ARENA RESOURCES INC
Form S-3
June 22, 2006
As filed with the Securities and Exchange Commission on June 22, 2006.

Registration No. 333-_________

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

FORM S-3

REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933

ARENA RESOURCES, INC.

(Exact Name of Registrant as Specified in Its Charter)

Nevada	**73-1596109**
(State or Other Jurisdiction of Incorporation)	(IRS Employer Identification No.)
Arena Resources, Inc. **4920 South Lewis Avenue** **Suite 107** **Tulsa, Oklahoma 74105** **(918)747-6060**	**Kenneth E. Dornblaser, Esq.** **15 West Sixth Street** **Suite 2200** **Tulsa, Oklahoma 74119** **(918) 584-6644**
(Address and Telephone Number of Registrant s Principal Executive Offices)	(Name, Address and Telephone Number of Agent for Service)

Approximate date of commencement of proposed sale to the public: From time to time as determined by the selling shareholders after the effective date of this Registration Statement.

If the only securities being registered on this Form are being offered pursuant to dividend or interest reinvestment plans, please check the following box. [   ]

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, other than securities offered only in connection with dividend or interest reinvestment plans, check the following box. [X]

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

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

If this Form is a registration statement pursuant to General Instruction I.D. or a post-effective amendment thereto that shall become effective upon filing with the Commission pursuant to Rule 462(e) under the Securities Act, check the following box. [   ]

If this Form is a post-effective amendment to a registration statement filed pursuant to General Instruction I.D. filed to register additional securities or additional classes of securities pursuant to Rule 413(b) under the Securities Act, check the following box. [   ]

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered	Amount to be Registered	Proposed Maximum Offering Price Per Share [(1)]	Proposed Maximum Aggregate Offering Price	Amount of Registration Fee
Common stock	1,150,000	$28.78	$33,097,000	$3,541.38

(1) Estimated pursuant to Rule 457(c) under the Securities Act of 1933 solely for the purpose of calculating the registration fee, on the basis of the average of the high and low sales prices for the common stock on the American Stock Exchange on June 16, 2006.

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

PROSPECTUS

1,150,000 Shares of Common Stock

ARENA RESOURCES, INC.

This prospectus relates to the resale, from time to time, of up to 1,150,000 shares of our common stock, $0.001 par value per share, which are being offered by the selling shareholders named in this prospectus. The 1,150,000 shares were originally issued to certain investors identified under the caption Selling Shareholders pursuant to a private placement of such shares in May 2006.

All net proceeds from the sale of shares of common stock offered by this prospectus will go the selling shareholders. We will not receive any of the proceeds from such sales.

Our common stock is traded on the American Stock Exchange under the symbol ARD . On July __, 2006, the last reported sales price of our common stock was $____ per share.

Investing in our securities involves risks that are described in the Risk Factors section beginning on page 4 of this prospectus.

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

The date of this prospectus is July __, 2006

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PROSPECTUS SUMMARY

This summary highlights information contained or incorporated by reference in this prospectus. You should read this entire prospectus carefully, including Risk Factors and the documents incorporated by reference, before making an investment decision with respect to our common stock. Unless the context otherwise requires, references in this prospectus to Arena, we, us, our or ours refer to Arena Resources, Inc.

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

About Our Company

We are engaged in oil and natural gas acquisition, exploration, development and production, with activities currently in Oklahoma, Texas, New Mexico and Kansas. Our intermediate-term focus is on developing our existing properties, while continuing to pursue acquisitions of oil and gas properties that provide immediate cash flow with upside development potential.

Since our inception in August 2000, we have built our asset base and achieved growth primarily through property acquisitions. From our inception through December 31, 2005, our proved reserves have grown to approximately 30.2 million barrels of oil equivalent (Boe), at an average acquisition/drilling cost of $2.21 per Boe. As of December 31, 2005, our estimated proved reserves had a pre-tax PV10 value of approximately $683 million, and a Standardized Measure of Discounted Future Cash Flows of approximately $446 million. The difference between these two amounts is the effect of income taxes. The Company presents the pre-tax PV-10 value, which is a non-GAAP financial measure, because it is a widely used industry standard which we believe is useful to those who may review public information concerning us when comparing our asset base and performance to other comparable oil and gas exploration and production companies. Approximately 31% of our reserves (based on the estimates above) relate to properties located in New Mexico, approximately 56% from our properties in Texas, approximately 9% from our properties in Oklahoma and approximately 4% from our properties in Kansas. We spent approximately $64 million on capital projects during 2003, 2004 and 2005. We expect to further develop these properties through additional drilling. Our capital budget for 2006 is approximately $65 million for development of existing properties.

