal executive and principal financial officers, and our other three most highly compensated executive officers and employees. These individuals are referred to as the ("Named Officers") in this Annual Report on Form 10-K.

Our current executive compensation programs are determined and approved by our Compensation Committee, after consideration of recommendations by our Chairman of the Board and our Chief Executive Officer, as to the other Named Officers. None of the Named Officers are members of the Compensation Committee. The Compensation Committee has the direct responsibility and authority to review and approve the Company's goals and objectives relative to the compensation of the Named Officers, and to determine and approve (either as a committee or with the other members of the Company's Board of Directors who qualify as "independent" directors under applicable guidelines adopted by the New York Stock Exchange) the compensation levels of the Named Officers.

43

Our current executive compensation programs are intended to achieve two objectives. The primary objective is to enhance the profitability of the Company, and thus shareholder value. The second objective is to attract, motivate, reward and retain employees, including executive personnel, who contribute to the long-term success of the Company. As described in more detail below, the material elements of our current executive compensation program for Named Officers include a base salary, discretionary annual bonuses and discretionary stock options grants.

The Company believes that each element of the executive compensation program helps to achieve one or both of the compensation objectives outlined above. The table below lists each material element of our executive compensation program and the compensation objective or objectives that it is designed to achieve.

Compensation Element	Compensation Objectives Attempted to be Achieved
Base Salary	Attract and retain qualified executive's Motivate and reward executives performance
Bonus Compensation	Motivate and reward executive's performance Enhance profitability of Company and shareholder value
Equity-Based Compensation – stock options and restricted stock grants	Enhance profitability of Company and shareholder value by aligning long-term incentives with shareholders' long-term interests

As illustrated by the table above, base salary is primarily intended to attract and retain qualified executives. This is the element of the Company's current executive compensation program where the value of the benefit in any given year is not wholly dependent on performance. Base salaries are intended to attract and retain qualified executives as well as being linked to performance by rewarding and/or motivating executives. Base salaries are reviewed annually and take into account: experience and retention considerations; past performance; improvement in historical performance; anticipated future potential performance; and other issues specific to the individual executive.

There are specific elements of the current executive compensation program that are designed to reward performance and enhance profitability and shareholder value, and therefore the value of these benefits is based on performance. The Company's discretionary annual bonus plan is primarily intended to motivate and reward Named Officers' performance to achieve specific strategies and operating objectives, as well as improved financial performance.

The Compensation Committee, with input from both Messrs. McCabe and Rochford, considers the salaries of comparable executives of peer companies for which such information is publicly available. The Compensation Committee believes that bonuses and equity compensation should fluctuate with the Company's success in achieving financial, operating and strategic goals. The Committee's philosophy is that the Company should continue to use long-term compensation such as stock options to align shareholder and executives' interests and should allocate a portion of long-term compensation to the entire executive compensation package.

The Company has never retained an outside consultant in establishing its compensation program or in establishing any specific compensation for an executive officer.

Current Executive Compensation Program Elements

Base Salaries

Similar to most companies within the industry, our policy is to pay Named Officers' base salaries in cash. Effective August 1, 2009, the Compensation Committee increased salaries for Named Officers by an aggregate of $60,000. The raises were to Messrs. David R. Ricks, Thomas W. Wahl and William C. Gaines, raising Mr. Ricks individual base salary to $200,000 and raising Messrs. Wahl and Gaines individual base salaries to $150,000 each. In approving these salary increases, the Committee took into account factors including, peer group comparisons available to the Committee, each executive's individual experience and increased responsibilities and improved performance for the Company.

Annual Bonuses

In the past, the Company has not had a formal policy regarding bonuses, and payment of bonuses has been purely discretionary and is largely based on the recommendations of the Chairman of the Board and the Chief Executive Officer (except as to themselves). In the recent past, annual bonuses have been established as a percentage of each employee's base salary. The Compensation Committee may reduce or increase the size of the payout for each individual Named Officer at their discretion. Cash bonuses were declared and paid out in July and December of 2009 for all five of the Named Officers. Cash bonuses are not a significant portion of the executive compensation package. The annual discretionary bonus is reported in the "Bonus" column of the "Summary Compensation Table" for each Named Officer.

Perquisites

The Company currently provides a vehicle allowance for some of its employees, including two of the Named Officers. Perquisites are reported in the "All Other Compensation" column of the "Summary Compensation Table' for each Named Officer, if applicable.

Equity-Based Compensation – Restricted Stock Grants

The Company does not have a formal policy regarding granting of restricted stock, and granting of stock is discretionary and is largely based on the recommendations of the Chairman of the Board and the Chief Executive Officer (except as to themselves). In 2009, restricted stock was granted in conjunction with the cash bonus declared and paid in December, to three of the Named Officers. Restricted stock grants are not a significant portion of the executive compensation package. The grant date fair value, as determined under generally accepted accounting principles, of the annual discretionary bonus is reported in the "Stock Grant" column of the "Summary Compensation Table" for each Named Officer.

Equity-Based Compensation - Options

It is our policy that the Named Officers' long-term compensation should be directly linked to enhancing profitability and value provided to shareholders of the Company's common stock. Accordingly, the Compensation Committee, (upon the recommendation of Messrs. McCabe and Rochford, with respect to grants of options other than to themselves) grants equity awards under the Company's stock option plan designed to link an increase in shareholder value to compensation. All of the Named Officer's equity-based compensation opportunity was awarded in the form of the Company's non-qualified stock options. Stock option grants are valued using the Black-Scholes Model and are calculated as a part of the executive compensation package for the year based on the amount of requisite service period served. Non-qualified stock options for Named Officers and other key employees generally vest ratably over five years. The Compensation Committee believes that these awards encourage Named Officers to continue to use their best professional skills and to retain Named Officers for longer terms.

Grants are determined for Named Officers based on his or her performance in the prior year, his or her expected future contribution to the performance of the Company, and other competitive data on grant values of peer companies. Awards may be granted to new key employees or Named Officers on hire date. Other grant date determinations are made by the Compensation Committee, which is based upon the date the Committee met and proper communication was made to the Named Officer or key employee as defined in the definition of grant date by generally accepted accounting principles. Exercise prices are equal to the value of the Company's stock on the close of business on the determined grant date. The Company has no program or practice to coordinate timing of grants with release of material, nonpublic information.

The grant date fair value as determined under generally accepted accounting principles is shown in the "Summary Compensation Table" below.

Compensation Committee's Report on Executive Compensation (1)

Among the duties imposed on our Compensation Committee under its charter, is the direct responsibility and authority to review and approve the Company's goals and objectives relevant to the compensation of the Company's Chief Executive Officer and other executive officers, to evaluate the performance of such officers in accordance with the policies and principles established by the Compensation committee and to determine and approve, either as a Committee, or (as directed by the Board) with the other "independent" Board members (as defined by the New York Stock Exchange listing standards), the compensation level of the Chief Executive Officer and the other executive officers. During 2009 the Compensation Committee was composed of the three non-employee Directors named at the end of this report each of whom is "independent" as defined by the New York Stock Exchange listing standards.

The Compensation Committee has reviewed and discussed with management the disclosures contained in the Compensation Discussion and Analysis section of this Item 11. Based upon this review and our discussions, the Arena Resources, Inc. Compensation Committee recommended to its Board of Directors that the Compensation Discussion and Analysis section be included in this annual report on Form 10-K.

Compensation Committee of the Board of Directors
Clayton E. Woodrum (Chair)
Anthony B. Petrelli
Carl H. Fiddner

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(1) SEC filings sometimes "incorporate information by reference." This means the Company is referring you to information that has previously been filed with the SEC, and that this information should be considered as part of the filing you are reading. Unless the Company specifically states otherwise, this Compensation Committee Report shall not be deemed to be incorporated by reference and shall not constitute soliciting material or otherwise be considered filed under the Securities Act of 1933 as amended, or the Securities Exchange act of 1934, as amended.

Compensation Committee's Interlocks and Insider Participation

The Compensation Committee members whose names appear above were committee members during 2009. No member of the Compensation Committee is or has been a former or current Named Officer of the Company or had any relationships requiring disclosure by the Company under the SEC's rules requiring disclosure of certain relationships and related-party transactions. None of our Named Officers identified herein served as a director or a member of a compensation committee (or other committee serving an equivalent function) of any other entity.

Compensation of Named Officers

The "Summary Compensation Table" set forth below should be read in connection with the tables and narrative descriptions that follow. The "Outstanding Equity Awards at Fiscal Year End Table" and "Option Exercises and Stock Vested Table" provide further information on the Named Officers' potential realizable value and actual value realized with respect to their equity awards.

The Company does not have any pension plans, non-qualified deferred compensation plans or severance, retirement, termination, constructive termination or change in control arrangements for any of its Named Officers for the year ended December 31, 2009.

