ARENA RESOURCES INC
Form 10QSB
October 27, 2004

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-QSB

(Mark One)

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

For the Quarterly Period Ended September 30, 2004

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

FOR THE TRANSITION PERIOD From __________ to __________.

Commission File Number 001-31657

ARENA RESOURCES, INC.

(Exact name of registrant as specified in its charter)

Nevada	73-1596109
(State or other jurisdiction of	(I.R.S. Employer
Incorporation or organization)	Identification No.)

4920 South Lewis Street, Suite 107

Tulsa, Oklahoma 74105

(918) 747-6060

(Issuer s telephone number)

Check whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months, and (2) has been subject to such filing requirements for the past 90 days. _X_ Yes ___ No

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practical date:

As of October 27, 2004, the Company had outstanding 8,911,397 shares of common stock ($0.001 par value).

Transitional Small Business Disclosure Format (check one): Yes ____

No __X__

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Part I Financial Information

Item I. Financial Statements:

The condensed financial statements included herein have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to such rules and regulations, although the Company believes that the disclosures are adequate to make the information presented not misleading.

In the opinion of the Company, all adjustments, consisting of only normal recurring adjustments, necessary to present fairly the financial position of the Company and the results of its operations and its cash flows have been made. The results of its operations and its cash flows for the nine months ended September 30, 2004 are not necessarily indicative of the results to be expected for the year ending December 31, 2004.

ARENA RESOURCES, INC.

CONDENSED BALANCE SHEETS

(UNAUDITED)

	September 30, 2004	December 31, 2003
ASSETS		
Current Assets		
Cash	$ 1,864,707	$ 1,076,676
Account receivable	849,672	388,910
Short-term investments	-	25,234
Prepaid expenses	33,136	28,935
Total Current Assets	2,747,515	1,519,755
Property and Equipment, Using Full Cost Accounting		
Oil and gas properties subject to amortization	19,946,473	8,463,400
Drilling advances	229,363	351,000
Equipment	26,687	48,480
Office equipment	37,013	18,978
Total Property and Equipment	20,239,536	8,881,858
Less: Accumulated depreciation and amortization	(1,106,559)	(559,229)
Net Property and Equipment	19,132,977	8,322,629
Deferred Offering Costs	-	130,872
Total Assets	$ 21,880,492	$ 9,973,256
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Accounts payable	$ 651,214	$ 229,522
Accrued liabilities	107,606	18,440
Put option	-	2,905
Total Current Liabilities	758,820	250,867

Long-Term Liabilities		
Notes payable to related parties	400,000	400,000
Asset retirement liability	677,720	607,200
Deferred income taxes	1,599,280	656,759
Total Long-Term Liabilities	2,677,000	1,663,959
Stockholders' Equity		
Preferred stock - $0.001 par value; 10,000,000 shares authorized; no shares issued or outstanding	-	-
Common stock - $0.001 par value; 100,000,000 shares authorized; 8,911,397 shares and 7,162,097 shares outstanding, respectively	8,911	7,162
Additional paid-in capital	13,931,604	6,994,925
Options and warrants outstanding	2,572,739	813,164
Retained earnings	1,931,418	243,179
Total Stockholders' Equity	18,444,672	8,058,430
Total Liabilities and Stockholders' Equity	$ 21,880,492	$ 9,973,256

See the accompanying notes to unaudited condensed financial statements.

ARENA RESOURCES, INC.

CONDENSED STATEMENTS OF OPERATIONS

(UNAUDITED)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2004	**2003**	**2004**	**2003**
Oil and Gas Revenues	$ 2,516,970	$ 948,947	$ 5,509,784	$ 2,597,587
Costs and Operating Expenses				
Oil and gas production costs	564,933	288,915	1,284,753	812,533
Oil and gas production taxes	192,535	70,583	404,268	181,907
Depreciation, depletion and amortization	237,212	76,303	553,038	197,009
General and administrative expense	131,619	138,814	473,391	402,896
Total Costs and Operating Expenses	1,126,299	574,615	2,715,450	1,594,345
Other Income (Expense)				
Gain from change in fair value of put options	-	3,776	2,905	40,166
Accretion expense	(13,007)	(9,374)	(38,072)	(21,998)
Interest expense	(60,296)	(9,637)	(128,407)	(29,473)
Net Other Income (Expense)	(73,303)	(15,235)	(163,574)	(11,305)
Income Before Provision for Income Taxes and Cumulative Effect of Change in Accounting	1,317,368	359,097	2,630,760	991,937

Principle				
Provision for Deferred Income Taxes	(487,319)	(134,443)	(942,521)	(369,512)
Income Before Cumulative Effect of Change in Accounting Principle	830,049	224,654	1,688,239	622,425
Cumulative Effect of Change in Accounting Principle	-	-	-	(11,813)
Net Income	$ 830,049	$ 224,654	$ 1,688,239	$ 610,612
Basic Income Per Common Share				
Before cumulative effect of change in accounting principle	$ 0.10	$ 0.03	$ 0.23	$ 0.09
Net Income	0.10	0.03	0.23	0.09
Diluted Income Per Common Share				
Before cumulative effect of change in accounting principle	$ 0.09	$ 0.03	$ 0.20	$ 0.09
Net Income	0.09	0.03	0.20	0.09

See the accompanying notes to unaudited condensed financial statements.

ARENA RESOURCES, INC.

CONDENSED STATEMENTS OF CASH FLOWS

(UNAUDITED)

For the Nine Months Ended September 30, 6

5. GOODWILL

Goodwill consists of the excess of cost of acquired entities over the sum of the amounts assigned to identifiable assets acquired less liabilities assumed. Goodwill is not amortized. However, the Company evaluates the carrying value of goodwill for impairment at least annually or if an event or circumstance occurs that would indicate that the carrying amount had been impaired. The Company reviews goodwill for impairment utilizing a qualitative assessment or a two-step process. If we choose to perform a qualitative analysis of goodwill and determine that the fair value more likely than not exceeds the carrying value, no further testing is needed. If we choose the two-step approach or if qualitative analysis determines the carrying value more likely than not exceeds fair value, the first step identifies potential impairment by comparing the fair value of the reporting unit with its carrying value. If the fair value exceeds the carrying value the second step is not necessary. If the carrying value is more than the fair value, the second step of testing is performed to compare the fair value of the goodwill with its carrying value. An impairment loss would be recognized to the extent that the carrying value of the goodwill exceeds its fair value.

6. LONG-TERM OBLIGATIONS

Credit Facility and Other Long-Term Obligations

Credit Facility

On April 6, 2010 we entered into a Loan Agreement with First Tennessee Bank National Association for a $20,000 unsecured revolving credit facility. On December 21, 2011, the credit facility was renewed and our unsecured revolving credit facility was increased to $25,000. On December 30, 2014, the credit facility was further renewed to extend the maturity date to March 31, 2017. On June 11, 2015, the credit facility was further renewed to extend the maturity date to March 31, 2018 and our unsecured revolving credit facility was increased to $30,000. On June 22, 2016, the credit facility was further increased to $50,000 to give the Company greater flexibility to finance current capital expenditure projects. The current credit facility contains customary representations

and warranties, events of default, and financial, affirmative and negative covenants for loan agreements of this kind. Covenants under the current credit facility restrict the payment of cash dividends if the Company would be in violation of the minimum tangible net worth test or the leverage ratio test in the current loan agreement as a result of the dividend, among various restrictions.

In the absence of a default, all borrowings under the current credit facility bear interest at the LIBOR Rate plus 1.50% per annum. The Company will pay a non-usage fee under the current loan agreement at a rate per annum equal to between 0.15% and 0.35% of the unused amount of the current credit facility, which fee shall be paid quarterly.

At September 30, 2016 and December 31, 2015, the Company had $20,000 and $0 outstanding borrowings under the credit facility, respectively.

Interest Rate Risk

Changes in interest rates affect the interest paid on indebtedness under the credit facility because outstanding amounts of indebtedness under the credit facility are subject to variable interest rates. Under the credit facility, the non-default rate of interest was equal to the LIBOR Market Index Rate plus 1.50% per annum (for a rate of interest of 2.03% at September 30, 2016). At the borrowing level under the credit facility at September 30, 2016, a one percent change in the interest rate on our variable-rate debt would not have a material impact on our financial position, results of operations or cash flows for the three-month period ended September 30, 2016.

