US ENERGY CORP
Form S-1
May 13, 2004

As filed with the Securities and Exchange Commission on May 13, 2004

Registration No. 333-_____
Securities and Exchange Commission
Washington, D.C. 20549

FORM S-1

Registration Statement
Under the Securities Act of 1933

U.S. ENERGY CORP.
(Exact name of registrant as specified in its charter)

Wyoming
(State or other jurisdiction of incorporation or organization)

83-0205516
(I.R.S. Employer Identification No.)

877 North 8th West, Riverton, Wyoming 82501; Tel. 307.856.9271
(Address, including zip code, and telephone number, including area code, of issuer's principal executive offices)

Daniel P. Svilar, 877 North 8th West
Riverton, WY 82501; Tel. 307.856.9271
(Name, address, including zip code, and telephone number of agent for service)

Copies to: Stephen E. Rounds, Esq.
The Law Office of Stephen E. Rounds
1544 York Street, Suite 110, Denver, CO 80206
Tel: 303.377.6997; Fax: 303.377.0231

Approximate date of commencement and end of proposed sale to the public: From time to time after the registration statement becomes effective.

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 securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering:[ ] _____

If this Form is a post-effective amendment filed 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 delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box. [ ]

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered	Amount of Securities to be Registered in the Offering	Proposed Maximum Offering Price Per Security	Proposed Maximum Aggregate Dollar Price of Securities to be Registered	Amount of Fee
Common Stock	1,801,352 Shares (1)	$2.25	$ 4,053,042.00	$ 513.53
Common Stock	1,442,192 Shares (2)	$2.25	$ 3,244,932.00	$ 411.13
Common Stock	977,838 Shares (3)	$2.25	$ 2,200,135.50	$ 278.76
Common Stock	245,991 Shares (4)	$2.25	$ 553,479.75	$ 70.13
Common Stock	1,472,689 Shares (5)	$2.25	$ 3,313,550.25	$ 419.83
Total No. of Securities to be Registered	5,940,062 Shares		$ 13,365,139.50	$ 1,693.37

Pursuant to rule 457(c), registration fee calculations are estimated based on the $2.25 market value of the registrant's common stock (Nasdaq Small Cap price on May, 12, 2004), which is within 5 business days prior to the initial filing of this registration statement; fees are based on $126.70 per million dollars of the aggregate offering-market price at that date. The offering price (for purposes of fee calculation) for shares issuable on exchange conversion of common and preferred stock of the subsidiary (RMG), and in

conversion of registrant debt, is at a low assumed price of $1.00 per share. Shares may be issued at a higher price depending on market prices.

DELAYING AMENDMENT UNDER RULE 473(A): 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 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 section 8(a), may determine.

The information in this prospectus is subject to completion or amendment. The securities covered by this prospectus cannot be sold until the registration statement filed with the Securities and Exchange Commission becomes effective. This prospectus shall not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of these securities in any state in which an offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of that state.

U.S. ENERGY CORP.
5,940,062 SHARES OF COMMON STOCK

This prospectus covers the offer and sale of up to 1,801,352 shares of common stock ($0.01 par value) of U.S. Energy Corp. ("USE") by shareholders; up to 1,472,689 shares of common stock by holders of warrants and options on exercise thereof; up to 2,420,030 shares which may be issued on exchange of outstanding common stock, and preferred stock, in Rocky Mountain Gas, Inc. ("RMG"), a majority-owned subsidiary of USE) for common stock of USE; and up to 245,991 shares which may be issued on conversion of principal and interest on debt.

In this prospectus, "selling shareholder" or "selling shareholders" refers to Bourne Capital, LLC and five individuals who hold warrants to purchase stock in USE, all of whom also purchased stock in RMG which may be exchanged for stock in USE; 60 individuals and 12 entities which hold outstanding stock in USE; 48 individuals and 15 entities which hold warrants or options to purchase stock in USE; three institutional investors who purchased preferred stock in RMG which is convertible to USE stock, and warrants to purchase USE stock; two entities (two lenders on a mezzanine credit facility) which hold warrants to purchase to purchase stock in USE; and Tsunami Partners L.P., which holds debt convertible to USE stock and warrants to purchase stock. For information about the selling shareholders, and the transactions in which they acquired the various shares, options, warrants, and rights to exchange RMG stock for stock in the company, see "Selling Shareholders."

In this prospectus, "we," "company," and "USE" refer to U.S. Energy Corp. (and its subsidiaries unless otherwise specifically stated).

The selling shareholders may sell the shares from time to time in negotiated transactions, brokers' transactions or a combination of such methods of sale at market prices prevailing at the time of sale or at negotiated prices, or under rule 144. See "Plan of Distribution." Although we will receive proceeds if and to the extent options and warrants are exercised, we will not receive proceeds from sale of any of the shares offered by the selling shareholders.

USE is traded ("USEG") on the Nasdaq Small Cap Market ($2.25 on May 12, 2004).

AN INVESTMENT IN THE SHARES OFFERED BY THIS PROSPECTUS IS SPECULATIVE AND SUBJECT TO RISK OF LOSS. SEE "RISK FACTORS" BEGINNING ON PAGE 11 AND THE TABLE OF CONTENTS ON PAGE 5.

NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED OF THE 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 MAY __, 2004

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SUMMARY INFORMATION

The following summarizes all material information found elsewhere in this prospectus. This summary is qualified by the more detailed information in this prospectus and the exhibits filed with the registration statement which contains this prospectus.

THE COMPANY

U.S. Energy Corp. is a Wyoming corporation (formed in 1966) in the business of acquiring, exploring, developing and/or selling or leasing mineral properties. Our fiscal year ends December 31.

In 2003, almost all of our business activity was devoted to the coalbed methane ("CBM") business, which is conducted through Rocky Mountain Gas, Inc ("RMG") a subsidiary of the company.

In 2003, RMG transferred certain of its CBM assets including a producing, and several non-producing, CBM properties to Pinnacle Gas Resources, Inc. ("Pinnacle"), a newly-organized Delaware corporation. Other parties to this transaction included CCBM, Inc. and its parent company Carrizo Oil & Gas, Inc. ("CRZO") of Houston Texas; and seven affiliates of Credit Suisse First Boston Private Equity. As a result of the transaction, RMG became a 37.5% shareholder of Pinnacle; RMG accounts for its investment on the equity method. RMG recorded revenues from gas sales from mid-2002 until the transfer to Pinnacle was completed in mid-2003. See "Transaction with Pinnacle Gas Resources, Inc."