Summary Compensation Table

Name and Principal Position	Year	Salary ($)	Bonus ($)	Stock Grants (1) ($)	Option Awards (2) ($)	All Other Compensation ($)	Total ($)
Phillip W. Terry, President and	2007	$ 164,167	$ 16,000	$ -	3,863,309	$ 12,408 (3)	4,055,884
Chief Executive Officer	2008	250,000	25,000	-	-	20,750 (3)	295,750
	2009	250,000	25,000	-	-	32,200 (3)	307,200
William R. Broaddrick,	2007	89,583	9,000	-	1,557,976	1,400 (5)	1,657,959
Vice President and	2008	100,008	10,000	-	-	4,500 (5)	114,508
Chief Financial Officer	2009	100,008	10,000	-	-	6,000 (5)	116,008
David R. Ricks, Vice President	2007	28,500	1,425	-	714,645	4,230 (4)	748,800
of Operations	2008	190,072	19,000	-	915,270	27,523 (4)	1,151,865
	2009	195,995	29,750	20,257	-	33,897 (4)	279,899
Thomas W. Wahl,	2007	50,000	2,633	-	1,125,176	1,800 (5)	1,179,609
Vice President of Land	2008	125,000	12,500	-	-	5,625 (5)	143,125
	2009	142,869	15,625	15,645	-	8,572 (5)	182,711
William C. Gaines,	2007	92,639	9,741	-	981,129	575 (5)	1,084,084
Manager Reservoir	2008	125,000	12,500	-	-	6,000 (5)	143,500
Engineering/Acquisitions	2009	135,417	21,875	15,645	-	9,438 (5)	182,375

(1) See discussion of assumptions made in valuing these awards in the notes to our financial statements.
(2) See discussion of assumptions made in valuing these awards in the notes to our financial statements.
(3) All Other Compensation to Mr. Terry included cash paid as vehicle allowances of $12,000 for each year presented and $408, $8,750 and $20,200 for the years 2007, 2008 and 2009, respectively, as company matching for contributions to a 401k program.
(4) All Other Compensation to Mr. Ricks included cash paid as vehicle allowances of $2,520, $18,400 and $19,200 for the years 2007, 2008 and 2009 and $1,710, $9,123 and $14,697 for the years 2007, 2008 and 2009, respectively, as company matching for contributions to a 401k program.
(5) All Other Compensation to Messrs. Broaddrick, Wahl and Gaines consisted of company matching for contributions to a 401k program.

The Company awards stock options to key employees and the Named Officers either on the initial date of employment or due to performance incentives throughout the year. During 2009, there were no option grants to any Named Officer.

As part of annual discretionary bonus restricted stock awards were granted to three of the Named officers during 2009.

Named Officers are not separately entitled to receive dividend equivalent rights with respect to each stock option. Each nonqualified stock option award described in the "Grants of Plan-Based Awards Table" above expires six-months following the fifth anniversary of its associated grant date and vests in equal installments over the course of five years.

The following table provides certain information regarding unexercised stock options outstanding for each Named Officer as of December 31, 2009.

Outstanding Equity Awards

Name and Principal Position	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Options Exercise Price ($)	Option Expiration Date
Phillip W. Terry	40,000	120,000	19.23	07/22/12
	60,000	90,000	37.59	06/01/13
William R. Broaddrick	40,000	60,000	19.23	07/22/12
	20,000	30,000	37.59	06/01/13
David R. Ricks	20,000	30,000	35.54	05/07/13
	10,000	40,000	45.68	11/01/13
Thomas W. Wahl	-	60,000	26.96	01/24/13
William C. Gaines	-	60,000	23.42	12/01/12

The following table presents information regarding the exercise of stock options by Named Officers during 2009.

Option Exercises and Stock Vesting

	Option Awards	
Name	Number of Shares Acquired on Exercise (#)	Value Realized on Exercise ($)
Thomas W. Wahl	20,000	63,200
William C. Gaines	27,000	277,020

Director Compensation

During all of 2009, all directors were compensated with a stipend of $1,500 per month plus $1,000 for each meeting of the directors attended. No director receives a salary as a director.

Director Compensation Table

Name	Fees Earned or Paid in Cash ($)	Option Awards ($) (1)	All Other Compensation ($)	Total ($)
Lloyd T. Rochford	22,000	-	-	22,000
Stanley M. McCabe	22,000	-	-	22,000
Clayton E. Woodrum	22,000	-	-	22,000
Anthony B. Petrelli	22,000	-	-	22,000
Carl H. Fiddner	22,000	-	-	22,000

(1) No options or awards of restricted stock were granted to any of the directors during the year ended December 31, 2009.

The following table sets forth information concerning our executive stock compensation plans as of December 31, 2009.

	Number of securities to be issued upon exercise of outstanding options (a)	Weighted-average exercise price of outstanding options (b)	Number of securities remaining available for future issuance under compensation plans (excluding securities in column (a)) (c)
Equity compensation plans approved by security holders	1,895,000	$ 23.87	1,294,774
Equity compensation plans not approved by security holders	-	-	-
Total	1,895,000	$ 23.87	1,294,774

Item 12: Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The following table sets forth, as March 1, 2010, information regarding the beneficial ownership of our common stock: (i) by each of our directors and executive officers; and (ii) by all directors and executive officers as a group. The mailing address for each of the persons indicated is our corporate headquarters.

Beneficial ownership is determined under the rules of the Securities and Exchange Commission. In general, these rules attribute beneficial ownership of securities to persons who possess sole or shared voting power and/or investment power with respect to those securities and includes, among other things, securities that an individual has the right to acquire within 60 days. Unless otherwise indicated, the stockholders identified in the following table have sole voting and investment power with respect to all shares shown as beneficially owned by them.

	Shares of Common Stock Beneficially Owned	
Name	Number	Percent
Lloyd T. Rochford	365,200 (1)	1%
Phillip W. Terry	230,000 (2)	1%
William R. Broaddrick	191,200 (3)	1%
David D. Ricks	30,470 (4)	*
Stanley M. McCabe	350,000 (5)	1%
Clayton E. Woodrum	20,000 (6)	*
Anthony B. Petrelli	97,000 (7)	*
Carl H. Fiddner	38,736 (8)	*
All directors and executive officers	1,322,606 (9)	3%

(1) Includes 70,000 shares issuable upon the exercise of stock options that are currently exercisable and 80,000 shares issuable upon the exercise of stock options that are exercisable within 60 days.
(2) Includes 100,000 shares issuable upon the exercise of stock options that are currently exercisable and 40,000 shares issuable upon the exercise of stock options that are exercisable within 60 days.

(3) Includes 60,000 shares issuable upon the exercise of stock options that are currently exercisable and 20,000 shares issuable upon the exercise of stock options that are exercisable within 60 days.
(4) Includes 30,000 shares issuable upon the exercise of stock options that are currently exercisable.
(5) Includes 270,000 shares issuable upon the exercise of stock options that are currently exercisable and 80,000 shares issuable upon the exercise of stock options that are exercisable within 60 days.
(6) Includes 10,000 shares issuable upon the exercise of stock options that are currently exercisable and 5,000 shares issuable upon the exercise of stock options that are exercisable within 60 days.
(7) Includes 50,000 shares issuable upon the exercise of stock options that are currently exercisable and 20,000 shares issuable upon the exercise of stock options that are exercisable within 60 days.
(8) Includes 30,000 shares issuable upon the exercise of stock options that are currently exercisable.
(9) Includes 620,000 shares issuable upon the exercise of stock options that are currently exercisable and 245,000 shares issuable upon the exercise of stock options that are exercisable within 60 days by all executive officers and directors.
* Represents beneficial ownership of less than 1%

The following table sets forth, as March 1, 2010, information regarding the beneficial ownership of our common stock: by all persons known to us to own 5% or more of our outstanding shares of common stock.

	Shares of Stock Beneficially Owned	
Name and Address	Number	Percentage
Neuberger Berman Group, LLC 605 Third Avenue New York, New York 10158	4,285,209 (1)	11.05%
FMR LLC 82 Devonshire Street Boston, Massachusetts 02109	3,233,498 (2)	8.30%
BlackRock, Inc. 40 East 52nd Street New York, New York 10022	2,915,226 (3)	7.51%
T. Rowe Price Associates, Inc. 100 E. Pratt Street Baltimore, Maryland 21202	2,147,920 (4)	5.54%

(1) This share ownership information was provided by a Schedule 13G filed February 17, 2010, which discloses that each of Neuberger Berman Group, LLC and Neuberger Berman, LLC possesses shared power to dispose or direct the disposition of 4,285,209 shares, and shared power to vote 3,562,743 shares. The Schedule 13G further discloses that Neuberger Berman Management LLC possesses shared power to vote and dispose or direct the disposition of 1,909,522 shares, and Neuberger Berman, Equity Funds possesses shared power to vote and dispose or direct the disposition of 3,403,528 shares.
(2) This share ownership information was provided by a Schedule 13G filed February 16, 2010, which discloses that FMR LLC, possesses beneficial ownership of the reported shares.
(3) This share ownership information was provided by a Schedule 13G filed January 29, 2010, following the acquisition by BlackRock, Inc. of Barclays Global Investors, NA; the Schedule discloses BlackRock possesses sole power to dispose or direct the disposition and sole power to vote or to direct the vote of such shares.
(4) This share ownership information was provided by a Schedule 13G filed February 11, 2010, which discloses that T. Rowe Price Associates, Inc. possesses sole dispositive power of the reported shares.