Other Long-Term Obligations

At September 30, 2016, the Company had approximately $1,959 in non-cancelable operating lease obligations.

7. STOCK-BASED COMPENSATION

The Company did not issue any stock options during the three months ended September 30, 2016. For additional disclosures related to the Company's stock-based compensation refer to Notes 2 and 4 of the Notes to the Consolidated Financial Statements in the Company's Annual Report on Form 10-K for the year ended December 31, 2015.

During the three months ended September 30, 2016 and 2015, no options were exercised in 2016 and 1,000 shares of common stock at a weighted-average exercise price of $5.49 were exercised in 2015. During the nine months ended September 30, 2016 and 2015, no options were exercised in 2016 and 34,000 shares of common stock at a weighted-average exercise price of $5.49 were exercised in 2015.

8. COMMITMENTS AND CONTINGENCIES

Commitments

The Company has entered into arrangements with third-party lenders where it has agreed, in the event of default by a customer, to repurchase from the third-party lender Company products repossessed from the customer. These arrangements are typically subject to a maximum repurchase amount. The maximum amount of collateral that the Company could be required to purchase was approximately $46,995 at September 30, 2016, and $38,334 at December 31, 2015. However, the Company's risk under these arrangements is mitigated by the value of the products that would be repurchased as part of the transaction. The Company considered the fair value at inception of its liability under these arrangements and concluded that the liability associated with these potential repurchase obligations is not material and not probable at September 30, 2016.

At September 30, 2016, the Company had commitments of approximately $14,571 for construction and acquisition of property, plant and equipment. The Company is in the process of consolidating and expanding its Pennsylvania manufacturing operations to increase capacity and improve operating efficiencies. The plan includes consolidating primary manufacturing operations at one location while plans for the remaining plant location continue to be evaluated. The current estimated costs of this project are approximately $24,712, including machinery and equipment, buildings and improvements and land. Approximately $20,561 of these costs were incurred as of September 30, 2016 and are included in property, plant and equipment, net on the consolidated balance sheets. The remainder of these costs is expected to be incurred during the fourth quarter of 2016. The timing and costs of the project are subject to change. We do not anticipate any employee severance costs or any material relocation expense associated with the consolidation since the two existing facilities are very close to each other.

The Company also recently began several capital projects involving machinery and equipment and building improvements at its Ooltewah, Tennessee and Greeneville, Tennessee facilities that it estimates will cost in total approximately $20,733. Approximately $4,623 of these costs were

incurred as of September 30, 2016, and the remainder of these costs are expected to be incurred in the last quarter of 2016 and during 2017. In addition, the Company intends to construct an administrative building at its Ooltewah, Tennessee facility. The current estimated costs of such project are approximately $4,000, which are expected to be incurred during 2017. The timing and cost of the project are subject to change.

Contingencies

The Company is, from time to time, a party to litigation arising in the normal course of its business. Litigation is subject to various inherent uncertainties, and it is possible that some of these matters could be resolved unfavorably to the Company, which could result in substantial damages against the Company. The Company has established accruals for matters that are probable and reasonably estimable and maintains product liability and other insurance that management believes to be adequate. Management believes that any liability that may ultimately result from the resolution of these matters in excess of available insurance coverage and accruals will not have a material adverse effect on the consolidated financial position or results of operations of the Company.

9. INCOME TAXES

At September 30, 2016 and December 31, 2015, the Company had no unrecognized income tax positions recorded. The Company does not expect its unrecognized tax positions to change significantly in the next twelve months. If unrecognized tax positions existed, the interest and penalties related to the unrecognized tax positions would be recorded as income tax expense in the condensed consolidated statements of income.

The Company is subject to United States federal income taxes, as well as income taxes in various states and foreign jurisdictions. The Company’s 2015 and later tax years remain open to examination for U.S. federal income taxes. With few exceptions, the Company is no longer subject to state or non-U.S. income tax examinations prior to 2013.

10. SHAREHOLDERS EQUITY

Dividends

The Company has paid consecutive quarterly cash dividends since May 2011. Dividend payments made for 2016, 2015, 2014 and 2013 were as follows:

Payment	Record Date	Payment Date	Dividend (per share)	Amount
Q1 2013	March 18, 2013	March 25, 2013	$ 0.14	$ 1,569
Q2 2013	June 17, 2013	June 24, 2013	0.14	1,573
Q3 2013	September 16, 2013	September 23, 2013	0.14	1,575
Q4 2013	December 9, 2013	December 16, 2013	0.14	1,577
Total for 2013			$ 0.56	$ 6,294
Q1 2014	March 17, 2014	March 24, 2014	$ 0.15	$ 1,692
Q2 2014	June 16, 2014	June 23, 2014	0.15	1,695
Q3 2014	September 15, 2014	September 22, 2014	0.15	1,696
Q4 2014	December 8, 2014	December 15, 2014	0.15	1,695
Total for 2014			$ 0.60	$ 6,778
Q1 2015	March 20, 2015	March 23, 2015	$ 0.16	$ 1,809
Q2 2015	June 15, 2015	June 19, 2015	0.16	1,814
Q3 2015	September 14, 2015	September 21, 2015	0.16	1,815
Q4 2015	December 7, 2015	December 11, 2015	0.16	1,815
Total for 2015			$ 0.64	$ 7,253
Q1 2016	March 21, 2016	March 28, 2016	$ 0.17	$ 1,929
Q2 2016	June 13, 2016	June 20, 2016	0.17	1,929
Q3 2016	September 12,	September 19,	0.17	1,928

	2016	2016		
Total for 2016			$ 0.51	$ 5,786

On November 7, 2016, the Company’s Board of Directors declared a quarterly cash dividend of $0.17 per share. The dividend is payable December 12, 2016 to shareholders of record as of December 5, 2016.

11. GEOGRAPHIC INFORMATION

Net sales and long-lived assets (property, plant and equipment and goodwill and intangible assets) by region were as follows (revenue is attributed to regions based on the locations of customers):

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2016	2015	2016	2015
Net Sales:				
North America	$ 132,600	$ 109,451	$ 405,913	$ 348,456
Foreign	14,997	16,754	46,612	56,074
	$ 147,597	$ 126,205	$ 452,525	$ 404,530

	September 30, 2016	December 31, 2015
Long Lived Assets:		
North America	$ 64,365	$ 48,589
Foreign	2,500	2,505
	$ 66,865	$ 51,094

12. CUSTOMER INFORMATION

No single customer accounted for 10% or more of consolidated net sales for the three months and nine months ended September 30, 2016 and 2015.

13. OTHER (INCOME) EXPENSE

Other (income) expense, net for the three months ended September 30, 2016 consisted of a foreign currency transaction gain of $238. For the three months ended September 30, 2015, other (income) expense, net consisted of a foreign currency transaction gain of $94.

Other (income) expense, net for the nine months ended September 30, 2016 consisted of a foreign currency transaction gain of $451. For the nine months ended September 30, 2015, other (income) expense, net consisted of a foreign currency transaction loss of $227.

14. Fair Value of Financial Instruments

For assets and liabilities measured at fair value on a recurring and nonrecurring basis, a three-level hierarchy of measurements based upon observable and unobservable inputs is used to arrive at fair value. Observable inputs are developed based on market data obtained from independent sources, while unobservable inputs reflect our assumptions about valuation based on the best information available in the circumstances. Depending on the inputs, we classify each fair value measurement as follows:

Level 1—based upon quoted prices for *identical* instruments in active markets,

Level 2—based upon quoted prices for *similar* instruments, prices for

identical or similar instruments in markets that are not active, or model-derived valuations, all of whose significant inputs are observable, and

Level 3—based upon one or more significant unobservable inputs.

The carrying values of cash and temporary investments, accounts receivable, accounts payable and accrued liabilities are reasonable estimates of their fair values because of the short maturity of these financial instruments.

The fair value of derivative assets and liabilities are measured assuming that the unit of account is an individual derivative transaction and that each derivative could be sold or transferred on a stand-alone basis. We classify within Level 2 our forward foreign currency exchange contracts based upon quoted prices for similar instruments that are actively traded. For more information regarding derivatives, see Note 15, *Derivative Financial Instruments*.

15. Derivative Financial Instruments

The Company periodically enters into foreign currency exchange contracts designed to mitigate the impact of foreign currency risk. At September 30, 2016 and December 31, 2015, the Company had no outstanding foreign currency exchange contracts.