On January 30, 2004, RMG acquired producing and non-producing CBM properties located near Gillette, Wyoming, from Hi-Pro Production, LLC ("Hi-Pro"). These properties contain proven gas reserves. A portion of the purchase price was paid with a loan from institutional lenders under a $25 million mezzanine lending facility, which was established in connection with the Hi-Pro purchase; additional loans will be available to acquire more CBM properties, subject to lenders' approval. In the first quarter of 2004, RMG raised $1.8 million in working capital from institutional investors. See "Coal Bed Methane - Acquisition of Producing and Non-Producing Properties from Hi-Pro Production, LLC" and "RMG Equity Financing."

RMG's CBM properties are located in Wyoming and southeastern Montana (approximately 261,180 gross mineral acres, including properties under option,

but not including acreage held by Pinnacle). A limited amount of exploratory drilling and testing was conducted on some of the non-producing properties in 2003, but in general, significant additional work is needed before we can determine if those properties contain gas reserves. No prediction is made when such determinations can be made.

In 2003, the company sold an indirect subsidiary (Canyon Resources) which owns commercial properties in Ticaboo, Utah. Canyon Resources was acquired in the 1990s from a utility as part of an acquisition of uranium properties and a uranium mill near Ticaboo, Utah. See "Oil And Gas, and Other Properties." The uranium properties and mill, presently inactive, have not been sold. See "Inactive Mining Properties - Uranium."

Historically, gas prices for production in the Powder River Basin (our area of activity) have been lower than national prices due to limited pipeline "takeaway capacity." This limitation was somewhat eased in late 2002 and 2003 by new pipeline construction and enlargement of existing lines, and may be further improved with more capacity in 2005. See "Gas Markets."

However, on both historical and seasonal bases, gas prices have been volatile. A return to low gas prices, particularly if aggravated by the negative price differential experienced by Powder River Basin

producers, could adversely impact not only the economics of current production but also the economics of exploration projects as they move into production in the future.

USE and Crested originally were independent companies, with two common affiliates (John L. Larsen and Max T. Evans; Mr. Evans died in February 2002). In 1980, USE and Crested formed a joint venture ("USECC") to do business together (unless one or the other elected not to pursue an individual project). As a result of USE funding certain of Crested's obligations from time to time (due to Crested's lack of cash on hand), Crested subsequently paid a portion of this debt by issuing common stock to USE, Crested became a majority-owned subsidiary of USE in fiscal 1993. In fiscal 2001, Crested issued another 6,666,666 shares of its common stock to reduce Crested's debt owed to USE by $3.0 million, which increased USE's ownership of Crested to 71.5%. All the operations of USE (and Crested) are in the United States.

In the first quarter 2004, USE obtained $350,000 of equity funding from an accredited investor (100,000 restricted shares of common stock, three year warrants to purchase 50,000 shares at $3.00 per share; and five year warrants to purchase 200,000 shares at $3.00 per share). Proceeds will be used as working capital.

Principal executive offices of USE are located in the Glen L. Larsen building at 877 North 8th Street West, Riverton, Wyoming 82501, telephone 307-856-9271. RMG has a field office in Gillette, Wyoming.

Most of the company's operations are conducted through subsidiaries, the USECC Joint Venture with Crested, and jointly-owned subsidiaries of USE and Crested.

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The company's subsidiaries are:

Subsidiary	Percent Owned by USE*	Primary Business Conducted
Plateau Resources Ltd. Motel/real estate - sold	100.0%	Uranium (Utah) - inactive mill - shut do
Rocky Mountain Gas, Inc.	88.5%	Coalbed methane - active
Energx, Ltd.	90.0%	Gas - inactive - shut down
Crested Corp.	71.5%	Uranium, gold and molybdenum properties inactive and shut down), and exploration activities on coalbed methane properties
Sutter Gold Mining Company	78.5%	Gold (California) - inactive - being rea
Four Nines Gold, Inc.	50.9%	Contract Drilling/Construction - inactiv
USECC Joint Venture	50.0%	Uranium (Wyoming, Utah), gold and molybdenum,** all inactive and shut down real estate management and coalbed metha exploration
Yellowstone Fuels Corp.	35.9%	Uranium (Wyoming) - inactive - shut down
Pinnacle Gas Resources, Inc.	37.5%	CBM exploration and production - active

* Includes ownership of Crested Corp. in RMG and Sutter.

** There are no plans to put the molybdenum property into production in the foreseeable future. See "Inactive Mining Properties - Molybdenum and Item 3, "Legal Proceedings".

Until September 11, 2000, USE, USECC and Kennecott Uranium Company ("Kennecott") owned the Green Mountain Mining Venture ("GMMV"), which held a large uranium deposit and uranium mill in Wyoming. On September 11, 2000, USE and Crested settled litigation with Kennecott involving the GMMV by selling their interest in the GMMV and its properties back to Kennecott for $3,250,000, receiving a royalty interest in the uranium properties and miscellaneous equipment. The GMMV properties are shut down. Kennecott also assumed all reclamation obligations on the GMMV properties; reclamation obligations for an ion exchange facility located on properties outside the GMMV were not assumed by Kennecott, see "Sheep Mountain Partners - Properties" below. Other uranium properties and a uranium mill in southeast Utah are held by Plateau Resources Ltd., a wholly-owned subsidiary of USE. The Utah uranium properties are shut down.

Activities on the mineral properties held by Sutter Gold Mining Company ("SGMC") were shut down because the historical market price of gold did not permit raising the necessary capital to build a mill and put the properties into production. However, improved gold prices over the last 12 months have revived the capital markets, particularly in Canada. See "Sutter Gold Mining Company."

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In coalbed methane, we compete against many companies, some of which are much larger and better financed than the company. The principal area of competition is encountered in the financial ability to acquire good acreage positions and drill wells to explore coalbed methane potential, then, if warranted, drill production wells and install production equipment (gathering systems, compressors, etc.).

We own a royalty interest in a molybdenum property in Colorado; the property is owned by Phelps Dodge Corporation. We believe, at the present time, that Phelps Dodge does not have a plan to place the molybdenum property into production.

In the motel, real estate and airport operations area (significant as a percentage of revenues for 2003, but not our primary business focus), we own and manage an office building (where the company's headquarters are located), and small parcels of land, in Riverton, Wyoming, and a small amount of other land in Wyoming and Colorado. An indirect subsidiary (Canyon Resources), owned a townsite, motel, convenience store and other commercial facilities in Utah, which was sold in August 2003, thus greatly reducing activities in this commercial segment.