Percentage ownership calculations for any stockholder listed above are based on 38,793,963 shares of our common stock outstanding as of March 1, 2010.

Item 13: Certain Relationships and Related Transactions, and Director Independence

In July 2002, we borrowed $200,000 from each of Messrs. Rochford and McCabe, which debts are evidenced by notes payable which matured and were paid in January 2007. The notes bore interest at a rate of 10% per annum, and were secured by our assets (although such notes were subordinate to our credit facility with our primary commercial lender).

As discussed under Item 10 of this Form 10-K, the Board of Directors has determined that Messrs. Woodrum, Petrelli and Fiddner, are each "independent" directors within the meaning of Section 303A.00 of the New York Stock Exchange Listed Company Manual. None of our independent directors falls within any of the categories of persons who would not be independent as described in Section 303A.00(b) of the New York Stock Exchange rules. Because the Board of Directors believes it is not possible to anticipate or provide for all circumstances that might give rise to conflicts of interest or that might bear on the materiality of a relationship between a director and the Company, the Board has not established specific objective criteria, apart from the criteria set forth in the New York Stock Exchange rules, to determine "independence". In addition to such criteria, in making the determination of "independence", the Board of Directors considers such other matters including (i) the business and non-business relationships that each independent director has or may have had with the Company and its other Directors and executive officers, (ii) the stock ownership in the Company held by each such Director, (iii) the existence of any familial relationships with any executive officer or Director of the Company, and (iv) any other relevant factors which could cause any such Director to not exercise his independent judgment.

Item 14: Principal Accountant Fees and Services

The firm of Hansen, Barnett & Maxwell, P.C., ("HBM") has served as the Company's independent auditors since 2000. The Audit Committee selected HBM as the independent auditors of the Company for the fiscal year ending December 31, 2009. The Audit Committee has adopted a policy that requires advance approval of all audit, audit-related, tax services and other services performed by the independent auditor.

Fees and Independence

Audit Fees. HBM billed the Company an aggregate of $124,646 and $124,062 for professional services rendered for the audit of the Company's financial statements for the years ended December 31, 2009 and 2008, respectively, and its reviews of the Company's financial statements included in its Form 10-Q's for the first three quarters of 2009 and 2008.

Audit Related Fees. HBM billed the Company $0 and $37,024 for the years ended December 31, 2009 and 2008, respectively, for its services in connection with the review of the Company's registration statements on Form S-3 and for the audit of the Phoenix Petrocorp acquisition.

Tax Fees. HBM billed the Company $5,000 for professional services rendered for tax compliance, tax advice and tax planning for each of the years ended December 31, 2009 and 2008.

All Other Fees. No other fees were billed by HBM to the Company during 2009 and 2008.

The Audit Committee of the Board of Directors has determined that the provision of services by HBM described above is compatible with maintaining HBM's independence as the Company's principal accountant.

Item 15: Exhibits

(a)	Financial Statements See Index to Financial Statements on page 54
(b)	Exhibits
3.1	Articles of Incorporation of Arena Resources, Inc. (i)
3.2	By-Laws of Arena Resources, Inc. (ii)
10.1	Second Amended and Restated Credit Agreement dated as of June 30, 2009, effective as of July 2, 2009, among the Company, MidFirst Bank, Compass Bank and Capital One, N.A. (iii)
23.1	Consent of Williamson Petroleum Consultants, Inc., Independent Petroleum Engineers
23.2	Consent of Hansen, Barnett & Maxwell, P.C., Independent
31.1	Certification of CEO
31.2	Certification of CFO
32.1	Section 1350 Certification - CEO
32.2	Section 1350 Certification – CFO
99	Reserves Audit Report of Williamson Petroleum Consultants, Inc.

(i) Incorporated herein by reference to the exhibits to Arena Resources, Inc.’s Form SB-1 filed January 2, 2001 (SEC File No. 333-46164).

(ii) Incorporated herein by reference to the exhibit to Arena Resources, Inc.'s Form 8-K filed December 5, 2007.

(iii) Incorporated herein by reference to the exhibit to Arena Resources, Inc.’s Form 8-K filed July 29, 2009.

SIGNATURES

In accordance with Section 13 or 15(d) of the Exchange Act, the registrant caused this report to be signed on behalf by the undersigned, thereunto duly authorized.

Arena Resources, Inc.

By: /s/ Phillip W. Terry
Mr. Phillip W. Terry
President and Chief Executive Officer

Date: April 29, 2010

By: /s/ William R. Broaddrick
Mr. William R. Broaddrick
Chief Financial Officer

Date: April 29, 2010

In accordance with the Exchange Act, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the date indicated.

/s/ Lloyd T. Rochford
Mr. Lloyd T. Rochford
Director

Date: April 29, 2010

/s/ Stanley McCabe
Mr. Stanley McCabe
Director

Date: April 29, 2010

/s/ Clayton E. Woodrum
Mr. Clayton E. Woodrum
Director

Date: April 29, 2010

/s/ Anthony B. Petrelli
Mr. Anthony B. Petrelli
Director

Date: April 29, 2010

/s/ Carl H. Fiddner
Mr. Carl H. Fiddner

Director

Date: April 29, 2010

ARENA RESOURCES, INC.

INDEX TO FINANCIAL STATEMENTS

HANSEN, BARNETT & MAXWELL, P.C.
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CERTIFIED PUBLIC ACCOUNTANTS
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Registered with the Public Company
Accounting Oversight Board

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders
of Arena Resources, Inc.

We have audited the accompanying consolidated balance sheets of Arena Resources, Inc. and subsidiaries as of December 31, 2009 and 2008, and the related consolidated statements of operations and comprehensive income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2009. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Arena Resources, Inc. and subsidiaries as of December 31, 2009 and 2008, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2009, in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Arena Resources, Inc.'s internal control over financial reporting as of December 31, 2009, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 1, 2010 expressed an unqualified opinion thereon.

/s/ HANSEN, BARNETT & MAXWELL, P.C.

Salt Lake City, Utah
March 1, 2010

ARENA RESOURCES, INC.

CONSOLIDATED BALANCE SHEETS

December 31,		2009		2008
ASSETS				
Current Assets				
Cash	$	63,635,078	$	58,489,574
Accounts receivable		13,103,483		8,637,308
Joint interest billing receivable		2,392,814		2,836,948
Receivable from oil derivative		-		2,508,396
Fair value of oil derivative		-		16,210,478
Prepaid expenses		1,040,513		847,433
Total Current Assets		80,171,888		89,530,137
Property and Equipment				
Oil and gas properties subject to amortization		661,453,134		548,714,235
Oil and gas gathering systems		2,134,876		-
Inventory for property development		1,052,538		1,670,067
Drilling rigs		6,694,841		6,899,433
Land, buildings, equipment and leasehold improvements		5,991,983		5,799,045
Total Property and Equipment		677,327,372		563,082,780
Less: Accumulated depreciation , depletion and amortization		(100,428,326)		(60,928,142)
Net Property and Equipment		576,899,046		502,154,638
Total Assets	$	657,070,934	$	591,684,775
LIABILITIES AND STOCKHOLDERS' EQUITY				
Current Liabilities				
Accounts payable	$	17,155,260	$	12,877,084
Current taxes payable		314,700		-
Deferred income taxes		-		6,046,508
Accrued liabilities		1,101,633		865,955
Total Current Liabilities		18,571,593		19,789,547
Long-Term Liabilities				
Asset retirement liability		7,209,812		5,066,348
Deferred income taxes		108,622,799		84,533,419
Total Long-Term Liabilities		115,832,611		89,599,767
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;				

38,693,963 shares and 38,210,187 shares outstanding, respectively		38,694		38,210
Additional paid-in capital		326,990,590		318,701,383
Retained earnings		195,637,446		153,343,267
Accumulated other comprehensive income		-		10,212,601
Total Stockholders' Equity		522,666,730		482,295,461
Total Liabilities and Stockholders' Equity	$	657,070,934	$	591,684,775

The accompanying notes are an integral part of these consolidated financial statements.