16. RECENT ACCOUNTING PRONOUNCEMENTS

Recently Issued Standards

In May 2014, the Financial Accounting Standards Board ("FASB") issued guidance to change the recognition of revenue from contracts with customers. The core principle of the new guidance is that an entity should recognize revenue to reflect the transfer of goods and services to customers in an amount equal to the consideration the entity receives or expects to receive. The guidance will be effective for the Company for

reporting periods beginning after December 15, 2017. The Company is in the process of evaluating the impact that this new revenue standard will have on its financial statements.

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In July 2015, the FASB issued amendments to the Inventory topic of the Accounting Standards Codification to require inventory to be measured at the lower of cost and net realizable value. Other than the change in the subsequent measurement guidance from the lower of cost or market to the lower of cost and net realizable value for inventory, there are no other substantive changes to the guidance on measurement of inventory. The amendments will be effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2016, with early adoption permitted. The Company does not expect these amendments to have a material effect on its consolidated financial statements.

In November 2015, the FASB amended the Income Taxes topic of the Accounting Standards Codification to simplify the presentation of deferred income taxes by requiring that deferred tax liabilities and assets be classified as noncurrent in a classified statement of financial position. The amendments will be effective for financial statements issued for annual periods beginning after December 15, 2016, and interim periods within those annual periods, with early adoption permitted as of the beginning of an interim or annual reporting period. The Company will apply the guidance retrospectively. The Company is in the process of evaluating the impact that these new amendments will have on its financial statements.

The FASB's new leases standard Accounting Standard Update (“ASU”) 2016-02 Leases (Topic 842) was issued on February 25, 2016 and is intended to improve financial reporting about leasing transactions. The standard affects all companies and other organizations that lease assets such as real estate, airplanes, and manufacturing equipment. The standard will require organizations that lease assets referred to as “Lessees” to recognize on the balance sheet the assets and liabilities for the rights and obligations created by those leases. An organization is to provide disclosures designed to enable users of financial statements to understand the amount, timing, and uncertainty of cash flows arising from leases. These disclosures include qualitative and quantitative requirements concerning additional information about the amounts recorded in the financial statements. Under the new guidance, a lessee will be required to recognize assets and liabilities for leases with lease terms of more than 12 months. Consistent with current GAAP, the recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee primarily will depend on its classification as a finance or operating lease. However, unlike current GAAP which requires only capital leases to be recognized on the balance sheet the new standard will require both

types of leases (i.e. operating and capital) to be recognized on the balance sheet. The FASB lessee accounting model will continue to account for both types of leases. The capital lease will be accounted for in substantially the same manner as capital leases are accounted for under existing GAAP. The operating lease will be accounted for in a manner similar to operating leases under existing GAAP, except that lessees will recognize a lease liability and a lease asset for all of those leases.

The standard will be effective for financial statements issued for annual periods, and interim periods within these annual periods, beginning December 15, 2018, with early adoption permitted. The Company is currently in the process of evaluating the impact that this new leasing standard will have on its financial statements.

In June 2016, the FASB issued ASU 2016-13, Measurement of Credit Losses on Financial Instruments, as part of its project on financial instruments. The new standard introduces an approach based on expected losses to estimate credit losses on certain types of financial instruments. It also modifies the impairment model for available-for-sale (AFS) debt securities and provides for a simplified accounting model for purchased financial assets with credit deterioration since their origination. The standard will be effective for financial statements issued for annual periods, and interim periods within these annual periods, beginning January 1, 2020, with early adoption permitted. The Company is currently in the process of evaluating the impact that this new standard will have on its financial statements.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Executive Overview

Miller Industries, Inc. is The World's Largest Manufacturer of Vehicle Towing and Recovery Equipment®, with domestic manufacturing subsidiaries in Tennessee and Pennsylvania, and foreign manufacturing subsidiaries in France and the United Kingdom. We offer a broad range of equipment to meet our customers' design, capacity and cost requirements under our Century®, Vulcan®, Challenger®, Holmes®, Champion®, Chevron™, Eagle®, Titan®, Jige™ and Boniface™ brand names. In this Item 2 – "Management's Discussion and Analysis of Financial Condition and Results of Operations," the words "Miller Industries," "the Company," "we," "our," "ours" and "us" refer to Miller Industries, Inc. and its subsidiaries or any of them.

Our management focuses on a variety of key indicators to monitor our overall operating and financial performance. These indicators include measurements of revenue, operating income, gross margin, earnings per share, capital expenditures and cash flow.

We derive revenues primarily from product sales made through our network of domestic and foreign independent distributors. Our revenues are sensitive to a variety of factors including general economic conditions as well as demand for, and price of, our products, our technological competitiveness, our reputation for providing quality products and reliable service, competition within our industry, and the cost of raw materials (including aluminum, steel and petroleum-related products).

Our industry is cyclical in nature. In recent years, the overall demand for our products and resulting revenues have been positively affected by favorable economic conditions, such as lower fuel prices and positive consumer sentiment in our industry. However, historically, the overall demand for our products and our resulting revenues have at times been negatively affected by:

- wavering levels of consumer confidence;
- volatility and disruption in domestic and international capital and credit markets and the resulting decrease in the availability of financing, including floor plan financing, for our customers and towing operators;
- significant periodic increases in fuel and insurance costs and their negative effect on the ability of our customers to purchase towing and related equipment; and
- the overall effects of global economic conditions.

We remain concerned about the effects of these factors on the towing and recovery industry, and we continue to monitor our overall cost structure to see that it remains in line with business conditions.

In addition, we have been and will continue to be affected by changes in the prices that we pay for raw materials, particularly aluminum, steel, petroleum-related products and other raw materials, which represent a substantial part of our total cost of operations. In the past, as we have determined necessary, we have implemented price increases to offset higher costs. We also developed alternatives to some of the components used in our production process that incorporate these raw materials, and our suppliers have implemented these alternatives in the production of our component parts. We continue to monitor raw material prices and availability in order to more favorably position the Company in this dynamic market.

At September 30, 2016 and December 31, 2015, the Company had $20,000 and $0 outstanding borrowings under the credit facility, respectively. The borrowings under the credit facility were primarily used to finance our current capital expenditure projects for our Pennsylvania manufacturing operations and at our Ooltewah, Tennessee and Greeneville, Tennessee facilities.

Critical Accounting Policies

Our condensed consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America, which require us to make estimates. Certain accounting policies are deemed “critical,” as they require management’s highest degree of judgment, estimates and assumptions. A discussion of critical accounting policies, the judgments and uncertainties affecting their application and the likelihood that materially different amounts would be reported under different conditions or using different assumptions follows:

Accounts receivable

We extend credit to customers in the normal course of business. Collections from customers are continuously monitored and an allowance for doubtful accounts is maintained based on historical experience and any specific customer collection issues. While such bad debt expenses have historically been within expectations and the allowance established, there can be no assurance that we will continue to experience the same credit loss rates as in the past.

Inventory

Inventory costs include materials, labor and factory overhead. Inventories are stated at the lower of cost or market (net realizable value), determined on a first-in, first-out basis. Appropriate consideration is given to obsolescence, valuation and other factors in determining net realizable value. Revisions of these estimates could result in the need for adjustments.

Long-lived assets

Long-lived assets are reviewed for impairment whenever events or circumstances indicate that the carrying amount of these assets may not be fully recoverable. When a determination has been made that the carrying amount of long-lived assets may not be fully recovered, the amount of impairment is measured by comparing an asset's estimated fair value to its carrying value. The determination of fair value is based on projected future cash flows discounted at a rate determined by management or, if available, independent appraisals or sales price negotiations. The estimation of fair value includes significant judgment regarding assumptions of revenue, operating costs, interest rates, property and equipment additions, and industry competition and general economic and business conditions among other factors. We believe that these estimates are reasonable, however, changes in any of these factors could affect these evaluations. Based on these estimations, we believe that our long-lived assets are appropriately valued.