Although our focus will be on development of our existing properties, we also intend to continue seeking acquisition opportunities which compliment our current portfolio. We intend to fund our development activity primarily through use of a portion of the proceeds of this offering, from cash flow from operations and cash on hand; however, potential drawings on our credit facility and proceeds from future equity transactions would also be available for development projects or future acquisitions.

We have a portfolio of oil and natural gas reserves, with approximately 82% of our proved reserves consisting of oil and approximately 18% consisting of natural gas. As of December 31, 2005, approximately 26% of our proved reserves are classified as proved developed producing properties or PDP , approximately 4% of our proved reserves are classified as proved developed nonproducing, or PDNP , proved developed behind-pipe PDBP reserves constitute approximately 8% and proved undeveloped, or PUD , reserves constitute approximately 62% of our proved reserves.

About the Shares Being Registered

On May 30, 2006, we completed a $32,246,000 private equity investment from a small group of investors, pursuant to a Securities Purchase Agreement dated as of May 26, 2006. These investors purchased 1,150,000 restricted shares of our common stock at a price of $28.04 per share, which reflected a 5% discount to the closing price of the Company s common stock on May 24, 2006. The shares were placed through the use of two unaffiliated placement agents, who were paid an aggregate of six percent of the gross sales proceeds of the offering. Net proceeds to the Company, after the placement agents fees and other offering expenses were approximately $___ million. The proceeds from this private placement are to be used for capital expenditures, drilling and development of our properties, including workovers, and possible acquisitions. The proceeds will be used to bridge the deficit between our estimated cash flows from operations and our capital expenditure budget for 2006 of $65 million, and will allow us to keep 100% of our credit facility available for any potential use.

Recent Developments Subsequent to Our Quarter Ending March 31, 2006

Subsequent to March 31, 2006, in addition to the issuance of our common stock pursuant to the private placement described above, the following events have occurred: (i) option holders have exercised 170,000 options, 160,000 having an exercise price of $3.70 per share and 10,000 having an exercise price of $4.80 per share. Proceeds from these exercises totaled $640,000; (ii) other warrant holders exercised 3,461 warrants having an exercise price of $7.49 per share and 2,962 options having an exercise price of $9.00 per share. These options and warrants were exercised under the cashless exercise provisions of the warrants or option agreement, resulting in the issuance of 2,736 and 2,217 shares, respectively; and (iii) we issued 50,000 options with an exercise price of $34.43 under the Company s stock option plan.

In addition, on May 3, 2006, we entered into a new credit agreement increasing our credit facility to $150,000,000 with a $65,000,000 borrowing base. Prior to the increase the credit facility had been $50,000,000, with a $35,000,000 borrowing base. Also, the credit facility was expanded from a single lender to a syndicate of three lenders, and the maturity date was extended to May 3, 2008. All other material terms, conditions and covenants remained the same.

Risk Factors

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

Corporate Information

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

The Offering

Common stock offered by Selling Shareholders	1,150,000 shares
Common stock to be outstanding after the offering (1)	14,601,655 shares.

Use of proceeds	We will not receive any of the proceeds from the sale of the shares of our common stock by the selling shareholders. We have agreed to bear all of the expenses incurred in connection with the registration of these shares.
Risk factors	Please read Risk Factors for a discussion of factors you should consider carefully before deciding to invest in shares of our common stock.
American Stock Exchange symbol	ARD .

(1) The number of shares outstanding after the offering excludes shares reserved for issuance under outstanding options and warrants, except as otherwise specifically noted above. As of June 15, 2006, we had outstanding options to directors and employees to purchase 1,305,000 shares of common stock, 495,000 of which are currently exercisable. In addition, at June 15, 2006, there were other outstanding warrants to purchase 340,829 shares of common stock.