ARENA RESOURCES, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS

For the years ended December 31,	2009	2008	2007
Oil and Gas Revenues	$ 126,240,777	$ 208,858,645	$ 100,089,698
Costs and Operating Expenses			
Oil and gas production costs	15,543,461	17,833,144	11,500,461
Oil and gas production taxes	6,455,585	10,518,370	5,655,877
Realized loss (gain) on oil derivative	(14,884,846)	4,275,330	932,361
Depreciation, depletion and amortization	38,957,641	29,789,794	17,968,062
Accretion expense	410,926	309,402	190,904
General and administrative (which includes $4,649,928, $6,586,279 and $4,140,747, respectively, in stock based compensation)	13,453,384	13,557,202	7,815,721
Total Costs and Operating Expenses	59,936,151	76,283,242	44,063,386
Income from Operations	66,304,626	132,575,403	56,026,312
Other Income (Expense)			
Interest income	828,992	1,299,939	884,990
Interest expense	-	(1,145,456)	(1,411,520)
Net Other Income (Expense)	828,992	154,483	(526,530)
Income Before Provision for Income Taxes	67,133,618	132,729,886	55,499,782
Provision for Income Taxes	(24,839,439)	(49,112,685)	(21,057,843)
Net Income	$ 42,294,179	$ 83,617,201	$ 34,441,939
Basic Net Income Per Common Share	$ 1.10	$ 2.28	$ 1.07
Diluted Net Income Per Common Share	1.09	2.20	1.02
Other Comprehensive Income (Loss)			
Net income	$ 42,294,179	$ 83,617,201	$ 34,441,939
Realized loss (gain) on hedge derivative contract settlements reclassified from other comprehensive loss (income), net of tax	(10,222,546)	12,381,887	-
Change in unrealized deferred hedging gains (losses), net of tax	9,945	632,212	(2,801,498)
Total Comprehensive Income	$ 32,081,578	$ 96,631,300	$ 31,640,441

The accompanying notes are an integral part of these consolidated financial statements.

ARENA RESOURCES, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2007, 2008 AND 2009

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Deferred Compensation	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
Balance December 31, 2006	29,337,574	$ 29,338	$ 84,730,586	$ -	$ 35,284,127	$ -	$ 120,044,052
Options exercised for cash	570,000	570	1,851,930	-	-	-	1,852,500
Warrants exercised for cash	127,126	127	540,169	-	-	-	540,295
Warrants exercised using cashless exercise provision	139,079	139	(139)	-	-	-	-
Shares issued in property acquisition	5,000	5	204,745	-	-	-	204,750
Tax impact of option exercises	-	-	4,298,722	-	-	-	4,298,722
Issuance of common stock for cash, net	4,100,000	4,100	95,085,358	-	-	-	95,089,458
Expense related to vesting stock based compensation	-	-	4,140,747	-	-	-	4,140,747
Loss on change in fair value of oil derivative, net of tax	-	-	-	-	-	(2,801,498)	(2,801,498)
Net income	-	-	-	-	34,441,939	-	34,441,939
Balance December 31, 2007	34,278,779	$ 34,279	$ 190,852,118	$ -	$ 69,726,066	$ (2,801,498)	$ 257,810,965
Options exercised for cash	1,333,000	1,333	4,689,927	-	-	-	4,691,260
Warrants exercised for	97,158	97	446,099	-	-	-	446,196

cash							
Issuance of common stock for cash, net	2,501,250	2,501	116,126,960	-	-	-	116,129,461
Expense related to vesting stock based compensation	-	-	6,586,279	-	-	-	6,586,279
Gain on change in fair value of oil derivative, net of tax	-	-	-	-	-	13,014,099	13,014,099
Net income	-	-	-	-	83,617,201	-	83,617,201
Balance December 31, 2008	38,210,187	$ 38,210	$ 318,701,383	$ -	$ 153,343,267	$ 10,212,601	$ 482,295,461
Options exercised for cash	317,000	317	2,922,123	-	-	-	2,922,440
Warrants exercised for cash	161,550	162	717,161	-	-	-	717,323
Expense related to vesting stock based compensation	-	-	4,633,873	-	-	-	4,633,873
Restricted stock grant and vesting	5,226	5	16,050	-	-	-	16,055
Loss on change in fair value of oil derivative, net of tax	-	-	-	-	-	(10,212,601)	(10,212,601)
Net income	-	-	-	-	42,294,179	-	42,294,179
Balance December 31, 2009	38,693,963	$ 38,694	$ 326,990,590	$ -	$ 195,637,446	$ -	$ 522,666,730

The accompanying notes are an integral part of these consolidated financial statements.

ARENA RESOURCES, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended December 31,	2009	2008	2007
Cash Flows From Operating Activities			
Net income	$ 42,294,179	$ 83,617,201	$ 34,441,939
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation, depletion and amortization	38,957,641	29,789,794	17,968,062
Provision for income taxes	24,839,439	49,112,685	21,057,843
Gain on sale of equipment	-	-	(881)
Stock based compensation	4,649,928	6,586,279	4,140,747
Accretion of asset retirement obligation	410,926	309,402	190,904
Changes in assets and liabilities:			
Accounts, joint interest and oil derivative receivable	(1,513,645)	9,835,045	(14,165,921)
Current and deferred income taxes	-	(612,480)	-
Prepaid expenses	(472,478)	(714,040)	(30,808)
Excess tax benefits from share-based payment arrangements	-	-	(4,298,722)
Accounts payable and accrued liabilities	4,513,854	(587,238)	(814,999)
Net Cash Provided by Operating Activities	113,679,844	177,336,648	58,488,164
Cash Flows from Investing Activities			
Proceeds from sale of property and equipment	-	-	7,000
Proceeds from sale of oil and gas properties	-	296,800	1,915,640
Purchase and development of oil and gas properties	(103,778,202)	(207,022,666)	(168,582,803)
Purchase of inventory for property development	(6,068,087)	(1,670,067)	-
Construction of oil and gas gathering systems	(2,134,876)	-	-
Purchase of buildings, machinery and office equipment	(192,938)	(1,931,517)	(8,615,501)
Net Cash Used in Investing Activities	(112,174,103)	(210,327,450)	(175,275,664)
Cash Flows From Financing Activities			
Proceeds from issuance of common stock and warrants, net of offering costs	-	116,129,461	95,089,458
Proceeds from exercise of warrants, net of offering costs	717,323	446,196	540,295
Proceeds from exercise of options	2,922,440	4,691,260	1,852,500
Excess tax benefits from share-based payment arrangements	-	-	4,298,722
Issuance of notes payable	-	11,000,000	65,700,000
Payment of notes payable	-	(46,000,000)	(50,400,000)
Net Cash Provided by Financing Activities	3,639,763	86,266,917	117,080,975

Net Increase in Cash	5,145,504	53,276,115	293,475
Cash at Beginning of Period	58,489,574	5,213,459	4,919,984
Cash at End of Period	$ 63,635,078	$ 58,489,574	$ 5,213,459

For the years ended December 31,	2009	2008	2007
Supplemental Cash Flow Information			
Cash paid for income taxes	$ -	$ 612,480	$ -
Cash paid for interest	-	1,280,122	1,463,328
Non-Cash Investing and Financing Activities			
Common stock issued for properties	$ -	$ -	$ 204,750
Asset retirement obligation incurred in property acquisition and development	1,732,538	1,459,534	1,001,613
Depreciation on drilling rigs capitalized as oil and gas properties	542,543	640,977	306,133
Use of inventory in property development	6,685,616	-	-

The accompanying notes are an integral part of these consolidated financial statements.

59

ARENA RESOURCES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Nature of Operations – Arena Resources, Inc. (the "Company") is a Nevada corporation that owns interests in oil and gas properties located in Oklahoma, Texas, Kansas and New Mexico. The Company is engaged primarily in the acquisition, exploration and development of oil and gas properties and the production and sale of oil and gas. In 2006, the Company formed two wholly owned subsidiaries, Arena Drilling Co. and ARD Production Company. The accompanying statements of operations and cash flows include the operations of the above 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. Changes in the future estimated oil and natural gas reserves or the estimated future cash flows attributable to the reserves that are utilized for impairment analysis could have a significant impact on the future results of operations.

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 Accounts Receivable – Financial instruments that potentially subject the Company to a concentration of credit risk consist principally of cash and accounts receivable. The Company has cash in excess of federally insured limits at December 31, 2009. The Company places its cash with a high credit quality financial institution.

Substantially all of the Company's accounts receivable is from purchasers of oil and gas. Oil and gas sales are generally unsecured. The Company has not had any significant credit losses in the past and believes its accounts receivable are fully collectable. Accordingly, no allowance for doubtful accounts has been provided. The Company also has a joint interest billing receivable. Joint interest billing receivables are collateralized by the pro rata revenue attributable to the joint interest holders and further by the interest itself.

Cash – The Company considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

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 properties 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.

The Company records a liability in the period in which an asset retirement obligation ("ARO") is incurred, in an amount equal to the discounted estimated fair value of the obligation that is capitalized. Thereafter this liability is accreted up to the final retirement cost. An ARO is a future expenditure related to the disposal or other retirement of certain assets. The Company's ARO's relate to future plugging and abandonment expenses of its oil and gas properties and related facilities disposal.

ARENA RESOURCES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

All capitalized costs of oil and gas properties, including the estimated future costs to develop proved reserves and estimated future costs to plug and abandon wells and costs of site restoration, less the estimated salvage value of equipment associated with the oil and gas properties, are amortized on the unit-of-production method using estimates of proved reserves as determined by independent engineers. If the results of an assessment indicate that the properties are impaired, the amount of the impairment is added to the capitalized costs to be amortized. Following is a table showing total depletion and depletion per barrel-of-oil-equivalent rate, by year for the years ended December 31, 2009, 2008, and 2007.