Goodwill

Goodwill is tested for impairment annually or if an event or circumstance occurs that would more likely than not reduce the fair value of the reporting unit below the carrying amount. We review goodwill for impairment utilizing a qualitative assessment or a two-step approach. If we choose to perform a qualitative analysis of goodwill and determine that the fair value more likely than not exceeds the carrying value, no further testing is needed. If we choose the two-step approach or if

qualitative analysis determines the carrying value more likely than not exceeds fair value, the first step identifies potential impairment by comparing the fair value of the reporting unit with its carrying value. If the fair value exceeds the carrying value the second step is not necessary. If the carrying value is more than the fair value, the second step of testing is performed to compare the fair value of the goodwill with its carrying value. An impairment loss would be recognized to the extent that the carrying value of the goodwill exceeds its fair value. We cannot predict the occurrence of certain events or changes in circumstances that might adversely affect the carrying value of goodwill. Such events might include, but are not limited to, the impact of the economic environment or a material change in a relationship with significant customers.

Warranty reserves

We estimate expense for product warranty claims at the time products are sold. These estimates are established using historical information about the nature, frequency, and average cost of warranty claims. We review trends of warranty claims and take actions to improve product quality and minimize warranty claims. We believe the warranty reserve is adequate; however, actual claims incurred could differ from the original estimates, requiring adjustments to the accrual.

Income taxes

We recognize deferred tax assets and liabilities based on differences between the financial statement carrying amounts and the tax bases of assets and liabilities. We consider the need to record a valuation allowance to reduce deferred tax assets to the amount that is more likely than not to be realized. We consider tax loss carryforwards, reversal of deferred tax liabilities, tax planning and estimates of future taxable income in assessing the need for a valuation allowance. If unrecognized tax positions exist, we record interest and penalties related to the unrecognized tax positions as income tax expense in our condensed consolidated statement of income.

Revenues

Under our accounting policies, revenues are recorded when the risk of ownership for products has transferred to independent distributors or other customers, which generally occurs on shipment. From time to time, revenue is recognized under a bill and hold arrangement. Recognition of revenue on bill and hold arrangements occurs when risk of ownership has passed to the customer, a fixed written commitment has been provided by the customer, the goods are complete and ready for shipment, the goods are segregated from inventory, no performance obligation remains, and a schedule for delivery has been established. While we manufacture only the bodies of wreckers, which are installed on truck chassis manufactured by third parties, we frequently purchase the truck chassis for resale to our customers. Sales of company-purchased truck chassis are included in net sales. Margins are substantially lower on completed recovery vehicles containing company-purchased chassis because the markup over the cost of the chassis is nominal.

Foreign Currency Translation

The functional currency for our foreign operations is the applicable local currency. The translation from the applicable foreign currencies to U.S. dollars is performed for balance sheet accounts using current exchange rates in effect at the balance sheet date, historical rates for equity and the weighted average exchange rate during the period for revenue and expense accounts. Foreign currency translation adjustments are included in shareholders’ equity. Intercompany debt denominated in a currency other than the functional currency is remeasured into the functional currency. Gains and losses resulting from foreign currency transactions are included in other income and expense in our condensed consolidated statements of income.

Results of Operations–Three Months Ended September 30, 2016 Compared to Three Months Ended September 30, 2015

Net sales for the three months ended September 30, 2016 increased 17.0% to $147,597 from $126,205 for the comparable period in 2015. The increase in revenue was primarily attributable to strong demand levels in our domestic markets based on positive consumer sentiment accompanied by increases in production levels. Domestic net sales for the period increased from $109,451 to $132,600 offset by a decrease in foreign net sales for the period from $16,754 to $14,997.

Costs of operations for the three months ended September 30, 2016 increased 15.1% to $130,481 from $113,409 for the comparable period in 2015, which was attributable to increased production as a result of the strong demand levels. Overall, costs of operations decreased as a percentage of sales from 89.9% to 88.4% primarily due to product mix.

Selling, general, and administrative expenses for the three months ended September 30, 2016 increased to $8,495 from $7,524 for the three months ended September 30, 2015. The increase in expenses was primarily attributable to increased personnel costs related to an increase in staffing levels. As a percentage of sales, selling, general, and administrative expenses decreased to 5.8% for the three months ended September 30, 2016 from 6.0% for the three months ended September 30, 2015 due to higher sales volume and production levels.

Total interest expense increased to $359 for the three months ended September 30, 2016 as compared to $291 in the prior year period. Increases in interest expense were primarily due to increases in interest on distributor floor planning and on chassis purchases and borrowings under the credit facility.

Other (income) expense, net relates to foreign currency translation gains and losses. For the three months ended September 30, 2016 the net gain was $238 compared to a net gain of $94 for the three months ended September 30, 2015.

The provision for income taxes for the three months ended September 30, 2016 and 2015 reflects a combined effective U.S. federal, state and foreign tax rate of 35.0% and 37.6%, respectively.

Results of Operations–Nine Months Ended September 30, 2016 Compared to Nine Months Ended September 30, 2015

Net sales for the nine months ended September 30, 2016 increased 11.9% to $452,525 from $404,530 for the comparable period in 2015. The increase in revenue was primarily attributable to strong demand levels in our domestic markets based on positive consumer sentiment accompanied by increases in production levels. Domestic net sales for the period increased from $348,456 to $405,913, offset by a decrease in foreign net sales for the period from $56,074 to $46,612.

Costs of operations for the nine months ended September 30, 2016 increased 11.4% to $403,402 from $362,241 for the comparable period in 2015, which was attributable to increased production as a result of the strong demand levels. Overall, costs of operations decreased as a percentage of sales from 89.6% to 89.1% primarily due to product mix.

Selling, general, and administrative expenses for the nine months ended September 30, 2016 increased to $24,823 from $22,612 for the nine months ended September 30, 2015. The increase in expenses was primarily attributable to increased personnel costs related to an increase in staffing levels. As a percentage of sales, selling, general, and administrative expenses decreased from 5.6% to 5.5% for the nine months ended September 30, 2016 and 2015 due to higher sales volume and production levels.

Total interest expense increased to $816 for the nine months ended September 30, 2016 as compared to $699 in the prior year period. Increases in interest expense were primarily due to increases in interest on distributor floor planning and on chassis purchases and borrowings under the credit facility.

Other (income) expense, net for the nine months ended September 30, 2016 was a net gain of $451 relating to foreign currency transaction gains and losses. Other (income) expense, net for the nine months ended September 30, 2015 was a net loss of $227 relating to foreign currency transaction gains and losses.

The provision for income taxes for the nine months ended September 30, 2016 and 2015 reflects a combined effective U.S. federal, state and foreign tax rate of 35.4% and 35.5%, respectively.

Liquidity and Capital Resources

Cash used by operating activities was $580 for the nine months ended September 30, 2016, compared to cash provided by operating activities of $13,787 for the comparable period in 2015. Cash used by operating activities for the 2016 period reflects increases in accounts receivable primarily attributable to the increase in net sales. Certain components of accounts receivable and accounts payable have extended collection and payment terms.

Cash used in investing activities was $19,785 for the nine months ended September 30, 2016 compared to $5,876 for the comparable period in 2015. The cash used in investing activities for the 2016 period was primarily for the purchase of property, plant and equipment relating to the capital projects described below.

Cash provided by financing activities was $14,214 for the nine months ended September 30, 2016, compared to cash used in financing activities of $5,146 for the comparable period in 2015. The cash provided by financing activities for the 2016 period resulted from borrowings on the credit facility of $20,000 offset by the cash used to pay dividends for the 2016 period of $5,786.

As of September 30, 2016, we had cash and cash equivalents of $32,840, not including $30,000 of unused availability under our credit facility. Our primary cash requirements include working capital, capital expenditures, the funding of any declared cash dividends and principal payments on indebtedness, if any, under our credit facility. At September 30, 2016, the Company had commitments of approximately $14,571 for construction and acquisition of property and equipment. We expect our primary sources of cash to be cash flow from operations and cash and cash equivalents on hand at September 30, 2016, with borrowings under our credit facility being available if needed. We expect these sources to be sufficient to satisfy our cash needs during 2016 and for the next several years. However, our ability to satisfy our cash needs will substantially depend upon a number of factors including our future operating performance, taking into account the economic and other factors discussed above and elsewhere in this Quarterly Report, as well as

financial, business and other factors, many of which are beyond our control.

As of September 30, 2016 and December 31, 2015, $21,624 and $18,145, respectively, of the Company's cash and temporary investments were held by foreign subsidiaries and their holdings are generally based in the local currency. Amounts held by foreign subsidiaries are generally subject to U.S. income taxation on repatriation to the U.S.