RISK FACTORS

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

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

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

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

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

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

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

Because a substantial percentage of our proven properties are proved undeveloped (approximately 62%), proved developed behind pipe (approximately 8%), or proved developed non-producing (approximately 4%), we will require significant additional capital to develop such properties before they may become productive. Further, because of the inherent uncertainties associated with drilling for oil and gas, some of these properties may never be developed to the extent that they result in positive cash flow. Even if we are successful in our development efforts, it could take several years for a significant portion of our undeveloped properties to be converted to positive cash flow.

While our current business plan is to fund the development costs with cash flow from our other producing properties, if such cash flow is not sufficient we may be forced to seek alternative sources for cash, through the issuance of additional equity or debt securities, increased borrowings or other means.

Approximately 38% of our proven reserves depend upon secondary recovery techniques to establish production.

Approximately thirty-eight percent (38%) of our reserves for the year ended December 31, 2005 are associated with secondary recovery projects that are either in the initial stage of implementation or are scheduled for implementation. We anticipate that secondary recovery will be attempted by the use of waterflood of these reserves, and the exact project initiation dates and, by the very nature of waterflood operations, the exact completion dates of such projects, are uncertain. In addition, the reserves associated with these secondary recovery projects, as with any reserves, are estimates only, since the success of any development project, including these waterflood projects, cannot be ascertained in advance. If we are not successful in developing a significant portion of our reserves associated with secondary recovery methods, it could have a negative impact on our earnings and our stock price.

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

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

- delays imposed by or resulting from compliance with regulatory requirements;
- pressure or irregularities in geological formations;
- shortages of or delays in obtaining equipment and qualified personnel;

equipment failures or accidents;

adverse weather conditions;

reductions in oil and natural gas prices;

title problems; and

limitations in the market for oil and natural gas.

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

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

the amount of recoverable reserves;

future oil and natural gas prices;

estimates of operating costs;

estimates of future development costs;

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

potential environmental and other liabilities.

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

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

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

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

The process of estimating oil and natural gas reserves is complex. It requires interpretations of available technical data and many assumptions, including assumptions relating to economic factors. Any significant inaccuracies in these interpretations or assumptions could materially affect the estimated quantities and present value of our reported reserves.

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

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

You should not assume that the present value of future net revenues from our reported proved reserves is the current market value of our estimated oil and natural gas reserves. In accordance with SEC requirements, we generally base the estimated discounted future net cash flows from our proved reserves on prices and costs on the date of the estimate. Actual future prices and costs may differ materially from those used in the present value estimate. If future values decline or costs increase it could negatively impact our ability to finance operations, and individual properties could cease being commercially viable, affecting our decision to continue operations on producing properties or to attempt to develop properties. All of these factors would have a negative impact on earnings and net income, and most likely the trading price of our securities. These factors could also result in the acceleration of debt repayment and a reduction in our borrowing base under our credit facilities.

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

Our prospects are in various stages of evaluation, ranging from prospects that are currently being drilled, to prospects that will require substantial additional seismic data processing and interpretation. There is no way to predict in advance of drilling and testing whether any particular prospect will yield oil or natural gas in sufficient quantities to recover drilling or completion costs or to be economically viable. This risk may be enhanced in our situation, due to the fact that a significant percentage (62%) of our proved reserves are currently proved undeveloped reserves. The use of seismic data and other technologies and the study of producing fields in the same area will not enable us to know conclusively prior to drilling whether oil or natural gas will be present or, if present, whether oil or natural gas will be present in commercial quantities. We cannot assure you that the analogies we draw from available data from other wells, more fully explored prospects or producing fields will be applicable to our drilling prospects.

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

With the recent increase in the prices of oil and natural gas, we have encountered an increase in the cost of securing drilling rigs, equipment and supplies. Shortages or the high cost of drilling rigs, equipment, supplies and personnel are expected to continue in the near-term. In addition, larger producers may be more likely to secure access to such equipment by virtue of offering drilling companies more lucrative terms. If we are unable to acquire access to such resources, or can obtain access only at higher prices, not only would this potentially delay our ability to convert our reserves into cash flow, but could also significantly increase the cost of producing those reserves, thereby negatively impacting anticipated net income.

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

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

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

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

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

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

- discharge permits for drilling operations;
- drilling bonds;

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

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

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

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

If our indebtedness increases, it could reduce our financial flexibility.