	For the Years Ended December 31,					
		2009		2008		2007
Depletion	$	38,659,746	$	29,554,184	$	17,885,561
Depletion rate, per barrel-of-oil-equivalent (BOE)	$	16.34	$	12.65	$	11.42

In addition, capitalized costs less accumulated amortization and related deferred income taxes shall not exceed an amount (the full cost ceiling) equal to the sum of:

1) the present value of estimated future net revenues discounted ten percent computed in compliance with SEC guidelines;

2) plus the cost of properties not being amortized;

3) plus the lower of cost or estimated fair value of unproven properties included in the costs being amortized;

4) less income tax effects related to differences between the book and tax basis of the properties.

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 but are only depreciated during periods during which they are in use and the depreciation is capitalized as part of oil and gas properties subject to amortization. For the year ended December 31, 2009, 2008 and 2007 the Company had depreciation of $542,543, $640,977 and $306,133, respectively, on the company owned drilling rigs.

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

Depreciation expense was $297,895, $235,609 and $62,921 for the years ended December 31, 2009, 2008 and 2007, respectively. An aggregate value of $530,000 has been attributed to the land on which the buildings sit and is not subject to depreciation.

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.

ARENA RESOURCES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Revenue recognition – The Company predominantly derives its revenue from the sale of produced crude oil and natural gas. Revenue is recorded in the month the product is delivered to the purchaser. At the end of each month, the Company estimates the amount of production delivered to purchasers and the price we received. Variances between the Company's estimated revenue and actual payment are recorded in the month the payment is received; however, differences have been insignificant.

Income Taxes – Provisions for income taxes are based on taxes payable or refundable for the current year and deferred taxes. Deferred taxes are provided on differences between the tax bases of assets and liabilities and their reported amounts in the financial statements, and tax carry forwards. Deferred tax assets and liabilities are included in the financial statements at currently enacted income tax rates applicable to the period in which the deferred tax assets and liabilities are expected to be realized or settled. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes.

Earnings Per Share – Basic earnings per share is computed by dividing net income by the weighted-average number of common shares outstanding during the year. Diluted earnings per share are calculated to give effect to potentially issuable dilutive common shares.

Major Customers – During the year ended December 31, 2009, sales to three customers represented 75% 13% and 8% of total sales, respectively. At December 31, 2009, these customers made up 74%, 14% and 7% of accounts receivable, respectively. During the year ended December 31, 2008, sales to three customers represented 83% 8% and 5% of total sales, respectively. At December 31, 2008, these customers made up 84%, 9% and 5% of accounts receivable, respectively. During the year ended December 31, 2007, sales to two customers represented 83% and 11% of total sales, respectively. At December 31, 2007, these customers made up 85% and 7% of accounts receivable, respectively. The loss of any of the foregoing customers would not have a material adverse affect on the Company as there is an available market for its crude oil and natural gas production from other purchasers.

Stock-Based Employee Compensation – The Company has outstanding stock options and restricted stock grants to directors and employees, which are described more fully in Note 7. The Company accounts for its stock options and restricted stock grants in accordance with generally accepted accounting principles. The generally accepted accounting principles require the recognition of the cost of employee services received in exchange for an award of equity instruments in the financial statements and is measured based on the grant date fair value of the award. The generally accepted accounting principles also requires the stock option compensation expense to be recognized over the period during which an employee is required to provide service in exchange for the award (the vesting period).

Stock-based employee compensation incurred for the years ended December 31, 2009, 2008, and 2007 was $4,649,928, $6,586,279 and $4,140,747, respectively.

Stock-Based Compensation to Non-Employees – The Company accounts for its stock-based compensation issued to non-employees using the fair value method in accordance with generally accepted accounting principles. Under generally accepted accounting principles, stock-based compensation is determined as either the fair value of the consideration received or the fair value of the equity instruments issued, whichever is more reliably measurable. The measurement date for these issuances is the earlier of the date at which a commitment for performance by the recipient to earn the equity instruments is reached or the date at which the recipient's performance is complete.

ARENA RESOURCES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Derivative Instruments and Hedging Activities – Generally accepted accounting principles have established accounting and reporting standards requiring that derivative instruments (including certain derivative instruments embedded in other contracts) be recorded at fair value and included in the consolidated balance sheet as assets or liabilities. The accounting for changes in the fair value of a derivative instrument depends on the intended use of the derivative and the resulting designation, which is established at the inception of a derivative. For derivative instruments designated as cash flow hedges, changes in fair value, to the extent the hedge is effective, are recognized in other comprehensive income until the hedged item is recognized in earnings. Any change in the fair value resulting from ineffectiveness, as defined by generally accepted accounting principles, is recognized immediately in oil and natural gas sales. For derivative instruments designated as fair value hedges, changes in fair value, as well as the offsetting changes in the estimated fair value of the hedged item attributable to the hedged risk, are recognized currently in earnings. Differences between the changes in the fair values of the hedged item and the derivative instrument, if any, represent gains or losses on ineffectiveness and are reflected currently in interest expense. Hedge effectiveness is measured at least quarterly based on the relative changes in fair value between the derivative contract and the hedged item over time. Changes in fair value of contracts that do not qualify as hedges or are not designated as hedges are also recognized currently in earnings. See Note 11—Derivative Instruments and Hedging Activities.

New Accounting Policies – Recent SEC Rule-Making Activity. 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.

- 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. We have chosen not to make disclosure under these categories.

- 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.

We adopted the rules effective December 31, 2009.

ARENA RESOURCES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

In August 2009, the FASB issued Accounting Standards Update 2009-5, "Measuring Liabilities at Fair Value" in order to provide further guidance on how to measure the fair value of a liability. The Update clarifies that, in circumstances in which a quoted price in an active market for the identical liability is not available, a reporting entity is required to measure fair value using one or more prescribed techniques. We adopted the new guidance as of October 1, 2009. Adoption of the new guidance had no impact on our financial position or results of operations.

Fair Value Option   Under US GAAP for fair value measurements, companies have an option to report selected financial assets and liabilities at fair value. We adopted the new guidance for optional fair value measurements as of January 1, 2008. Adoption of the new guidance had no effect on our financial position or results of operations as we made no elections to report selected financial assets or liabilities at fair value.

Derivative Instruments and Hedging Activities   In March 2008, the FASB issued new standards which amended and expanded previous disclosure requirements related to derivative instruments and hedging activities. The new standards require qualitative disclosures about objectives and strategies for using derivative instruments, quantitative disclosures about fair value amounts of derivative instruments and related gains and losses, and disclosures about credit risk-related contingent features in derivative agreements. We adopted the new standards as of January 1, 2009. They provide only for enhanced disclosures, and adoption of the new standards had no impact on our financial position or results of operations. See Note 11. Derivative Instruments and Hedging Activities.

Subsequent Events   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 December 31, 2009 through the time of filing with the SEC on March 1, 2010, which is the date the financial statements were issued.

Accounting Standards Codification   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 CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2 – EARNINGS PER SHARE INFORMATION

For the years ended December 31,	2009	2008	2007
Net Income	$ 42,294,179	$ 83,617,201	$ 34,441,939
Basic Weighted-Average Common Shares Outstanding	38,380,284	36,732,000	32,071,279
Effect of dilutive securities			
Warrants	75,924	205,846	325,034
Stock options	501,737	986,251	1,271,616
Diluted Weighted-Average Common Shares Outstanding	38,957,945	37,924,097	33,667,929
Basic Income Per Common Share			
Net income	1.10	2.28	1.07
Diluted Income Per Common Share			
Net Income	1.09	2.20	1.02

NOTE 3 – OIL AND GAS PRODUCING ACTIVITIES

Set forth below is certain information regarding the aggregate capitalized costs of oil and gas properties and costs incurred by the Company for its oil and gas property acquisitions, development and exploration activities:

Capitalized Costs Relating to Oil and Gas Producing Activities

December 31,	2009	2008	2007
Unproved oil and gas properties	$ 5,642,624	$ 5,642,624	$ 5,642,624
Proved oil and gas properties	655,810,510	543,071,611	334,245,235
Oil and gas gathering systems	2,134,876	-	-
Inventory for property development	1,052,538	1,670,067	-
Drilling rigs	6,694,841	6,899,433	6,254,737
Land, buildings, equipment and leasehold improvements	5,991,983	5,799,045	4,512,224
Total capitalized costs	677,327,372	563,082,780	350,654,820
Less accumulated depletion, depreciation and amortization	(100,428,326)	(60,928,142)	(30,497,371)
Net Capitalized Costs	$ 576,899,046	$ 502,154,638	$ 320,157,449

Net Costs Incurred in Oil and Gas Producing Activities

For the Years Ended December 31,	2009	2008	2007
Acquisition of proved properties (net of proceeds from property sale)	3,942,103	16,782,225	53,554,064
Acquisition of unproved properties (net of proceeds from property sale)	-	-	542,650
Exploration costs	-	-	-
Development costs	107,064,257	190,584,617	113,084,344
Total Net Costs Incurred	$ 111,006,360	$ 207,366,842	$ 167,181,058

NOTE 4 – NOTES PAYABLE

Notes Payable – In June 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 the Company's level of utilization of the credit facility with the total interest rate to be charged being no less than 4.00%. The Company is required under the terms of the credit facility to maintain a 5-to-1 ratio of income before interest, taxes, depreciation, depletion and amortization to interest expense, maintain a current asset to current liability ratio of 1-to-1 and a rolling four quarter maximum leverage ratio of no more than 2.5-to-1. As of December 31, 2009, the Company were in compliance with all covenants and did not have any amount outstanding under this credit facility.