The Company is in the process of consolidating and expanding its Pennsylvania manufacturing operations to increase capacity and improve operating efficiencies. The plan includes consolidating primary manufacturing operations at one location while plans for the remaining plant location continue to be evaluated. The current estimated costs of this project are approximately $24,712, including machinery and equipment, buildings and improvements and land. Approximately $20,561 of these costs were incurred as of September 30, 2016 and are included in property, plant and equipment, net on the consolidated balance sheets. The remainder of these costs is expected to be incurred during the fourth quarter of 2016. The timing and costs of the project are subject to change. We do not anticipate any employee severance costs or any material relocation expense associated with the consolidation since the two existing facilities are very close to each other.

The Company also recently began several capital projects involving machinery and equipment and building improvements at its Ooltewah, Tennessee and Greeneville, Tennessee facilities that it estimates will cost in total approximately $20,733. Approximately $4,623 of these costs were incurred as of September 30, 2016, and the remainder of these costs are expected to be incurred in the last quarter of 2016 and during 2017. In addition, the Company intends to construct an administrative building at its Ooltewah, Tennessee facility. The current estimated costs of such project are approximately $4,000, which are expected to be incurred during 2017. The timing and cost of the project are subject to change.

Credit Facilities and Other Obligations

Credit Facility

On April 6, 2010 we entered into a Loan Agreement with First Tennessee Bank National Association for a $20,000 unsecured revolving credit facility. On December 21, 2011, the credit facility was renewed and our unsecured revolving credit facility was increased to $25,000. On December 30, 2014, the credit facility was further renewed to extend the maturity date to March 31, 2017. On June 11, 2015, the credit facility was further renewed to extend the maturity date to March 31, 2018 and our unsecured revolving credit facility was increased to $30,000. On June 22, 2016, the credit facility was further increased to $50,000 to give the Company greater flexibility to finance current capital expenditure projects. The current credit facility contains customary representations and warranties, events of default, and financial, affirmative and negative covenants for loan agreements of this kind. Covenants under the current credit facility restrict the payment of cash dividends if the Company would be in violation of the minimum tangible net worth test or the leverage ratio test in the current loan agreement as a result of the dividends, among various other restrictions.

In the absence of a default, all borrowings under the credit facility bear interest at the LIBOR Rate plus 1.50% per annum. The Company will pay a non-usage fee under the current loan agreement at a rate per annum equal to between 0.15% and 0.35% of the unused amount of the credit facility, which fee shall be paid quarterly.

At September 30, 2016 and December 31, 2015, the Company had $20,000 and $0 outstanding borrowings under the credit facility, respectively.

Other Long-Term Obligations

At September 30, 2016, we had approximately $1,959 in non-cancelable operating lease obligations.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

In the normal course of our business, we are exposed to market risk from changes in interest rates and foreign currency exchange rates that could impact our results of operations and financial position.

Interest Rate Risk

Changes in interest rates affect the interest paid on indebtedness under our credit facility because the outstanding amounts of indebtedness under our credit facility are subject to variable interest rates. Under our credit facility, the non-default rate of interest was equal to the LIBOR Market Index Rate plus 1.50% per annum (for a rate of interest of 2.03% at September 30, 2016). At the borrowing level under the credit facility at September 30, 2016, a one percent change in the interest rate on our variable-rate debt would not have a material impact on our financial position, results of operations or cash flows for the three-month period ended September 30, 2016.

Foreign Currency Exchange Rate Risk

We are subject to risk arising from changes in foreign currency exchange rates related to our international operations in Europe. We manage our exposure to our foreign currency exchange rate risk through our regular operating and financing activities. Additionally, from time to time, we enter into certain forward foreign currency exchange contracts.

For the three months ended September 30, 2016 and 2015, the impact of foreign currency exchange rate changes on our results of operations and cash flows was a net gain of $238 and a net gain of $94, respectively. For the nine months ended September 30, 2016 and 2015, the impact of foreign currency exchange rate changes on our results of operations and cash flows was a net gain of $451 and a net loss of $227, respectively.

Because we report in U.S. dollars on a consolidated basis, foreign currency exchange fluctuations could have a translation impact on our financial position. For the three months ended September 30, 2016, we recognized a $768 decrease in our foreign currency translation adjustment account because of fluctuations of the U.S. dollar against certain foreign currencies, including the post-Brexit vote strengthening of the U.S. dollar against the British pound, compared to a $441 increase for the prior year period. For the nine months ended September 30, 2016, we recognized a $121 increase in our foreign currency translation adjustment account because of fluctuations of the U.S. dollar against certain foreign currencies compared to a $2,288 decrease for the prior year period.

ITEM 4. CONTROLS AND PROCEDURES

Within 90 days prior to the filing date of this report, we carried out an evaluation, under the supervision and with the participation of our management, including our co-Chief Executive Officers (CEOs) and Chief Financial Officer (CFO), of the effectiveness of the design and operation of our disclosure controls and procedures as defined in Rules 13a-14(c) under the Securities Exchange Act of 1934. Based upon this evaluation, our CEOs and CFO have concluded that the disclosure controls and procedures are effective to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act are recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms.

There were no significant changes in our internal controls or in other factors that could significantly affect internal controls subsequent to the date of this evaluation.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

We are, from time to time, a party to litigation arising in the normal course of our business. Litigation is subject to various inherent uncertainties, and it is possible that some of these matters could be resolved unfavorably to us, which could result in substantial damages against us. We have established accruals for matters that are probable and reasonably estimable and maintain product liability and other insurance that management believes to be adequate. Management believes that any liability that may ultimately result from the resolution of these matters in excess of available insurance coverage and accruals will not have a material adverse effect on our consolidated financial position or results of operations.

ITEM 1A. RISK FACTORS

In addition to the other information set forth in this report, you should carefully consider the risk factors disclosed in Item 1A, “Risk Factors,” of the Company’s Annual Report on Form 10-K for the year ended December 31, 2015 as updated in the Company’s quarterly report for the quarter ended June 30, 2016.

ITEM 6. EXHIBITS

	Description	Incorporated by Reference to Registration File Number	Form or Report	Date of Report	Exhibit Number Report
31.1	Certification Pursuant to Rules 13a-14(a)/15d-14(a) by Co-Chief Executive Officer*				
31.2	Certification Pursuant to Rules 13a-14(a)/15d-14(a) by Co-Chief Executive Officer*				
31.3	Certification Pursuant to Rules 13a-14(a)/15d-14(a) by Chief Financial Officer*				
32.1	Certification Pursuant to Section 1350 of Chapter 63 of Title 18 of United States Code by Co-Chief Executive Officer±				
32.2	Certification Pursuant to Section 1350 of Chapter 63 of Title 18 of United States Code by Co-Chief Executive Officer±				
32.3	Certification Pursuant to Section 1350 of Chapter 63 of Title 18 of United				

	States Code by Chief Financial Officer±
101	The following information from the Company's quarterly report on Form 10-Q for the quarterly period ended September 30, 2016 formatted in Extensible Business Reporting Language (XBRL): (i) Condensed Consolidated Balance Sheets – September 30, 2016 and December 31, 2015; (ii) Condensed Consolidated Statements of Income for the three and nine months ended September 30, 2016 and 2015; (iii) Condensed Consolidated Statements of Comprehensive Income for the three and nine months ended September 30, 2016 and 2015; (iv) Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2016 and 2015; and (v) Notes to Condensed Consolidated Financial Statements.*

* Filed herewith

± Exhibit is being furnished and shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subjected to the liabilities of that Section. This exhibit shall not be incorporated by reference into any given registration statement or other document pursuant to the Securities Act of 1933, as amended, except as shall be expressly set forth by specific reference in such a filing.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, Miller Industries, Inc. has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

MILLER INDUSTRIES, INC.