THE OFFERING

Securities Outstanding	13,658,645 shares of common stock, $0.01 par value.
Securities To Be Outstanding	17,797,355 shares, assuming options and warrants on 1,472,689 shares held by the selling shareholders were exercised as of the date of this prospectus; outstanding RMG common and preferred stock is exchanged for 2,420,030 shares of USE; and 245,991 shares are issued on conversion of principal and interest on restructured debt (1 share for each $2.25 principal and interest). The actual number of USE shares issued in exchange for RMG stock will depend on the market price for USE stock at conversion dates. See "Description of Securities - Options, Warrant, Convertible Shares of RMG, and Convertible Debt" and "Selling Shareholders."
Securities Offered	5,940,062 shares owned or to be owned by the selling shareholders.

Use of Proceeds	We will not receive any proceeds from sale of shares by the selling shareholders, but we will receive up to $4,966,400 in proceeds from exercise of the warrants and options, if they are exercised, which will be used for working capital.
Plan of Distribution	The offering is made by the selling shareholders named in this prospectus, to the extent they sell shares. Sales may be made in the open market or in private negotiated transactions, at fixed or negotiated prices. See "Plan of Distribution."
Risk Factors	An investment is subject to risk. See "Risk Factors."

RISK FACTORS

An investment in our common stock is speculative in nature and involves a high degree of risk. You should carefully consider the following risks and the other information in this prospectus before investing.

RISK FACTORS INVOLVING THE COMPANY

LIMITED RESERVES AND PRODUCTION MAY SLOW DOWN EXPLORATION OF OTHER PROPERTIES. In June 2003, RMG transferred coalbed methane properties, including RMG's only producing wells at the time (the Bobcat property) to Pinnacle Gas Resources, Inc. ("Pinnacle") in exchange for an equity position in Pinnacle. In January, 2004, we acquired a producing field. See "Business - Transaction with Pinnacle Gas Resources, Inc." and "Acquisition of Producing and Non-Producing Properties from Hi-Pro Production, LLC."

No reserves have been established for any other properties, because we have not drilled and tested enough wells on the properties to determine if they contain economic reserves of coalbed methane. For some properties, we will have to establish at least some reserve parameters before gas transmission companies will build gas lines to our properties, and construction of lines will depend also on then-current and projected gas market prices. If we have the necessary capital, we may elect to build our own lines over to existing transmission lines near the properties in the Powder River Basin in Wyoming and Montana.

Due to permitting delays in Montana, we may not realize production from the Montana properties until mid-2005, or later. Other Wyoming properties could be in production in late 2004 - early 2005, but production might be delayed due to low market prices for gas. Low market prices could delay gas purchasers from building the lines necessary to move gas from our properties to the major gas transmission lines.

These factors may make it difficult to raise the amount of capital needed to further explore the coalbed methane production potential in our properties in a rapid manner. In the meantime, we have only limited working capital. See below.

VOLATILE GAS PRICES FOR POWDER RIVER BASIN PRODUCTION MAY HURT BUSINESS. Gas prices per Mcf (1,000 cubic feet) for Powder River Basin production (where RMG owns properties) averaged $4.44, $3.33 and $2.13 for 2003, 2002 and 2001, but in those years the lowest prices were $3.14, $1.09 and $1.05. The negative effect of price swings can be neutralized to some extent by fixed price contracts, but volatile prices make it difficult to pick the optimum price to fix; the fixed price could turn out to be lower than market over the life of the contract. And, even with stable prices, if a field's production declines significantly, the producer must buy gas in the open market to fill the contract.

Historically, Powder River Basin gas prices have been lower than national prices, due to the limited capacity of gas transmission lines to ship production to the mid-west and west coast markets. In 2003, this negative price differential was from 10% to 45% (and even more during the off season), although the differential decreased in the fourth quarter of 2003 and first quarter 2004, compared to prices in the fourth quarter 2002. Recent increases in this 'take away capacity,' and other pipelilne increases planned or under construction, may not eliminate the negative price differential or even significantly decrease it.

A return to sustained low gas prices nationwide (particularly as amplified for Powder River Basin products through the negative pricing differential) would impair our ability to raise capital for RMG and reduce revenues from production coming on line.

WE MAY HAVE TO BEGIN TO CURTAIL OPERATIONS IF WE DON'T RAISE MORE CAPITAL BY AUGUST 2004. At December 31, 2003 we had working capital of $3,281,700 and an accumulated deficit of $43,073,000. Our current level of operations, including general and administrative overhead, mineral operations (primarily holding costs for the uranium and gold properties), and costs to comply with lease and permitting obligations for the coalbed properties, are estimated to cost $8,262,000 for the twelve months ending December 31, 2004. If we do not realize cash from liquidating assets, or other sources, or if RMG spends more money on exploration than will be covered by current arrangements, additional equity financing may be necessary to sustain the company's current level of operations after the second quarter 2004. There are no current commitments for such future financing as may be necessary.

Approximately $21 million under a lending facility is available to a wholly-owned subsidiary of RMG (RMG I) to buy and develop coalbed methane properties, but only if the lenders approve the properties to be acquired and the development plans for those properties. Loan proceeds can't be used for USE working capital or for RMG's operating expenses unrelated to the acquired properties, and until the loans are repaid, all revenues from acquired properties are dedicated to pay only RMG I's operating expenses related to the properties, and loan payments. In addition, failure to maintain financial ratios and minimum production levels required by the lenders could result in loss of the properties, as well as our investments in the properties in excess of the loans. See "Business - Acquisition of Producing and Non-Producing Properties from Hi-Pro Production, LLC."

Only the Hi - Pro properties are in production. Lack of production and

established reserves on the other properties may make it difficult to raise capital for exploration and development, or to acquire properties which are not at the level of development required by the lenders.

WE ARE SUBJECT TO CERTAIN KINDS OF RISK WHICH ARE UNIQUE TO THE MINERALS BUSINESS. The exploration for and production of minerals is highly speculative and involves risks different from and in some instances greater than risks encountered by companies in other industries. Many exploration programs do not result in the discovery of mineralization and any mineralization discovered may not be of sufficient quantity or quality. Also, the mere discovery of promising mineralization may not warrant production, because the minerals (including methane gas) may be difficult or impossible to extract (produce) on a profitable basis.

Profitability of any mining and production we may conduct will involve a number of factors, including, but not limited to: The ability to obtain all required permits; costs of bringing the property into production; the construction of adequate production facilities; the availability and costs of financing; keeping ongoing costs of production at economic levels, and market prices for the metals or hydrocarbons to be produced staying above production costs. Our properties, or properties we might acquire in the future, may not contain deposits of minerals or coalbed methane gas that will be profitable to produce.

In addition, all forms of mineral (and oil and gas and coalbed methane) exploration and production require permits to have been issued by various federal and state agencies. See below.