ARENA RESOURCES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 5 – ASSET RETIREMENT OBLIGATION

A reconciliation of the asset retirement obligation for the years ended December 31, 2007, 2008 and 2009 is as follows:

Balance, January 1, 2007	$2,250,332
Liabilities incurred	1,027,945
Accretion expense	190,904
Deletion related to property divestitures	(26,332)
Liabilities settled	(45,019)
Balance, December 31, 2007	$3,397,830
Liabilities incurred	1,459,534
Accretion expense	309,402
Liabilities settled	(100,418)
Balance, December 31, 2008	$5,066,348
Liabilities incurred	1,732,538
Accretion expense	410,926
Balance, December 31, 2009	$7,209,812

NOTE 6 – STOCKHOLDERS' EQUITY

The Company is authorized to issue 100,000,000 common shares, with a par value of $0.001 per share, and 10,000,000 Class "A" convertible preferred shares, with a par value of $0.001 per share.

Preferred Stock – There is no preferred stock outstanding.

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

Common Stock Issued in Offerings – In June 2007, the Company issued 4,100,000 shares of common stock, valued at $100,450,000, or $24.50 per share, in a private placement. Proceeds from the offering totaled $95,089,458, net of offering costs and expenses paid of $5,360,542.

In June 2008, the Company issued 2,501,250 shares of common stock, valued at $119,434,688, or $47.75 per share, in a public offering pursuant to a shelf registration statement. Proceeds to the Company, net of offering costs of $3,305,227, totaled $116,129,461.

Common Stock Issued from Warrant Exercises – During the year ended December 31, 2007, the Company issued 127,126 shares of common stock from the exercise of warrants for proceeds of $540,295. Of these warrants, 20,000 had an exercise price of $4.50 per share, 34,952 had an exercise price of $5.15 per share and 72,174 had an exercise price of $3.7425. Additionally, during the year ended December 31, 2007, the Company issued 134,120 shares of common stock in a cashless exercise of 145,000 warrants with an exercise price of $3.7425 per share and 4,959 shares of common stock in a cashless exercise of 5,824 warrants with an exercise price of $5.15 per share.

ARENA RESOURCES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

During the year ended December 31, 2008, the Company issued 97,158 shares of common stock from the exercise of warrants. Of these warrants, 33,246 had an exercise price of $4.50 per share, 23,132 had an exercise price of $3.7425 per share and 40,780 had an exercise price of $5.15 per share, for total proceeds of $446,159.

During the year ended December 31, 2009, the Company issued 161,550 shares of common stock from the exercise of warrants. Of these warrants, 42,772 had an exercise price of $3.7425, 83,830 had an exercise price of $4.50 and 34,948 had an exercise price of $5.15, for total proceeds of $717,323.

Common Stock Issued from Option Exercises – During the year ended December 31, 2007, the Company issued 570,000 shares of common stock upon the exercise of options for proceeds of $1,852,500, or an average of $3.25 per share. As a result of these exercises, the Company recognized an additional tax benefit in the amount of $4,298,722, which was recorded against additional paid-in capital.

During the year ended December 31, 2008, the Company issued 1,333,000 shares of common stock from the exercise of options for proceeds of $4,691,260. Of these options, 1,140,000 had an exercise price of $1.85 per share, 60,000 had an exercise price of $2.40 per share, 20,000 had an exercise price of $4.15 per share, 20,000 had an exercise price of $13.70 per share, 40,000 had an exercise price of $19.23 per share, 33,000 had an exercise price of $23.42 per share and 20,000 had an exercise price of $26.96 per share.

During the year ended December 31, 2009, the Company issued 317,000 shares of common stock from the exercise of options for proceeds of $2,922,440. Of these options, 220,000 had an exercise price of $4.15, 20,000 had an exercise price of $10.43, 20,000 had an exercise price of $13.70, 27,000 had an exercise price of $23.42, 20,000 had an exercise price of $26.96 and 10,000 had an exercise price of $35.53.

Common Stock Issued pursuant to Restricted Stock Award Plan – On December 17, 2009, the Company issued 5,226 shares of common stock to key personnel. The shares issued are subject to a six month vesting period which ends in June 2010. The shares were valued at $43.10, based on the closing price on the date the shares were awarded. The expense associated with this issuance will be allocated ratably over the six month vesting period.

Warrants Issued – Prior to 2007 the Company issued stock purchase warrants in relation to various offerings. No purchase warrants have been issued in 2007, 2008 or 2009. However, through 2009 some of the previously issued warrants remained outstanding. During the year ended December 31, 2009, the balance of the remaining outstanding warrants was exercised.

Stock purchase warrants issued and exercised during the years ended December 31, 2009, 2008 and 2007 are summarized as follows:

	2009		2008		2007	
	Warrants	Weighted-Average Exercise Price	Warrants	Weighted-Average Exercise Price	Warrants	Weighted-Average Exercise Price
Outstanding at beginning of the year	161,550	$ 4.44	258,708	$ 4.50	536,658	$ 4.25
Issued	-	-	-	-	-	-
Expired	-	-	-	-	-	-
Exercised	(161,550)	4.44	(97,158)	4.59	(277,950)	3.08

Outstanding at end of year	-	$ -	161,550	$ 4.44	258,708	$ 4.50

67

ARENA RESOURCES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 7 – EMPLOYEE STOCK OPTIONS AND RESTRICTED STOCK AWARD PLAN

In 2003, the Company's Board of Directors and shareholders approved and adopted a non-qualified executive stock option plan, which was subsequently amended by the shareholders. The amendments effectively increased the number of shares available under the plan to 6,000,000. Additionally, in 2009 the shareholders approved the adoption of a restricted stock award plan. Shares granted under the restricted stock award plan come from the same pool of available shares as the option plan. There are 1,294,774 shares eligible for grant, either as options or as restricted stock, at December 31, 2009.

Employee Stock Options – Following is a table reflecting the issuances during 2007 and 2008 and their related exercise prices:

Grant date	# of options		Exercise price
January 11, 2007	100,000	$	18.675
January 22, 2007	600,000		19.23
May 1, 2007	200,000		23.42
July 24, 2007	100,000		26.96
November 1, 2007	50,000		35.53
November 7, 2007	50,000		35.54
December 1, 2007	300,000		37.59
December 17, 2007	125,000		37.85
	1,525,000		

Grant date	# of options		Exercise price
May 7, 2008	50,000	$	45.68
May 15, 2008	50,000		49.74
July 24, 2008	50,000		41.09
August 18, 2008	50,000		39.02
September 2, 2008	25,000		40.75
	225,000		

No options were granted during 2009.

All granted options vest at the rate of 20% each year over five years beginning one year from the date granted and expire six months after the date of complete vesting. A summary of the status of the stock options as of December 31, 2009 and changes during the years ended December 31, 2009, 2008 and 2007 is as follows:

ARENA RESOURCES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

	2009		2008		2007	
	Options	Weighted-Average Exercise Price	Options	Weighted-Average Exercise Price	Options	Weighted-Average Exercise Price
Outstanding at beginning of the year	2,252,000	$ 22.12	3,450,000	$ 13.55	2,610,000	$ 3.31
Issued	-		225,000	43.53	1,525,000	26.45
Forfeited	(40,000)	41.09	(90,000)	22.73	(115,000)	3.35
Exercised	(317,000)	9.22	(1,333,000)	3.52	(570,000)	3.25
Outstanding at end of year	1,895,000	$ 23.87	2,252,000	$ 22.12	3,450,000	$ 13.55
Exercisable at end of year	705,000	$ 20.96	537,000	$ 13.27	1,050,000	$ 2.33
Weighted average fair value of options granted during the year		$ -		$ 17.52		$ 10.84

The Company uses the Black-Scholes option pricing model to calculate the fair-value of each option grant. The expected volatility is based on the historical price volatility of the Company's common stock. We elected to use the simplified method for estimating the expected term as allowed by generally accepted accounting principles for options granted through December 31, 2008 and 2007. Under the simplified method, the expected term is equal to the midpoint between the vesting period and the contractual term of the stock option. The risk-free interest rate represents the U.S. Treasury bill rate for the expected life of the related stock options. The dividend yield represents the Company's anticipated cash dividend over the expected life of the stock options. The following are the Black-Scholes weighted-average assumptions used for options granted during the years ended December 31, 2008 and 2007 (no options were granted during 2009):

	2008	2007
Risk free interest rate	3.14%	4.30%
Expected life	4.25 years	4.25 years
Dividend yield	-	-
Volatility	45%	47%

As of December 31, 2009, there was approximately $4,827,499 of unrecognized compensation cost related to stock options that will be recognized over a weighted average period of 2.07 years. The aggregate intrinsic value of options vested and expected to vest at December 31, 2009 was $32,337,120. The aggregate intrinsic value of options exercisable at December 31, 2009 was $15,714,850. The year end intrinsic values are based on a December 31, 2009 closing price of $43.12.