By: /s/ J. Vincent Mish
J. Vincent Mish
Executive Vice President and Chief Financial Officer

Date: November 9, 2016

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10,129,768

Total Assets Acquired

10,295,312

Accounts payable

(21,872)

Asset retirement obligation

(32,447)

Total Liabilities Assumed

(54,319)

Net Assets Acquired

$ 10,240,993

The following pro forma information is presented to reflect the operations of the Company as if the acquisition of East Hobbs had been completed on January 1, 2004 and 2003, respectively:

For the Nine Months Ended September 30,		**2004**		**2003**
Oil and Gas Revenues	$	6,122,790		$ 4,351,246
Income from Operations Before Cumulative Effect of Change in Accounting Principle		1,730,678		1,137,497
Net Income		1,730,678		1,125,684
Basic Income Per Share				
Income before cumulative effect of change in accounting principle	$	0.23	$	0.17
Net income	$	0.23	$	0.17
Diluted Income Per Share				
Income before cumulative effect of change in accounting principle	$	0.21	$	0.16
Net income	$	0.21	$	0.16

NOTE 4 NOTES PAYABLE

On February 3, 2003, the Company established a $10,000,000 revolving credit facility with a bank with an initial borrowing base of $2,000,000. On December 31, 2003, the Company entered into an agreement that increased the revolving credit facility to $20,000,000 and increased the initial borrowing base to $4,000,000. On April 14, 2004, the Company changed financial institutions and thereby canceled this credit facility.

On April 14, 2004, the Company established a new $15,000,000 credit facility from a bank with an $8,500,000 initial borrowing base. Any increases in the borrowing base are subject to written consent by the financial institution. The interest rate is a floating rate equal to the 30, 60 or 90 day LIBOR rate plus 2.25%, currently 3.42% per annum, and is payable monthly. Annual fees for the facility are 1/8 of one percent of the unused portion of the borrowing base. Amounts borrowed under the revolving credit facility are due in April 2007. The revolving credit facility is secured by the Company s principal mineral

ARENA RESOURCES, INC.

NOTES TO UNAUDITED CONDENSED FINANCIAL STATEMENTS

SEPTEMBER 30, 2004

interests. In order to obtain the revolving credit facility, loans from two officers were subordinated to the position of the bank. The Company is required under the terms of the credit facility to maintain a tangible net worth of $6,000,000, maintain a 5-to-1 ratio of income before interest, taxes, depreciation, depletion and amortization to interest expense and maintain a current asset to current liability ratio of 1-to-1, not including the $2,000,000 bridge financing arrangement discussed below. On May 7, 2004, the Company drew $8,008,440 under this revolving credit facility to fund the acquisition of the East Hobbs San Andres Property interests. An additional $299,029 is reserved under the revolving credit facility as collateral for standby letters of credit issued to various states. During August 2004, utilizing cash flow from operations and proceeds from the recent secondary offering of common stock and warrants, the Company paid $8,008,440 of principal and related accrued interest due on the credit facility. At September 30, 2004, there were no amounts outstanding on this line of credit. The revolving credit facility remains available for use in the future, including potential acquisitions or to fund development of existing properties.

On April 14, 2004, the Company also entered into to a bridge financing arrangement for $2,000,000 from a bank. On April 21, 2004, the Company borrowed $1,000,000 under the terms of the bridge financing agreement to fund a cash deposit made on the East Hobbs San Andres Property interests. On May 7, 2004, the Company borrowed an additional $1,000,000 under the terms of the bridge financing arrangement to fund the acquisition of the East Hobbs San Andres Property interests. The interest rate on the bridge financing arrangement is a floating rate equal to the 30, 60 or 90 day LIBOR rate plus 2.25%, currently 3.42% per annum, and is payable monthly. This arrangement was established for a one-time purpose to satisfy the funding requirements of the East Hobbs San Andres Property acquisition. The original agreement expired June 30, 2004 and was subsequently extended to July 31, 2004. The bridge financing arrangement was guaranteed by two of the Company s officers. During August 2004, utilizing cash flow from operations and proceeds from the recent public offering of common stock and warrants, the Company paid $2,000,000 of principal and related accrued interest due under the bridge financing agreement. At September 30, 2004, there were no amounts outstanding on this bridge financing agreement. No new agreements have been established to continue the bridge financing arrangement.

On October 15, 2004, two officers of the Company and the Board of Directors agreed to an extension of the $400,000 notes payable to the two officers to January 1, 2006, under the same terms as the original notes.

NOTE 5 ASSET RETIREMENT OBLIGATION

The Company provides for the obligation to plug and abandon oil and gas wells at the dates properties are acquired or the wells are drilled. The asset retirement obligation is adjusted each quarter for any liabilities incurred or settled

during the period, accretion expense and any revisions made to the estimated cash flows. The reconciliation of the asset retirement obligation for the nine months ended September 30, 2004 is as follows:

Balance, January 1, 2004	$	607,200
Liabililities incurred		32,447
Accretion expense		38,073
Balance, September 30, 2004	$	677,720

ARENA RESOURCES, INC.

NOTES TO UNAUDITED CONDENSED FINANCIAL STATEMENTS

SEPTEMBER 30, 2004

NOTE 6 - STOCKHOLDERS EQUITY

Warrants exercised During the three months ended September 30, 2004, the Company issued 11,800 shares of common stock as a result of a warrant holder exercising warrants with an exercise price of $5.00 per share. The Company received $59,000 from the exercise.

Shares issued in property acquisition During the three months ended September 30, 2004, the Company issued 40,000 shares of restricted common stock, valued at $204,553, or $5.11 per share, as a finders fee on the East Hobbs San Andres Property acquisition as disclosed in Note 3.

Public offering From August 13 through August 18, 2004, the Company completed a public offering of its common stock and warrants as a unit at $6.10 per unit before underwriters discount and offering costs. The Company issued 1,667,500 shares of common stock and 1,667,500 warrants to purchase common stock at $7.32 per share through August 9, 2008. In addition, the Company issued options to the underwriters to purchase 145,000 shares and 145,000 shares of common stock at $9.00 per share and $8.97 per share, respectively, through August 9, 2008. The proceeds from the public offering were $8,303,951, net of offering costs of $1,054,204.

The net proceeds from the offering were allocated to the securities issued based on their relative fair values with $6,522,160, or $3.91 per share, allocated to the common stock, $1,570,539 was allocated to the warrants and $211,252 was allocated to the underwriters options. The fair value of the warrants was $1.47 per share and was calculated using the Black-Scholes option pricing model with the following weighted average assumptions: dividend yield of 0%; expected volatility of 33%; risk-free interest rate of 3.16% and expected lives of 4.0 years.

The majority of the proceeds of the offering were used to pay the balance due on the Company s lines of credit (which lines were utilized to acquire the Company s interest in the East Hobbs property).

NOTE 7 CONTINGENCIES AND COMMITMENTS

Standby Letters of Credit A commercial bank has issued standby letters of credit on behalf of the Company to the states of Texas, Oklahoma and New Mexico totaling $299,029 to allow the Company to do business in those states. The standby letters of credit are valid through May 2005 and are collateralized by the revolving credit facility with the bank. The Company intends to renew the standby letters of credit for as long as the Company does business in those states. No amounts have been drawn under the standby letters of credit.

NOTE 8 - SUBSEQUENT EVENTS

On October 15, 2004, two officers of the Company and the Board of Directors agreed to an extension of the $400,000 notes payable to the two officers to January 1, 2006, under the same terms as the original notes.

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

Results of Operations For the Three Months Ended September 30, 2004

Oil and natural gas sales. For the three months ended September 30, 2004, oil and natural gas sales revenue increased $1,568,023 to $2,516,970, compared to $948,947 for the same period during 2003. Of the $1,568,023 increase, $988,187 was attributable to the East Hobbs property. Oil sales increased $1,371,311 and natural gas sales increased $196,712. The increases were the result of increased sales volumes and average realized sales prices. For the three months ended September 30, 2004, oil sales volume increased 23,622 barrels to 54,769 barrels, compared to 31,147 barrels for the same period in 2003. Of the 23,622 barrel increase, 20,961 barrels were attributable to the East Hobbs property. The average realized per barrel oil price increased 44% from $28.47 for the three months ended September 30, 2003 to $41.13 for the three months ended September 30, 2004. For the three months ended September 30, 2004, gas sales volume increased 32,510 thousand cubic feet (MCF) to 52,698 MCF, compared to 20,188 MCF for the same period in 2003. Of the 32,510 MCF increase, 23,362 MCF was attributable to the East Hobbs property. The average realized natural gas price per MCF increased 46% from $3.45 for the three months ended September 30, 2003 to $5.05 for the three months ended September 30, 2004.

Lease operating expenses. Our lease operating expenses increased from $288,915 or $8.37 per barrel of oil equivalent (BOE) for the three months ended September 30, 2003 to $564,933 or $8.90 per BOE for the three months ended September 30, 2004. The increase in total was due to properties acquired in 2003 and 2004.