We have a $150 million credit facility in place with a current borrowing base of $65 million. As of June 15, 2006 we had nothing drawn under this facility. However, as we do make draws under this facility, the level of our indebtedness could affect our operations in several ways, including the following:

- a significant portion of our cash flow could be used to service the indebtedness,
- a high level of debt would increase our vulnerability to general adverse economic and industry conditions,
- the covenants contained in our credit facility limit our ability to borrow additional funds, dispose of assets, pay dividends and make certain investments,
- a high level of debt could impair our ability to obtain additional financing in the future for working capital, capital expenditures, acquisitions, general corporate or other purposes.

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

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

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

The loss of senior management could adversely affect us.

To a large extent, we depend on the services of our senior management. The loss of our senior management Stanley McCabe, our Chairman, or Tim Rochford, our President and Chief Executive Officer could have a material adverse effect on our operations. While we have obtained a key man life insurance policy on Mr. Rochford, any amounts that we may recover under such policy may not adequately compensate us for the loss of the services of Mr. Rochford. We do not have employment agreements with either Mr. McCabe or Mr. Rochford.

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

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

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

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

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

Risks Relating to Our Common Stock

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

While there has been a public market for our common stock on the American Stock Exchange, in the last twelve months the daily trading volume, or public float , of our common stock has ranged from as low as [4,500] shares to as high as [524,600] shares. The average volume of shares traded during the 90 days prior to this offering was __________ shares per week.

Additionally, not including the shares of restricted stock held by the Selling Shareholders being offered hereby, approximately 998,669 shares of our common stock are restricted shares under Rule 144, but could be currently sold with little difficulty under the provisions of Rule 144(k). We also estimate that approximately 504,112 additional shares of common stock that are currently restricted , will soon be capable of being resold under Rule 144.

Finally, as of June 15, 2006 there are warrants outstanding to purchase 340,829 shares of common stock, as well as options to purchase 1,305,000 shares of common stock (of which options to acquire 495,000 shares are currently exercisable, with 610,000 options vesting over the next two and one-half years, and the balance vesting over the next five years).

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

We have no plans to pay dividends on our common stock. You may not receive funds without selling your units.

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 business, financial condition, results of operations, capital requirements and investment opportunities. In addition, our credit facility prohibits us from paying dividends.

We may issue shares of preferred stock with greater rights than our common stock.

Although we have no current plans, arrangements, understandings or agreements to issue any preferred stock, our certificate of incorporation authorizes our board of directors to issue one or more series of preferred stock and set the terms of the preferred stock without seeking any further approval from our shareholders. Any preferred stock that is issued may rank ahead of our common stock, with respect to dividends, liquidation rights and voting rights, among other things.

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

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

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

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

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

USE OF PROCEEDS

We will not receive any of the proceeds from the resale of the shares of common stock.

SELLING SHAREHOLDERS

The following table sets forth, as of June 15, 2006, certain information known to us concerning each of the selling shareholders. Assuming that the selling shareholders offer all of their shares of our common stock, the selling shareholders will not have any beneficial ownership except as otherwise provided in the table below. Because the selling shareholders may from time to time offer some or all of their shares of our common stock, we cannot estimate the number of shares of our common stock that will be held by the selling shareholders upon termination of any particular offering by such selling stockholder. See, Plan of Distribution. To our knowledge, none of the selling shareholders, and none of their officers or directors or affiliates, has held any position or office with, been employed by or otherwise had any material relationship with us or our affiliates during the three years prior to the date of this prospectus.

Selling Shareholders	Number of Shares Owned Prior to Offering	Number of Shares Being Offered	Number of Shares Owned After Offering	Percentage of Shares Owned After Offering [15]
JANA Partners LLC [1]	200,000	200,000		
ING Global Resources Portfolio [2]	150,000	150,000		
QVT Fund LP [3]	737,556	110,000	627,556	4.30
D.B. Zwirn Special Opportunities Fund, Ltd. [4]	102,400	102,400		
D.B. Zwirn Special Opportunities Fund, L.P. [4]	57,600	57,600		
Hudson Bay Fund LP [5]	75,000	75,000		
Lucas Energy Total Return Master Fund LP [6]	60,000	60,000		
Lucas Energy Total Return Partners, LP [6]	20,000	20,000		
US Bank, NA, custodian fbo First American Small Cap Growth Opportunities Fund	126,038	41,471	84,567	*
Nite Capital LP [7]	35,000	35,000		
Iroquois Master Fund Ltd. [8]	35,000	35,000		
Enable Growth Partners LP [9]	33,750	33,750		
Enable Opportunity Partners, LP [9]	6,750	6,750		
DKR SoundShore Oasis Holding Fund Ltd. [10]	30,000	30,000		