The 317,000, 1,333,000 and 570,000 options exercised during 2009, 2008 and 2007, respectively, had an aggregate intrinsic value on the date of exercise of 7,963,220, $44,715,770 and $12,122,600, respectively.

ARENA RESOURCES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The following table summarizes information related to the Company's stock options outstanding at December 31, 2009:

	Options Outstanding		
Exercise price	Number Outstanding	Weighted-Average Remaining Contractual Life (in years)	Number Exercisable
4.15	305,000	0.50	200,000
10.425	40,000	1.30	20,000
13.70	40,000	1.95	-
18.675	100,000	2.53	40,000
19.23	560,000	2.56	200,000
23.42	140,000	2.84	20,000
26.96	60,000	3.07	-
35.53	40,000	3.33	10,000
35.54	50,000	3.35	20,000
37.59	250,000	3.42	100,000
37.85	125,000	3.46	50,000
39.02	50,000	3.85	10,000
40.75	25,000	3.87	5,000
41.09	10,000	4.07	10,000
45.68	50,000	4.13	10,000
49.74	50,000	4.17	10,000
	1,895,000	2.06	705,000

Any excess tax benefits from the exercise of stock options will not be recognized in paid-in capital until the Company is in a current tax paying position. Presently, all of the Company's income taxes are deferred and is only subject to alternative minimum tax. The Company has substantial net operating losses available to carryover to future periods. Accordingly, no excess tax benefits have been recognized for the years ended December 31, 2009 or 2008.

Restricted stock grants – On December 17, 2009, the Company granted a total of 5,226 shares of stock under the Restricted Stock Award Plan. The shares were valued based on the market price of the shares on the grant date of $43.10 for an aggregate total of $225,241. These shares vest over a six month period and the Company will record the expense over that period. As of December 31, 2009, the Company showed an expense of $16,055. Unamortized deferred compensation of $209,186 will be amortized over the next six months.

The Restricted Stock Award Plan was approved by the shareholders during 2009, therefore no shares were issued under the plan prior to 2009. Additionally, no shares vested during any of the years 2009, 2008 or 2007.

NOTE 8 – RELATED PARTY TRANSACTIONS

In July 2002, the Company borrowed $400,000 from two of its officers under the terms of secured, 10% promissory notes. These notes and all accrued interest were paid during 2007.

ARENA RESOURCES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 9 – 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 and New Mexico totaling $686,969 to allow the Company to do business in those states. 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.

Operating leases – Effective August 20, 2008, the Company entered into a lease agreement for office space in Midland, Texas. The lease is for approximately 1,869 square feet and is for five years commencing November 2008. The Company incurred lease expense of $19,780 and $3,271 for the years ended December 31, 2009 and 2008, respectively. The following table reflects the future minimum lease payments under the operating lease as of December 31, 2009.

Year		Lease Obligation
2010		20,715
2011		21,649
2012		22,584
2013		19,469
	$	84,417

NOTE 10 – INCOME TAXES

At December 31, 2009, the Company calculated alternative minimum income tax of $798,690 of which $314,700 is currently payable, due to a previous overpayment. At December 31, 2008, the Company had no alternative minimum income tax due and had no current tax liability. The provision for income taxes consisted of the following:

Provision for income taxes		2009		2008		2007
Current	$	4,661,395	$	-	$	-
Minimum tax		798,690				539,793
Benefit of net operating loss		(4,661,395)				
Deferred		24,040,749		49,112,685		20,518,050
	$	24,839,439	$	49,112,685	$	21,057,843

The following is a reconciliation of income taxes computed using the U.S. federal statutory rate to the provision for income taxes:

Rate Reconciliation		2009		2008		2007
Tax at federal statutory rate (34%)	$	22,825,430	$	45,128,161	$	18,869,926
Non-deductible expenses		-		29,406		13,939
State tax, net of federal benefit		2,014,009		4,380,086		1,831,493
Other		-		(424,968)		342,485
	$	24,839,439	$	49,112,685	$	21,057,843

ARENA RESOURCES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As of December 31, 2009, the Company had net operating loss carry forwards for federal income tax reporting purposes of approximately $75 million which, if unused, will expire in 2026, 2027 and 2028. The Company has minimum tax credits of $1,765,774 which do not expire.

The net deferred tax liability consisted of the following:

Deferred taxes:		2009		2008		2007
Deferred tax liabilities						
Current unrealized gain on oil derivative	$	-	$	6,046,508	$	-
Property and equipment		124,200,047		107,316,108		63,011,335
Total deferred tax liabilities		124,200,047		113,362,616		63,011,335
Deferred tax assets						
Stock-based compensation		5,243,557		3,953,790		1,808,770
Minimum tax credit		1,765,774		967,084		862,000
Unrealized loss on oil derivative		-		-		1,658,665
Operating loss and IDC carryforwards		8,567,917		17,861,815		24,785,172
Total deferred tax assets		15,577,248		22,782,689		29,114,607
Net deferred income tax liability	$	108,622,799	$	90,579,927	$	33,896,728

Accounting for Uncertainty in Income Taxes In accordance with generally accepted accounting principles, the Company has analyzed its filing positions in all jurisdictions where it is required to file income tax returns for the open tax years in such jurisdictions. The Company has identified its federal income tax return and its state income tax returns in Texas, New Mexico, Oklahoma and Kansas in which it operates as "major" tax jurisdictions. The Company's federal income tax returns for the years ended December 31, 2006 through 2008 remain subject to examination. The Company's income tax returns in major state income tax jurisdictions remain subject to examination for years ended December 31, 2006 through 2008, with the exception of Texas, which would also include the year ended December 31, 2005. The Company currently believes that all significant filing positions are highly certain and that all of its significant income tax filing positions and deductions would be sustained upon audit. Therefore, the Company has no significant reserves for uncertain tax positions and no adjustments to such reserves were required by generally accepted accounting principles. No interest or penalties have been levied against the Company and none are anticipated, therefore interest or penalty has been included in our provision for income taxes in the consolidated statements of operations.

NOTE 11 – DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

Under generally accepted accounting principles, the nature of a derivative instrument must be evaluated to determine if it qualifies for hedge accounting treatment. Instruments qualifying for hedge accounting treatment are recorded as an asset or liability measured at fair value and subsequent changes in fair value are recognized in equity through other comprehensive income, net of related taxes, to the extent the hedge is effective. The Company's derivative instrument qualified for hedge accounting for all periods presented. The change in fair value of the derivative instrument was recorded to other comprehensive income for the years ended December 31, 2007, 2008 and 2009. The cash settlements of cash flow hedges are recorded in the operating section of the Company's statement of operations. Instruments not qualifying for hedge accounting treatment are recorded in the balance sheet at fair value and changes in fair value are recognized on the statement of operations.

ARENA RESOURCES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The Company's hedges are specifically referenced to NYMEX prices. The effectiveness of hedges is evaluated at the time the contracts are entered into, as well as periodically over the life of the contracts, by analyzing the correlation between NYMEX prices and the posted prices received from the designated production. Through this analysis, the Company is able to determine if a high correlation exists between the prices received for its designated production and the NYMEX prices at which the hedges will be settled. At December 31, 2007, 2008 and 2009, the Company's hedging contracts were considered effective cash flow hedges.

The statement of operations includes a realized gain on derivative instruments of $14,884,846 for 2009 and a realized loss on derivative instruments of $4,275,330 and $932,361 for 2008 and 2007, respectively.

As of December 31, 2009, the Company had entered into the following costless collar contracts accounted for as a cash flow hedge:

Commodity	Remaining Period	Volume (Bbls)	Floor	Ceiling
WTI Crude Oil	January 2010 - December 2010	730,000	$ 65.00	$ 93.00
WTI Crude Oil	January 2010 - December 2010	365,000	$ 70.00	$ 92.85

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

There were no hedges in effect as of December 31, 2009, therefore the Company did not record an asset or a liability. The fair value of the 2010 hedges is zero as of December 31, 2009, as the relative price curve for the index prices used is between the floor and the ceiling.

NOTE 12 – FAIR VALUE MEASUREMENTS

Generally accepted accounting principles 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.

- Level 2 — Inputs 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.

ARENA RESOURCES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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 fair value of all hedge instruments was zero as of December 31, 2009, therefore the Company does not have either an asset or a liability recorded in connection with those instruments.