Production taxes. Production taxes as a percentage of oil and natural gas sales were 7% during the three months ended September 30, 2003 and increased to 8% for the three months ended September 30, 2004. The increase is due to an increased percentage of our revenue coming from the State of New Mexico, where production taxes are higher than the other states in which we operate. 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, as well as the possibility that any state may raise its production tax.

Depreciation, depletion and amortization. Our depreciation, depletion and amortization expense increased by $160,909 to $237,212 for the three months ended September 30, 2004, compared to the same period in 2003. The increase was a result of an increase in volume and in the average depreciation, depletion and amortization rate from $2.21 per BOE during the three months ended September 30, 2003 to $3.74 per BOE during the three months ended September 30, 2004. The increased depreciation, depletion and amortization rate was the result of a revision to our reserves and increased capitalized costs and development costs from the property acquired in 2004.

General and administrative expenses. General and administrative expenses decreased by $7,195 to $131,619 for the three months ended September 30, 2004, compared to the same period in 2003. This decrease was primarily related to the term of a prepaid contract expiring, partially offset by increases in compensation expense associated with an increase in personnel required to administer our growth.

Interest expense (net of interest income). Interest expense increased $50,659 to $60,296 for the three months ended September 30, 2004 when compared to the same period in 2003. The increase was due to an increase in outstanding debt with the use of our credit facility in our latest acquisition.

Income tax expense. Our effective tax rate was 37% during the three months ended September 30, 2003 and remained steady at 37% for the three months ended September 30, 2004.

Net income. Net income increased from $224,654 for the three months ended September 30, 2003 to $830,049 for 2004. The primary reasons for this increase include higher crude oil prices between periods

and an increase in volumes sold, partially offset by higher lease operating expense and income tax expense due to our growth.

Results of Operations For the Nine Months Ended September 30, 2004

Oil and natural gas sales. For the nine months ended September 30, 2004, oil and natural gas sales revenue increased $2,912,197 to $5,509,784, compared to $2,597,587 for the same period during 2003. Of the $2,912,197 increase, $1,446,122 was attributable to the East Hobbs property. Oil sales increased $2,570,723 and natural gas sales increased $341,474. The increases were the result of increased sales volumes and higher average realized sales prices. For the nine months ended September 30, 2004, oil sales volume increased 50,132 barrels to 133,177 barrels, compared to 83,045 barrels for the same period in 2003. Of the 50,132 barrel increase, 31,553 barrels were attributable to the East Hobbs property. The average realized per barrel oil price increased 28% from $29.29 for the nine months ended September 30, 2003 to $37.47 for the nine months ended September 30, 2004. For the nine months ended September 30, 2004, gas sales volume increased 65,064 thousand cubic feet (MCF) to 112,724 MCF, compared to 47,660 MCF for the same period in 2003. Of the 65,064 MCF increase, 37,063 MCF was attributable to the East Hobbs property. The average realized gas price per MCF increased 23% from $3.75 for the nine months ended September 30, 2003 to $4.62 for the nine months ended September 30, 2004.

Lease operating expenses. Our lease operating expenses increased from $812,533 or $8.93 per barrel of oil equivalent (BOE) for the nine months ended September 30, 2003 to $1,284,753 or $8.45 per BOE for the nine months ended September 30, 2004. The increase in total was due to properties acquired in 2003 and 2004, while the decrease per BOE was primarily a result of lower average operating costs on the East Hobbs property acquired in 2004.

Production taxes. Production taxes as a percentage of oil and natural gas sales were 7% during the nine months ended September 30, 2003 and remained steady at 7% for the three months ended September 30, 2004. 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, as well as the possibility that any state may raise its production tax.

Depreciation, depletion and amortization. Our depreciation, depletion and amortization expense increased by $356,029 to $553,038 for the nine months ended September 30, 2004, compared to the same period in 2003. The increase was a result of an increase in volume and in the average depreciation, depletion and amortization rate from $2.17 per BOE during the nine months ended September 30, 2003 to $3.64 per BOE during the nine months ended September 30, 2004. The increased depreciation, depletion and amortization rate was the result of a revision to our reserves and increased capitalized costs and development costs from the property acquired in 2004.

General and administrative expenses. General and administrative expenses increased by $70,495 to $473,391 for the nine months ended September 30, 2004, compared to the same period in 2003. This increase was primarily related to increases in compensation expense associated with an increase in personnel required to administer our growth, payment for Lee Keeling and Associates for preparation of our year ended December 31, 2003 and acquisition of a new accounting software system.

Interest expense (net of interest income). Interest expense increased $98,934 to $128,407 for the nine months ended September 30, 2004 when compared to the same period in 2003. The increase was due to an increase in outstanding debt with the use of our credit facility in our latest acquisition.

Income tax expense. Our effective tax rate was 37% during the nine months ended September 30, 2003 and remained steady at 37% for the nine months ended September 30, 2004.

Net income. Net income increased from $610,612 for the nine months ended September 30, 2003 to $1,688,239 for 2004. The primary reasons for this increase include higher crude oil prices between periods and an increase in volumes sold, partially offset by higher lease operating expense, income tax expense and general and administrative expenses due to our growth.

Revenues Year to Date by Geographic section

Arena reports its net oil and gas revenues for the year to date as applicable to the following geographic sectors:

OIL

	Net Production Volume	Net Revenue
Texas Leases	25,020 BBLS	$ 924,900
Oklahoma Leases	49,553 BBLS	$ 1,877,773
New Mexico Leases	64,870 BBLS	$ 2,186,864

GAS

	Net Production Volume	Net Revenue
Texas Leases	11,192 MCF	$ 36,399
Oklahoma Leases	36,663 MCF	$ 123,339
New Mexico Leases	64,870 MCF	$ 360,509

Significant Subsequent Events occurring after September 30, 2004:

On October 15, 2004, two officers of the Company and the Board of Directors agreed to an extension of the $400,000 notes payable to the two officers to January 1, 2006, under the same terms as the original notes.

Capital Resources and Liquidity

As shown in the financial statements for the nine months ended September 30, 2004, the Company had cash on hand of $1,864,707, compared to $1,076,676 as of December 31, 2003. The Company had positive net cash flows from operations for the nine months ended September 30, 2004 of $3,414,117, compared to $1,178,024 for the same period 2003. Other significant sources of cash inflow were the secondary offering with net proceeds in 2004 of $8,434,823, issuance of notes payable in conjunction with our credit facility for $1,000,000 and proceeds from warrant exercises of $189,500 in 2004 and a common stock private placement with net proceeds in 2003 of $1,605,636 and the collection of a common stock subscription receivable, in the amount of $157,500 in 2003. The most significant cash outflows during the nine months ended September 30, 2004 and 2003 were capital expenditures of $2,115,997 in 2004

and $1,404,917 in 2003, repayment of debt on the Company s credit facility of $10,008,440 in 2004 and payment of preferred stock dividends of $114,685 in 2003.

On February 3, 2003, the Company established a $10,000,000 revolving credit facility with a bank with an initial borrowing base of $2,000,000. On December 31, 2003, the Company entered into an agreement that increased the revolving credit facility to $20,000,000 and increased the initial borrowing base to $4,000,000. On April 14, 2004, the Company changed financial institutions and thereby canceled this credit facility.

On April 14, 2004, the Company established a new $15,000,000 credit facility from a bank with an $8,500,000 initial borrowing base. Any increases in the borrowing base are subject to written consent by

the financial institution. The interest rate is a floating rate equal to the 30, 60 or 90 day LIBOR rate plus 2.25%, currently 3.42% per annum, and is payable monthly. Annual fees for the facility are 1/8 of one percent of the unused portion of the borrowing base. Amounts borrowed under the revolving credit facility are due in April 2007. The revolving credit facility is secured by the Company s principal mineral interests. In order to obtain the revolving credit facility, loans from two officers were subordinated to the position of the bank. The Company is required under the terms of the credit facility to maintain a tangible net worth of $6,000,000, maintain a 5-to-1 ratio of income before interest, taxes, depreciation, depletion and amortization to interest expense and maintain a current asset to current liability ratio of 1-to-1, not including the $2,000,000 bridge financing arrangement discussed below. On May 7, 2004, the Company drew $8,008,440 under this revolving credit facility to fund the acquisition of the East Hobbs San Andres Property interests. An additional $299,029 is reserved under the revolving credit facility as collateral for standby letters of credit issued to various states. During August 2004, utilizing cash flow from operations and proceeds from the recent secondary offering of common stock and warrants, the Company paid $8,008,440 of principal and related accrued interest due on the credit facility. At September 30, 2004, there were no amounts outstanding on this line of credit.