DELAYS IN OBTAINING PERMITS FOR METHANE WELLS COULD IMPAIR OUR BUSINESS. Drilling and producing coalbed methane wells requires obtaining permits from various governmental agencies. The ease of obtaining the necessary permits depends on the type of mineral ownership and the state in which the property is located. Intermittent delays in the permitting process can reasonably be expected throughout the development of any property. We may shift our exploration and development strategy as needed to accommodate the permitting process. As with all governmental permit processes, permits may not be issued in a timely fashion or in a form consistent with our plan of operations.

THE COMPANY'S POISON PILL COULD DISCOURAGE SOME ADVANTAGEOUS TRANSACTIONS. We have adopted a shareholder rights plan, also known as a poison pill (see "Description of Securities"). The plan is designed to discourage a takeover of the company at an unfair low price. However, it is possible that the board of directors and the takeover acquiror would not agree on a higher price, in which case the takeover might be abandoned, even though the takeover price was at a significant premium to market prices. Therefore, as a result of the mere existence of the plan, shareholders would not receive the premium price.

COMPLIANCE WITH ENVIRONMENTAL REGULATIONS MAY BE COSTLY. Our business (mostly coalbed methane) is intensely regulated by government agencies. Permits are required to drill and pump methane wells, explore for minerals, operate mines, build and operate processing plants, and handle and store waste. The regulations under which permits are issued change from time to time to reflect changes in public policy or scientific understanding of issues. If the economics

of a project would not justify the changes, we might have to abandon the project.

The company must comply with numerous environmental regulations on a continuous basis, to comply with the United States Clean Air Act, the Clean Water Act, the Resource Conservation and Recovery Act ("RCRA"), and the Comprehensive Environmental Response Compensation Liability Act ("CERCLA"). For example, water and dust discharged from mines and tailings from prior mining or milling operations must be monitored and contained and reports filed with federal, state and county regulatory authorities. Additional monitoring and reporting is required by the United States Nuclear Regulatory Commission for uranium mills even if not currently operating (like the company's uranium mill at Ticaboo, Utah). The Abandoned Mine Reclamation Act in Wyoming and similar laws in other states where we have properties impose reclamation obligations on abandoned mining properties, in addition to or in conjunction with federal statutes.

Failure to comply with these regulations could result in substantial fines and environmental remediation orders.

RISK FACTORS INVOLVING THIS OFFERING

FUTURE EQUITY TRANSACTIONS, INCLUDING EXERCISE OF OPTIONS OR WARRANTS, COULD RESULT IN DILUTION; AND REGISTRATION FOR PUBLIC RESALE OF THE COMMON STOCK IN THESE TRANSACTIONS MAY DEPRESS STOCK PRICES. From time to time, the company sells restricted stock and warrants, and convertible debt (or stock in subsidiary companies, convertible to stock in the company), to investors in private placements conducted by broker-dealers, or in negotiated transactions. Because the stock is restricted, the stock is often sold at a discount to market prices compared to a public stock offering, and the exercise price of the warrants sometimes (and/or the conversion price for stock in subsidiaries) is at or even lower than market prices. These transactions cause dilution to existing shareholders. Also, from time to time, options are issued to employees and third parties as incentives, with exercise prices equal to market. Exercise of in-the-money options and warrants will result in dilution to existing shareholders; the amount of dilution will depend on the spread between market and exercise price, and the number of shares involved. The company will continue to grant options to employees with exercise prices equal to market price at the grant date, and in the future may sell restricted stock and warrants (or stock in subsidiary companies convertible to stock in the company), all of which may result in dilution to existing shareholders.

Public resale (pursuant to registration statements) of such restricted stock, and of stock issued in conversion of debt or stock of subsidiary companies, may depress our price. For example, all of the stock covered by this prospectus was sold to private investors, or will be issued on conversion of debt or stock in subsidiary companies which was sold to private investors; these private investors are the selling shareholders under this prospectus.

TERMS OF SUBSEQUENT FINANCINGS MAY ADVERSELY IMPACT YOUR INVESTMENT. We may have to raise equity, debt or preferred stock financing in the future. Your rights and the value of your investment in the common stock could be reduced. For example, if we have to issue secured debt securities, the holders of the debt would have a claim to our assets that would be prior to the rights of

stockholders until the debt is paid. Interest on these debt securities would increase costs and negatively impact operating results. Preferred stock could be issued in series from time to time with such designations, rights, preferences, and limitations as needed to raise capital. The terms of preferred stock could be more advantageous to those investors than to the holders of common stock. In addition, if we need to raise more equity capital from sale of common stock, institutional or other investors may negotiate terms at least and possibly more favorable than the terms of this offering. Shares of common stock which we sell could be sold into the market, which could adversely affect market price.

REPRESENTATIONS ABOUT THIS OFFERING

We have not authorized anyone to provide you with information different from that contained in this prospectus. This prospectus is not an offer to sell nor does it seek an offer to buy the shares in any jurisdiction where this offer or sale is not permitted. The information contained in this prospectus is accurate only as of the date of this prospectus (or any supplement), regardless of when it is delivered or when any shares are sold.

FORWARD LOOKING STATEMENTS

We make statements in this prospectus which are considered to be "forward looking" statements. All statements (other than statements of historical fact) about financial and business strategy and the performance objectives of management are forward-looking statements. These forward-looking statements are based on the beliefs of management, as well as assumptions made by and information currently available to them. These statements involve risks that are both known and unknown, including unexpected economic and market factors, failure to accurately forecast operating and capital expenditures and capital needs (due to rising costs and/or different drilling and production conditions in the field), changes in timing or conditions for getting regulatory approvals to drill coalbed methane wells where needed, and other business factors. The use of the words "anticipate," "believe," "estimate," "expect," "may," "will," "should," "continue," "intend" and similar words or phrases, are intended by us to identify forward-looking statements (also known as "cautionary statements" because you should be cautious in evaluating such statements in the context of all the information in this prospectus and the information incorporated by reference into this prospectus). These statements reflect our current views with respect to future events. They are subject to the realization in fact of assumptions, but what we now think will happen, may turn out much different, and our assumptions may prove to have been inaccurate or incomplete.

The investment risks discussed under "Risk Factors" specifically address all of the material risk factors that may influence future operating results and financial performance. Those investment risks are not "boiler plate" but are intended to tell you about the uncertainties and risks inherent in our business at the present time which you need to evaluate before making your investment decision.

USE OF PROCEEDS

We will not receive any of the proceeds from the sale of the shares by the selling shareholders pursuant to this prospectus, but we will receive up to $4,966,400 in proceeds from the exercise of the options and warrants, if they exercise all the options and warrants, which will be used by the company for working capital.