NOTE 13 –EMPLOYEES' BENEFIT PLANS

The Company's employees are eligible to participate in a 401(k) plan after attaining the age of 21. Participants may defer up to 100% of eligible compensation. The Company matches participant contributions dollar for dollar up to 6% of participant compensation not exceeding $16,500 per employee ($22,000 for those over 50, choosing to catch-up). For the year ended December 31, 2009, 2008 and 2007, the Company made contributions to the plan totaling 290,695, $311,825 and $68,743, respectively.

NOTE 14 – QUARTERLY FINANCIAL DATA (UNAUDITED)

Quarterly financial information is presented in the following summary:

	2007 Three Months Ended							
		March 31		June 30		September 30		December 31
Revenues	$	16,651,301	$	21,620,299	$	26,731,699	$	35,086,399
Operating Income		9,395,863		13,283,378		17,661,615		15,685,456
Net Income		5,707,890		7,899,378		11,403,777		9,430,894
Basic Net Income Per Share	$	0.19	$	0.26	$	0.33	$	0.28
Diluted Net Income Per Share		0.18		0.24		0.32		0.26

	2008 Three Months Ended							
		March 31		June 30		September 30		December 31
Revenues	$	45,312,392	$	62,159,281	$	68,412,686	$	32,974,286
Operating Income		29,650,936		39,637,781		42,188,778		21,097,908
Net Income		18,318,395		24,794,349		26,922,966		13,581,491
Basic Net Income Per Share	$	0.52	$	0.69	$	0.71	$	0.36
Diluted Net Income Per Share		0.51		0.67		0.69		0.35

	2009 Three Months Ended			
	March 31	June 30	September 30	December 31

Revenues	$	20,193,160	$	27,636,695	$	36,060,878	$	42,350,044
Operating Income		9,998,248		22,702,454		18,954,179		14,649,746
Net Income		6,465,449		14,436,065		12,113,026		9,279,639
Basic Net Income Per Share	$	0.17	$	0.38	$	0.32	$	0.24
Diluted Net Income Per Share		0.17		0.37		0.31		0.24

The net income per share information above will not match the income statement due to rounding.

74

ARENA RESOURCES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 15 – SIGNIFICANT FOURTH QUARTER ADJUSTMENTS

There were no material fourth quarter adjustments or accounting changes.

NOTE 16 – SUBSEQUENT EVENTS

Subsequent to December 31, 2009, the Company issued a total of 75,000 shares of stock pursuant to the restricted stock award plan. These shares were valued based on the market price of the shares of $45.05 on the date of grant of January 6, 2010. These shares will vest 50% per year for two years and the fair value of these shares will be expensed over that period.

We have evaluated subsequent events after the balance sheet date of December 31, 2009 through the time of filing with the SEC on March 1, 2010, which is the date the financial statements were issued.

ARENA RESOURCES, INC.
SUPPLEMENTAL INFORMATION ON OIL AND GAS PRODUCING ACTIVITIES
(Unaudited)

Results of Operations from Oil and Gas Producing Activities – The Company's results of operations from oil and gas producing activities exclude interest expense, gain from change in fair value of put options, and other financing expense. Income taxes are based on statutory tax rates, reflecting allowable deductions.

For the Years Ended December 31,	2009	2008	2007
Oil and gas revenues	$ 126,240,777	$ 208,858,645	$ 100,089,698
Production costs	(15,543,461)	(17,833,144)	(11,500,461)
Production taxes	(6,455,585)	(10,518,370)	(5,655,877)
Realized loss on oil derivative	14,884,846	(4,275,330)	(932,361)
Depreciation, depletion, amortization and accretion	(39,368,567)	(30,099,196)	(18,158,966)
General and administrative (exclusive of corporate overhead)	(3,804,383)	(3,034,525)	(3,011,753)
Results of operations before income taxes	75,953,627	143,098,080	60,830,280
Provision for income taxes	(28,102,842)	(52,946,290)	(22,507,204)
Results of Oil and Gas Producing Operations	$ 47,850,785	$ 90,151,790	$ 38,323,076

Recent SEC and FASB Rule-Making Activity -- In December 2008, the SEC announced that it had approved revisions designed to modernize the oil and gas company reserves reporting requirements. See Note 1 Organization and Summary of Significant Accounting Policies – New Accounting Policies. We adopted the rules effective December 31, 2009 and the rule changes, including those related to pricing and technology, are included in our reserves estimates. The new rule does not allow for prior-year reserve information to be restated, so all information related to periods prior to 2009 is presented consistent with prior SEC rules for the estimation of proved reserves.

In addition, in January 2010 the FASB issued Accounting Standards Update 2010-03, "Oil and Gas Reserve Estimation and Disclosures", to provide consistency with the SEC rules. See Note 1 Organization and Summary of Significant Accounting Policies – New Accounting Policies.

Reserve Quantities Information – The following estimates of proved and proved developed reserve quantities and related standardized measure of discounted net cash flow are estimates only, and do not purport to reflect realizable values or fair market values of the Company's reserves. The Company emphasizes that reserve estimates are inherently imprecise and that estimates of new discoveries are more imprecise than those of producing oil and gas properties. Accordingly, these estimates are expected to change as future information becomes available. All of the Company's reserves are located in the United States of America.

Proved reserves are estimated reserves of crude oil (including condensate and natural gas liquids) and natural gas that geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions. Proved developed reserves are those expected to be recovered through existing wells, equipment and methods.

The standardized measure of discounted future net cash flows is computed by applying the price according to the SEC guidelines for oil and gas to the estimated future production of proved oil and gas reserves, less estimated future expenditures (based on year-end costs) to be incurred in developing and producing the proved reserves, less estimated future income tax expenses (based on year-end statutory tax rates) to be incurred on pretax net cash flows less tax basis of the properties and available credits, and assuming continuation of existing economic conditions. The estimated future net cash flows are then discounted using a rate of 10 percent per year to reflect the estimated timing of the future cash flows.

ARENA RESOURCES, INC.
SUPPLEMENTAL INFORMATION ON OIL AND GAS PRODUCING ACTIVITIES
(Unaudited)

For the Years Ended December 31,	2009		2008		2007	
	Oil (1)	Gas (1)	Oil (1)	Gas (1)	Oil (1)	Gas (1)
Proved Developed and Undeveloped Reserves						
Beginning of year	55,845,257	58,804,662	47,413,322	48,074,962	36,064,273	42,424,199
Purchases of minerals in place	1,589,141	2,791,611	3,638,095	2,364,908	7,021,972	4,330,246
Improved recovery and extensions	14,360,492	13,605,184	9,547,981	11,391,853	6,016,660	6,852,346
Production	(2,004,498)	(2,172,790)	(2,018,335)	(1,911,713)	(1,316,023)	(1,503,611)
Revision of previous estimate	(10,074,880)	(15,813,979)	(2,735,806)	(1,115,348)	(373,560)	(4,028,218)
End of year	59,715,512	57,214,688	55,845,257	58,804,662	47,413,322	48,074,962
Proved Developed at end of year	21,144,906	28,302,469	20,231,477	28,659,033	14,951,794	30,783,255

1 Oil reserves are stated in barrels; gas reserves are stated in thousand cubic feet.

Standardized Measure of Discounted Cash Flows

December 31,	2009	2008	2007
Future cash flows	$ 3,721,873,750	$ 2,391,888,946	$ 4,634,645,500
Future production costs	(902,963,847)	(716,121,604)	(790,284,047)
Future development costs	(543,022,875)	(330,672,457)	(321,485,125)
Future income taxes	(746,548,080)	(394,800,287)	(1,254,982,170)
Future net cash flows	1,529,338,948	950,294,598	2,267,894,158
10% annual discount for estimated timing of cash flows	(775,105,191)	(489,607,688)	(991,727,804)
Standardized Measure of Discounted Cash Flows	$ 754,233,757	$ 460,686,910	$ 1,276,166,354

Changes in Standardized Measure of Discounted Future Net Cash Flows

	2009	2008	2007
Beginning of the year	$ 460,686,910	$ 1,276,166,354	$ 545,439,675
Purchase of minerals in place	28,329,307	41,597,736	325,058,027
Extensions, discoveries and improved recovery, less related costs	253,485,559	129,110,323	297,610,301
Development costs incurred during the year	107,237,470	190,631,820	113,109,335
Sales of oil and gas produced, net of production costs	(110,697,316)	(190,374,853)	(82,949,751)
Accretion of discount	48,058,341	131,684,244	69,291,660
Net changes in price and production costs	619,543,318	(1,526,963,575)	592,749,069

Net change in estimated future development costs	6,550,757	(22,637,628)	(111,175,136)
Revision of previous quantity estimates	(447,110,784)	293,723,576	(7,424,163)
Revision of estimated timing of cash flows	(35,543,586)	(409,158,356)	(62,546,312)
Net change in income taxes	(176,306,219)	546,907,269	(402,996,351)
End of the Year	$ 754,233,757	$ 460,686,910	$ 1,276,166,354

77