On April 14, 2004, the Company also entered into to a bridge financing arrangement for $2,000,000 from a bank. On May 7, 2004, the Company borrowed $2,000,000 under the terms of the bridge financing arrangement to fund the acquisition of the East Hobbs San Andres Property interests. The interest rate on the bridge financing arrangement is a floating rate equal to the 30, 60 or 90 day LIBOR rate plus 2.25%, currently 3.42% per annum, and is payable monthly. This arrangement was established for a one-time purpose to satisfy the funding requirements of the East Hobbs San Andres Property acquisition. The original agreement expired June 30, 2004 and was subsequently extended to July 31, 2004. The bridge financing arrangement has been guaranteed by two of the Company s officers. During August 2004, utilizing cash flow from operations and proceeds from the recent secondary offering of common stock and warrants, the Company paid $2,000,000 of principal and related accrued interest due under the bridge financing agreement. At September 30, 2004, there were no amounts outstanding on this bridge financing agreement.

Management plans to continue to make acquisitions, using net cash flows from operations and possibly the above referenced credit facility and additional equity capital.

Disclosures About Market Risks

Like other natural resource producers, Arena faces certain unique market risks. The two most salient risk factors are the volatile prices of oil and gas and certain environmental concerns and obligations.

Oil and Gas Prices

Current competitive factors in the domestic oil and gas industry are unique. The actual price range of crude oil is largely established by major international producers. Pricing for natural gas is more regional. Because domestic demand for oil and gas exceeds supply, there is little risk that all current production will not be sold at relatively fixed prices. To this extent Arena does not see itself as directly competitive with other producers, nor is there any significant risk that the company could not sell all production at current prices with a reasonable profit margin. The risk of domestic overproduction at current prices is not deemed significant. The primary competitive risks would come from falling international prices which could render current production uneconomical.

Secondarily, Arena is presently committed to use the services of the existing gatherers in its present areas of production. This gives to such gatherers certain short term relative monopolistic powers to set gathering and transportation costs, because obtaining the services of an alternative gathering company

would require substantial additional costs since an alternative gatherer would be required to lay new pipeline and/or obtain new rights-of-way in the lease.

It is also significant that more favorable prices can usually be negotiated for larger quantities of oil and/or gas product, such that Arena views itself as having a price disadvantage to larger producers. Large producers also have a competitive advantage to the extent they can devote substantially more resources to acquiring prime leases and resources to better find and develop prospects.

Environmental

Oil and gas production is a highly regulated activity which is subject to significant environmental and conservation regulations both on a federal and state level. Historically, most of the environmental regulation of oil and gas production has been left to state regulatory boards or agencies in those jurisdictions where there is significant gas and oil production, with limited direct regulation by such federal agencies as the Environmental Protection Agency. However, while the Company believes this generally to be the case for its production activities in Texas, Oklahoma, Kansas and New Mexico, it should be noticed that there are various Environmental Protection Agency regulations which would govern significant spills, blow-outs, or uncontrolled emissions.

In Oklahoma, Texas, Kansas and New Mexico specific oil and gas regulations exist related to the drilling, completion and operations of wells, as well as disposal of waste oil. There are also procedures incident to the plugging and abandonment of dry holes or other non-operational wells, all as governed by the Oklahoma Corporation Commission, Oil and Gas Division, the Texas Railroad Commission, Oil and Gas Division, the Kansas Corporation Commission, Oil and Gas Division or the New Mexico Oil Conservation Division.

Compliance with these regulations may constitute a significant cost and effort for Arena. No specific accounting for environmental compliance has been maintained or projected by Arena to date. Arena does not presently know of any environmental demands, claims, or adverse actions, litigation or administrative proceedings in which it or the acquired properties are involved or subject to or arising out of its predecessor operations.

In the event of a breach of environmental regulations, these environmental regulatory agencies have a broad range of alternative or cumulative remedies to include: ordering a clean up of any spills or waste material and restoration of the soil or water to conditions existing prior to the environmental violation; fines; or enjoining further drilling, completion or production activities. In certain egregious situations the agencies may also pursue criminal remedies

against the Company or its principals.

Forward-Looking Information

Certain statements in this Section and elsewhere in this report are forward-looking in nature and relate to trends and events that may affect the Company s future financial position and operating results. Such statements are made pursuant to the safe harbor provision of the *Private Securities Litigation Reform Act of 1995.* The terms expect, anticipate, intend, and project and similar words or expressions are intended to identify forward-looking statements. These statements speak only as of the date of this report. The statements are based on current expectations, are inherently uncertain, are subject to risks, and should be viewed with caution. Actual results and experience may differ materially from the forward-looking statements as a result of many factors, including changes in economic conditions in the markets served by the company, increasing competition, fluctuations in raw materials and energy prices, and other unanticipated events and conditions. It is not possible to foresee or identify all such factors. The company makes no commitment to update any forward-looking statement or to disclose any facts, events, or circumstances after the date hereof that may affect the accuracy of any forward-looking statement.

Item 3. Controls and Procedures

(a)

The Company maintains controls and procedures designed to ensure that information required to be disclosed in the reports that the Company files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission. Specifically, the Company maintains an independent audit committee to monitor internal controls and procedures. Based upon their evaluation of those controls and procedures performed within 90 days of the filing date of this report, the chief executive officer and the principal financial officer of the Company concluded that the Company s disclosure controls and procedures were adequate. The Company is not aware of any fraud or any material irregularities from its accounting or auditing procedures.

(b)

Changes in internal controls. The Company made no significant changes in its internal controls or in other factors that could significantly affect these controls subsequent to the date of the evaluation of those controls by the chief executive officer and principal financial officer.

Part II - Other Information

Item 1. Legal Proceedings

None.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

During the three months ended September 30, 2004, the Company issued 11,800 shares of common stock from the exercise of warrants with an exercise price of $5.00 per share. The Company received $59,000 from the exercise. The shares were issued in transactions not involving a public offering in reliance upon the exemption from registration provided by Section 4(2) of the Securities Act of 1933. The persons to whom the shares were issued in exchange for the warrants had access to full information concerning the Company and represented that they acquired the shares for their own account and not for the purpose of distribution. The certificates for the shares contain a restricted legend advising that the shares may not be offered for sale, sold or otherwise transferred without having first been registered under the 1933 Act or pursuant to an exemption from registration under the 1933 Act. There was no underwriter involved in these transactions.

During the three months ended September 30, 2004, the Company issued 40,000 shares of common stock as a finders fee on the East Hobbs San Andres property acquired during the second quarter 2004. The shares were valued at $204,553, or $5.11 per share. The shares were issued in transactions not involving a public offering in reliance upon the exemption from registration provided by Section 4(2) of the Securities Act of 1933. The persons to whom the shares were issued in exchange for the warrants had access to full information concerning the Company and represented that they acquired the shares for their own account and not for the purpose of distribution. The certificates for the shares contain a restricted legend advising that the shares may not be offered for sale, sold or otherwise transferred without having first been registered under the 1933 Act or pursuant to an exemption from registration under the 1933 Act. There was no underwriter involved in these transactions.

Item 3. Defaults Upon Senior Securities

None.

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

None.

Item 5. Other Information

None.

Item 6. Exhibits and Reports on Form 8-K

(a)

Exhibit 31.1

Section 302 Certification of CEO

Exhibit 31.2

Section 302 Certification of CFO

(b)

Exhibit 32.1

Section 1350 Certification of CEO

Exhibit 32.2

Section 1350 Certification of CFO

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SIGNATURES

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

REGISTRANT: **ARENA RESOURCES, INC.**

Dated: October 26, 2004

By: /s/ Lloyd Tim Rochford

Lloyd Tim Rochford

President, Chief Executive Officer

Dated: October 26, 2004

By: /s Stanley McCabe

Stanley McCabe

Treasurer, Secretary

Dated: October 26, 2004

By: /s/ William R. Broaddrick

William R. Broaddrick

Vice President, Chief Financial Officer