DILUTION

At December 31, 2003, the net tangible book value ("NTBV") of the company was $6,760,800, or $0.49 per share. NTBV per share represents the amount of our total tangible assets less total liabilities, divided by the number of shares of common stock outstanding at April 30, 2004 of 13,658,645. Dilution in pro forma net tangible book value per share represents the difference between the amount per share paid by purchasers of common stock in this offering and the pro forma NTBV per share of common stock immediately after completion of this offering on a pro forma as adjusted basis.

After giving effect to the selling shareholders' conversion of RMG preferred and common stock to shares of the company, conversion of company debt to shares of the company, and exercise of the warrants and options held by the selling shareholders, our pro forma NTBV as of December 31, 2003 would have been $14,824,900, or $0.83 per share, with 17,797,355 shares outstanding, representing an immediate increase in NTBV of $0.34 per share of common stock to existing shareholders.

Assuming the selling shareholders sell their shares at an assumed market price of $2.21, new investors in this offering would realize an immediate dilution in pro forma NTBV of $1.38. The table illustrates this per share dilution:

Assumed offering price per share:		$2.21
NTBV per share at December 31, 2003:	$0.49	
Increase in NTBV per share attributable to conversions and exercise of warrants and options	$0.34	
Pro forma NTBV per share as of December 31, 2003		$0.83
Dilution in pro forma NTBV per share for new investors		$1.38

The foregoing assumes no options held by officers, directors and employees of the company are exercised. At December 31, 2003, there were 2,873,646 shares of common stock issuable on exercise of such options at a weighted average exercise price of $2.74 per share.

CAPITALIZATION

The capitalization of the company at December 31, 2003, and as adjusted for

the selling shareholders' conversion of common and preferred stock of RMG, conversion of company debt, and exercise of warrants and options, is shown in the table.

	December 31, 2003		
	Actual	Pro Forma Adjustments	(1)
Cash and cash equivalents	$ 4,084,800	$ 6,766,400	(2)
Long-term debt	$ 1,317,600	$ (397,700)	(3)
Minority Interests	$ 496,000	$ (200,000)	(4)
Shareholders' equity			
Common stock, unlimited number authorized, 13,658,645 shares issued and outstanding (actual); 17,797,355 shares issued and outstanding (as adjusted)	$ 128,200	$ 41,400	(2)(3)(4)
Additional paid-in capital	$ 52,961,200	$ 8,178,500	(2)(3)(4)
Accumulated deficit	$ (43,073,000)	$ (155,800)	(3)
Total shareholders' equity	$ 6,760,800	$ 8,064,100	

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SELLING SHAREHOLDERS

This prospectus covers the offer and sale by the selling shareholders of up to 5,940,062 shares of common stock owned or to be owned on exercise of options and warrants by the selling shareholders, on conversion of RMG common and preferred stock, and conversion of debt. The footnotes to the table below give information about shares issuable on exercise of the options and warrants by the selling shareholders.

None of the selling shareholders are affiliates of the company or any subsidiary of the company.

The shares covered by this prospectus, and the transactions in which the selling shareholders acquired their shares (or options or warrants), are summarized below:

- 279,033 shares are held by 16 accredited investors who purchased shares at

$3.00 per share (and warrants, see below) from the company during the period June 21, 2001 to October 18, 2001, in a private placement conducted by the company (see below).

- 1,205 shares held by 3 persons associated with McKim & Company LLC ("McKim", a registered broker-dealer, formerly VentureRound Group LLC) who acquired the shares through the exercise of warrants at $3.75 per share.

  These and other shares acquired on exercise of warrants, and outstanding warrants held by persons either associated (licensed) with, or owners of equity interests in McKim (which transactions are described below) were acquired in financing or advisory service transactions in which McKim was involved. In each of these transactions, the services provided by McKim were provided by persons associated (licensed) with McKim. The warrants were issued in partial consideration for these services, but distributed to the owners of McKim (including the licensed brokers, who also own equity interests in McKim). Those persons who received warrants as owners of McKim, but who are not licensed as brokers, did not provide securities-transaction services and did not otherwise pay for the warrants.

- 10,667 shares held by two persons who acquired the shares on exercise of warrants at $3.75 per share.

- 45,795 shares underlying warrants held by 24 persons associated with McKim, exercisable at $3.75 per share. These warrants include (a) warrants (expiring October 18, 2006) for 38,966 shares issued to McKim for services as financial advisor to the company in connection with the private placement of securities to 18 accredited investors completed on October 18, 2001 (see above), plus (b) warrants (expiring November 2, 2006) for 9,829 shares held by persons associated (licensed) with McKim, for financial planning and strategic services provided to the company by McKim.

- 523,297 shares of restricted common stock issued to seven investors in exchange for shares of RMG.

- 222,874 shares are held by 14 accredited investors who purchased shares at $3.25 per share (and warrants, see below) from the company during the period February 20, 2002 to March 26, 2002, in a private placement conducted by the company (see below). There were 16 investors in the private placement; two have sold their shares (but not exercised their warrants) prior to the date of this prospectus.

- 56,383 shares are issuable on exercise of warrants held by the 16 investors, at an exercise price of $4.00 per share, expiring in March 2005.

- 27,813 shares under warrants held by 34 persons who own equity interests in McKim, exercisable at $4.00 per share, expiring in March 2005.

- 379 shares held by two persons who own equity interests in McKim, who acquired the shares on exercise of warrants at $4.00 per share

- 120,000 shares under warrants held by Bourne Capital, LLC, a private lender and shareholder of U.S. Energy Corp., exercisable at $3.00 per share. These

warrants originally were issued to Caydal, LLC. in connection with Caydal's May 2002 purchase of shares and warrants in the company . Caydal sold the shares and retained the warrants. On March 16, 2004, Caydal transferred all such warrants to Bourne Capital, LLC; Bourne and Caydal have the same beneficial owners.

- 29,559 shares under warrants held by 27 persons who own equity interests in McKim, exercisable at $3.00 per share, expiring March 18 and 25, 2005.

- 441 shares held by two persons who own equity interests in McKim, who acquired the shares on exercise of warrants at $3.00 per share.

- 3,000 shares held by one person who owns an equity interest in McKim, who acquired the shares on exercise of warrants at $3.75 per share.

- 52,110 shares held by 10 persons who had been associated (licensed) with a broker-dealer which raised funds for Yellowstone Fuels Corp., a subsidiary of the company, under a private placement of YSFC common stock in 1997. The shares were acquired through the exercise of warrants at $3.64 per share. The YSFC warrants were exchanged for warrants of the company in 1999. The unexercised warrants have expired.

- 60,000 shares under warrants held by Tsunami Partners, L.P., exercisable at $3.00 per share. These warrants expire November 19, 2005.

- 14,799 shares under warrants held by 30 persons who own equity interests in McKim, exercisable at $3.00 per share. These warrants expire November 19, 2005.