Selling Shareholders	Number of Shares Owned Prior to Offering	Number of Shares Being Offered	Number of Shares Owned After Offering	Percentage of Shares Owned After Offering (15)
Camofi Master LDC (11)	30,000	30,000		
UBS O'Connor LLC fbo O'Connor PIPES Corporate Strategies Master Limited	30,000	30,000		
SDS Capital Group, SPC, Ltd. (12)	30,000	30,000		
Cutter Point Energy, LP	7,292	7,292		
Mercury Select Management Company	6,262	6,262		
Mercury General Corporation	5,744	5,744		
Cutter Point Energy Offshore, Ltd.	702	702		
US Bank, NA, fbo Brazos Micro Cap Fund (13)	52,600	20,000	32,600	*
Bushido Capital Master Fund, LP	12,867	12,867		
Cranshire Capital, LP (14)	10,000	10,000		
Treaty Oak Acorn	10,000	10,000		
Tivoli Partners, LLP	10,000	10,000		
Pierce Diversified Strategy Master Fund Series Bushido	7,133	7,133		
Pierce Diversified Strategy Master Fund LLC Ena (9)	4,500	4,500		
State Street Bank and Trust, custodian for Burroughs Welcome Fund	16,028	5,290	10,738	*
US Bank, NA, custodian fbo Greater Milwaukee Foundation	4,055	1,338	2,717	*
US Bank, NA, custodian fbo St. Paul Electrical Construction Workers Pension Plan	2,270	750	1,520	*
US Bank, NA, custodian fbo St. Paul Electrical Construction Workers Supplemental Pension Plan	1,524	514	1,010	*
US Bank, NA, Trustee u/a with Richard D. Waterfield Trust dated 10/19/99	882	291	591	*
US Bank, NA, custodian fbo Lakeview Hospital Foundation	545	180	365	*
US Bank, NA, custodian fbo Lakeview Hospital Pension Plan	480	166	314	*

(1) JANA Partners LLC, a Delaware limited liability company, is a private money management firm which holds Arena s common stock in various accounts under its management and control. The principals of JANA Partners LLC are Barry Rosenstein and Gary Claar.

(2) Voting and dispositive power with respect to these shares is held by Mr. Anthony Socci. Mr. Socci disclaims beneficial ownership of these shares.

(3) Management of QVT Fund LP is vested in its general partner, QVT Associates GP LLC. QVT Financial LP is the investment manager for QVT Fund LP and shares voting and investment control over the shares held by QVT Fund LP. QVT Financial GP LLC is the general partner of QVT Financial LP and as such has complete discretion in the management and control of the business affairs of QVT Financial LP. The managing members of QVT Financial GP LLC are Daniel Gold, Lars Bader, Tracy Fu and Nicholas Brumm. Each of QVT Financial LP, QVT Financial GP LLC, Daniel Gold, Lars Bader, Tracy Fu and Nicholas Brumm disclaims beneficial ownership of the shares held by QVT Fund LP.

(4) The manager of D. B. Zwirn Special Opportunities Fund, Ltd. and D. B. Zwirn Special Opportunities Fund, L.P. is D. B. Zwirn & Co., L.P., a Delaware limited partnership. The general partner of D. B. Zwirn & Co., L.P. is DBZ GP, LLC, a Delaware limited liability company. The managing member of DBZ GP, LLC is Zwirn Holdings, LLC, a Delaware limited liability company. Mr. Daniel B. Zwirn is the managing member of Zwirn Holdings, LLC. In addition, each of D.B. Zwirn & Co., L.P., DBZ GP, LLC, Zwirn Holdings, LLC and Mr. Daniel B. Zwirn disclaims beneficial ownership of the shares of common stock owned respectively by D. B. Zwirn Special Opportunities Fund, Ltd., and D. B. Zwirn Special Opportunities Fund, L.P.

(5) Voting and dispositive power with respect to these shares is shared by Yoav Roth and John Doscas. Both Yoav Roth and John Doscas disclaim beneficial ownership of the securities held by Hudson Bay Fund LP. Hudson Bay Fund LP is affiliated with XTF Market Making LLC and XTF Capital LLC, both