- 201 shares held by two persons who own equity interests in McKim, who acquired the shares on exercise of warrants at $3.00 per share.

- 10,000 shares held by a trusts issued in settlement of a lawsuit involving the company's subsidiary Sutter Gold Mining Company.

- 18,000 shares under options held by Robert Nicholas, which were issued as partial payment for legal services, exercisable at $3.00 per share. These options expire August 9, 2004.

- 9,805 shares held by two persons, which shares were issued as partial payment for legal services.

- 1,913 shares were issued to Dale May and his wife Jeanne May in March 2002, in exchange for 2,500 RMG shares which were issued to Mr. May in January 2002 as a finder's fee for his introduction to RMG of several investors. Mr. May has represented to the company that he is not a securities 'dealer' as that term is defined in the Securities Act of 1933.

- 50,000 shares, and warrants to purchase an additional 50,000 shares (exercisable at $5.00 per share, expiring June 30, 2006), were issued to Sanders Morris Harris Inc. ("SMH"), a financial advisory firm, in partial payment of SMH's services provided to RMG in connection with RMG's transfer of certain coalbed methane properties to Pinnacle Gas Resources, Inc.

- 15,000 held by Riches In Resources, Inc., a financial consulting firm. 7,920 shares were issued to for services to the company provided from November 15, 2002 through July 15, 2002 and another 7,080 shares were issued for services during the remaining term of the agreement (through May 15, 2004) with this consultant. This consulting agreement was entered into on May 30, 2003.

- 12,000 shares were issued to C.C.R.I. Corporation, a financial consulting firm, under an agreement entered into May 30, 2003, for services to the company provided through September 2003. Pursuant to the same agreement, the company issued to C.C.R.I. warrants to purchase 75,000 shares, 25,000 exercisable at $3.75 per share, 25,000 shares exercisable at $4.50 per share and 25,000 shares exercisable at $5.50 per share; and issued 12,000 shares and a warrant to purchase 12,500 shares, exercisable at $3.75 per share to C & H Capital, Inc., which is owned by Jason Wayne Assad, who is associated with C.C.R.I. All of these warrants expire March 16, 2006.

- 59,000 shares were issued to Burg Simpson Eldredge Hersh Jardine PC, a law firm representing the company in litigation, in partial payment of legal services provided to the company. 25,000 of these shares were issued in May and July 2002, and 34,000 shares were issued in July 2003.

- 10,000 shares were issued to Tim and Betty Crotty in June of 2003 as settlement of a lease obligation relating to a property owned by the company's subsidiary, Sutter Gold Mining Company.

- 12,500 shares were issued to Robert Hockert and 25,000 shares to Mathew B. Murphy in May of 2002 as partial payment of producing coalbed methane properties.

- 24,260 shares were issued to James and Vida Roebling as payment for a coalbed methane lease. These shares were issued in December of 2001 and January 2002.

- In 2002, the company borrowed $500,000 from Tsunami Partners L.P., with rights to convert principal, but not interest, to shares of the company at a conversion rate of 1 share for each $3.00 of principal. On October 28, 2003, the company and Tsunami amended the loan to (i) reduce the interest rate, starting September 1, 2003, from the original 8% annual rate, to be equal to the Federal Short Term Rate for annual compounding (the "Federal Short Term Rate" as defined in section 1274(d) of the Internal Revenue Code), as that rate changes from time to time; (ii) allow conversion of interest, as well as principal, to shares; (iii) not require quarterly payment of interest with cash, but add accruing interest to principal; (iv) extend the maturity date for the loan to December 31, 2004; (v) reduce the conversion rate for principal to (and establish the conversion rate for interest at) 1 share for each $2.25 of principal and interest; and (vi) provide for mandatory conversion of principal and accrued interest outstanding at maturity to shares at the same conversion rate of 1 share for $2.25 of principal and interest. Optional conversion of principal and accrued interest prior to maturity is permitted. Also, in connection with the restructuring of debt, the expiration date of the warrants issued to Tsunami was extended 12 months (from the original May 30, 2005 to the new date of May 30, 2006).

  Resale of 245,991 shares issuable on Tsunami's future conversion of principal and interest is covered by this prospectus.

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- In June and July 2003, Caydal, LLC and five individuals invested $750,000 in RMG for 333,333 shares of RMG stock (at $2.25 per share); warrants on 62,500 RMG shares at $3.00 per share, exercisable until June 3, 2006; and warrants on 46,875 shares of the company at $4.00 per share, exercisable until June 3, 2006. Under the terms of the original transaction, each share of RMG stock was convertible into that number of shares of the company obtained by dividing (i) $2.25 (subject to anti-dilution adjustments) by (ii) 85% of the then-current market price of the company's shares, provided that (a) the conversion price cannot exceed $5.00, and (b) the exchange rights expire 20 business days after the company's stock price exceeds $7.50 for 20 consecutive trading days.

  On October 28, 2003, Caydal and one individual (James McCaughey) accepted the company's and RMG's offer, made to all of the 2003 investors in RMG, to restructure the transaction by (i) refunding 50% of the investment (Caydal was refunded $250,000 and Mr. McCaughey was refunded $50,000), and reducing the conversion rate for their remaining total of 133,333 RMG shares down to 77.5%. The other four individuals elected to remain fully invested, for which election the company and RMG reduced the conversion rate for their remaining total of 66,666 RMG shares down to 70%.

  Caydal has converted the RMG shares (at the adjusted 77.5% conversion rate) owned after Caydal accepted RMG's offer in October 2003, and has sold the conversion shares. Caydal's warrants on 31,250 shares of the company's stock now are owned by Bourne Capital, LLC.

  This prospectus covers the resale of 277,838 shares of the company on conversion of RMG shares, using an assumed conversion price of $1.00 per share. The actual number of shares issued will depend on market price at conversion dates. The RMG shares issuable on exercise of the RMG warrants are not entitled to conversion into USE shares.

  This prospectus covers the resale of the 46,875 shares underlying warrants, of which 6,250 have been exercised.

- In partial compensation for services provided by McKim to RMG and USE in connection with the June and July, 2003 investments in RMG, USE issued to McKim warrants to purchase 19,500 shares of USE common stock, exercisable at $4.00 per share. The warrants expire June 6, 2006. Warrants to purchase an additional 3,000 shares, on the same terms, were issued to John Schlie, an employee of McKim.

- Warrants to purchase 10,000 shares were issued to Frederick P. Lutz in partial compensation for consulting services he provided to the company from August 1, 2002 to January 1, 2003. The warrants are exercisable at $2.00 per share, and expire August 1, 2005.

- Two options to purchase a total of 80,000 shares were issued to two individuals (Murray Roark and Robert Craig, 40,000 shares each), exercisable at $4.30 per share and expiring July 31, 2006. These options were issued to compensate Mr. Roark and Mr. Craig as finders for their introducing RMG to Carrizo Oil & Gas, Inc. in early July 2001. Mr. Roark and Mr. Craig are licensed securities brokers. Since July 2001, RMG has had an agreement with a subsidiary of Carrizo for the acquisition and exploration of coalbed methane properties in Wyoming and Montana.

- Options to purchase 10,000 shares were issued to Karl Eppich on December 12, 2003, exercisable at $2.90 per share and expiring December 11, 2004.

- 200,000 restricted shares held by seven persons who were issued shares of the company as partial payment to Hi - Pro Production, LLC of the purchase price for RMG I's purchase of coalbed methane

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properties from Hi - Pro. See "Acquisition of Producing and Non-Producing Properties from Hi - Pro Production, LLC" above. These persons are members of Hi - Pro Production, LLC.

- 166,667 shares issued to seven persons as payment in lieu of cash on the company's $500,000 promissory note, issued as partial payment to Hi - Pro Production, LLC of the purchase price for RMG I's purchase of coalbed methane properties from Hi - Pro. See "Acquisition of Producing and Non-Producing Properties from Hi - Pro Production, LLC" above. These persons are members of Hi - Pro Production, LLC. The shares had secured the note.

- 700,000 shares issuable on conversion (after November 1, 2004) of 233,333 restricted shares of RMG common stock, which RMG shares were issued to seven persons in partial payment of the purchase price for RMG I's purchase of coalbed methane properties from Hi - Pro. See "Acquisition of Producing and Non-Producing Properties from Hi - Pro Production, LLC" above. These persons are members of Hi - Pro Production, LLC. From November 1, 2004 to November 1, 2006, the RMG shares are convertible at the election of the holders into restricted shares of common stock of the company. The number of shares to be issued on conversion shall equal (A) the number of RMG shares to be converted, multiplied by $3.00 per share, divided by (B) the average closing sale price of the shares of the company as reported on Nasdaq for the 10 trading days prior to notice of conversion. The conversion right is exercisable cumulatively, in minimum amounts of at least $50,000. Resale of the conversion shares is covered by this prospectus.

  This prospectus covers the resale of shares of the company on conversion of the RMG common shares, using an assumed conversion price of $1.00 per share. The actual number of shares issued will depend on market price at conversion dates.

- 1,442,192 shares of stock issuable on conversion of (and payment of dividends on) 600,000 shares of Series A preferred stock of RMG, purchased by three institutional investors (Crestview Capital Master, L.L.C.; Spring Street Partners, L.P.; and Lion Fund, L.P.) for $1,800,000 ($3.00 per Series A share) as of February 26, 2004. These investors also acquired warrants in the transaction (see below).

  The Series A stock bears an annual dividend of 10%, and is convertible to common stock of the company at 90% of the company's volume weighted average pricing (VWAP) on Nasdaq for the five trading days before conversion (but the conversion price cannot be less than $1.50 per share of the company's stock). Dividends are payable in cash or shares of the company's stock (at RMG's election) on each dividend payment date (March 1, beginning in 2005), with USE stock calculated in the same manner. Series A stock not converted on the second anniversary of investment will be converted into shares of

RMG common stock.

Resale of the 1,442,192 shares issuable for conversion of (and dividends on) the Series A preferred stock is based on as assumed conversion price of $1.50. The number of shares issued will depend on market prices.

- 150,000 shares under warrants (held by the three institutional investors), exercisable (vesting) 25% per quarter (fully exercisable after one year, then expiring in February 2007), at a price equal to 90% of VWAP for the five trading days before exercise (but not less than $1.50 per share). If the stock price determined under the 90% of VWAP formula exceeds $6.00 for 15 consecutive trading days, the warrants will expire 10 on the tenth trading day after the company sends a call notice to the investors.

- 75,000 shares under options held by consultant Michael Baybak at $2.25 per share. The options were issued for services to be performed, on February 8, 1999, and expire August 9, 2004.

- 350,000 shares (comprised of 100,000 shares; 50,000 shares underlying Class A warrants, exercisable at $3.00 per share; and 200,000 shares underlying five year Class B warrants, exercisable at $3.00 per share (the Class A warrants expire March 2, 2007; the Class B warrants expire March 2, 2009)). If the closing Nasdaq price for the company's stock is at or more than $7.50 for any 10 consecutive trading days, the warrants shall expire on the 30th calendar day after such 10th trading day. The shares and warrants were purchased by Bourne Capital, LLC on March 2, 2007 for $350,000 ($300,000 for the shares and the Class A warrants, and $50,000 for the Class B warrants).

- 318,465 shares under warrants issued to the participating lenders (Drawbridge Special Opportunities Fund, L.P., and Highbridge/Zwirn Special Opportunities Fund, L.P.) in the mezzanine financing - see "Acquisition of Producing and Non-Producing Properties from Hi - Pro Production, LLC"). The warrants are exercisable for three years (subject to vesting) at $3.30 per share. Warrants on 63,693 shares are vested at prospectus date. The remaining warrants will vest at the rate of the right to buy one share for each $78.50 which RMG I subsequently borrows under the credit facility. Regardless of when vested, all warrants will expire on the earlier of January 30, 2007, or the 180th day after the company notifies the warrant holders that the company's stock price has achieved or exceeded $6.60 per share for a consecutive 15 business day period.

The selling shareholders may offer their shares for sale on a continuous basis pursuant to rule 415 under the 1933 Act.

The following information has been provided to us by the selling shareholders. All numbers of shares, and percentage ownership, are stated on a pro forma basis as of the date of this prospectus, assuming issuance of 4,182,357 shares upon exercise of all the selling shareholders' options and warrants, and conversion of all preferred and common stock of RMG, and company debt, held by the selling shareholders. Not included in the pro forma calculations are the additional shares issuable on exercise of other options and warrants held by persons who are not selling shareholders.

	NUMBER OF SHARES OF COMMON STOCK OWNED(1)	NUMBER OF SHARES TO BE REGISTERED	PERCENT BEFORE OFFERING
A. Clinton Allen 1280 Massachusetts Ave. #200 Cambridge, MA 02138	18,909(3)(4)(5)	18,909	*
Ardell J. Schelich 347 Lake View Dr. Washington, MO 93090	35,359(3)(4)(5)	34,500	*
Bathgate McColley & Associates LLC 5350 S. Roslyn Street, Suite 308 Greenwood Village, CO 80111	538(4)(5)	538	*
Belmont Navy, LLC 111 Sixth Street Cambridge, MA 02141	1,167(3)(4)(5)	1,167	*

	NUMBER OF SHARES OF COMMON STOCK OWNED(1)	NUMBER OF SHARES TO BE REGISTERED	PERCENT BEFORE OFFERING
Beverly Karns 5424 South Geneva Way Englewood, CO 80111	149,106(9)	149,106	*
Bourne Capital LLC 410 Marion Street Denver, CO 80218	502,845(3)(4)(5)	502,845	2.8%
Burg Simpson Eldredge Hersh Jardine PC 40 Iverness Dr. East Englewood, CO 80112	59,000	59,000	*
C.C.R.I. Corporation 3104 E. Camelback Rd., Suite 539 Phoenix, AZ 85016	87,000(10)	87,000	*
Charles D. & Bonnie B. Snow	23,367	6,667	*

4725 Travis Way Reno, NV 89502-5358			
Curragh Capital Partners, LLC 609 5th Avenue - 2nd Floor New York, NY 10017	1,500(5)	1,500	*
Dale S. and Jeanne L. May 960 Point of the Pines Drive Colorado Springs, CO 80919	40,178	40,178	*
David Berlin, Birchwood Resources 1675 Broadway #1020 Denver, CO 80202	1,167	1,167	*
David Gertz 7120 E. Orchard Rd. #300 Greenwood Village, CO 80111	1,167(3)(4)(5)	1,167	*
Domenico Porco 32777 West Warren Garden City, MI 48135	8,333	8,333	*
Donald F. Kern 2737 Nestlebrook Trail Virginia Beach, VA 23456	27,692(4)	27,692	*

	NUMBER OF SHARES OF COMMON STOCK OWNED(1)	NUMBER OF SHARES TO BE REGISTERED	PERCENT BEFORE OFFERING
Donna Schulze 8777 E. Dry Creek Rd., Apt. 1422 Englewood, CO 80112	3,208(5)	3,208	*
Dr. Ross T. Krueger 1801 Barrs St., Suite 605 Jacksonville, FL 32204-4751	18,462(4)	18,462	*
Edward J. Godin 7424 S. Chapparal Circle East Aurora, CO 80016	1,000(5)	1,000	*
Eggleston's LLC 8109 Wellington Road Alexandria, VA 22308	9,230(4)	9,230	*

Eleanor Crosswait 7790 Cherrywood Lane Verona, WI 53593	3,333	3,333	*
Eric Stroud 7715 Dairy Ln. Village of Lakewood, IL 60014	1,100	1,100	*
Francis M. Harris 541 Thornton Road Lithia Springs, GA 30122	50,000	50,000	*
Frederick P. Lutz 1089 Dunbarton Chase Atlanta, GA 30319	10,000(11)	10,000	*
Generation Capital Association 1085 Riverside Trace Atlanta, GA 30328	36,924(4)	36,924	*
George D. Thompson 11710 W. 102 Place Overland Park, KS 66214	285(3)(4)(5)	285	*
Gulf Projects Investment Company Kuwait Stock Exchange Building Safat 13066, Kuwait	4,670(3)(4)(5)	4,670	*

	NUMBER OF SHARES OF COMMON STOCK OWNED(1)	NUMBER OF SHARES TO BE REGISTERED	PERCENT BEFORE OFFERING
Jack D. Koser 728 Azalea Dr. Rockville, MD 20856	10,333	10,333	*
James and Vida Ann Roebling P. O. Box 71 Clearmont, WY 82835	24,260	24,260	*
James A. McCaughey 3 Cueta Drive Rancho Mirage, CA 92270	101,169(3)(4)(5)(9)	101,169	*
James E. Hosch	1,231(4)	1,231	*

7038 Willa Lane Evergreen, CO 80439			
James J. Cahill 57 Lawrence Hill Rd. Huntington, NY 11743	26,148(3)(4)(5)	26,148	*
James V. Rauh 7234 South Uravan Ct. Aurora, CO 60016	19,036(3)(4)(5)	19,036	*
Jason Wayne Assad 6585 Sterling Drive Suwanee, GA 30024	77,077(4)	18,462	*
C & H Capital, Inc. 6585 Sterling Drive Suwanee, GA 30024	24,500(3)	24,500	*
Jeffrey J. Schmitz 5834 S. Paris Ct. Englewood, CO 80111	4,266(4)(5)	4,266	*
John J. Lais, III 2602 Woodland Ct McKinney, TX 75070	5,574(3)(4)(5)	5,574	*
John P. Kanouff 2525 E. Cedar Ave. Denver, CO 80209	15,000	15,000	*

	NUMBER OF SHARES OF COMMON STOCK OWNED(1)	NUMBER OF SHARES TO BE REGISTERED	PERCENT BEFORE OFFERING
John Schlie 2406 West Davies Ave. Littleton, CO 80120	3,000(4)	3,000	*
John W. & Annette C. Golen JTWROS 1898 Harley Dr. Ann Arbor, MI 48103	4,333	4,333	*
John Shuster 21379 York Ct. Kildeer, IL 60047	1,788	1,788	*

Joseph & Daphne C. Alphonso Family Trust 7731 Provincial Drive Canton, MI 48187-2152	33,333	33,333	*
Kurt Novey 4224 Nasmyth Drive Plano, TX 75093	550	550	*
Lance Hering 7163 S. Chapparal Cir. E Centennial, CO 80016-2129	2,175(3)(4)	2,175	*
Larry A. Bach & Susan A. Bach 501 W. Fairbanks Avenue Winter Park, FL 32789	285(3)(4)(5)	285	*
Linda Monahan & Donald R. Cotner 224 Anglers Drive South Marathon, FL 33050	43,767(9)	43,767	*
Lynden L. Rader 10342 Carioca Ct. San Diego, CA 92124-1315	26,000	24,000	*
Mark A. & Kangping K. Lowenstein Jtwros 12512 White Drive Sliver Spring, MD 20904	33,469(5)	33,469	*
Marshall G. Folkes, III 3841 Houndstooth Court Richmond, VA 23233	20,574(3)(4)(5)	20,574	*

	NUMBER OF SHARES OF COMMON STOCK OWNED(1)	NUMBER OF SHARES TO BE REGISTERED	PERCENT BEFORE OFFERING
Marshall Gray Folkes, Jr. 829 Long Point Lane Topping, VA 23169	6,700	6,700	*
Martin G. Williams & Margaret M. Williams 13333 Long Leaf Dr. Clarksville, MD 21029	574(3)(4)(5)	574	*

Mathew B. Murphy P. O. Box 15181 Gillette, WY 82717-1581	25,000	25,000	*
Maury Rogow 1050 Taylor Street N #709 Arlington, VA 22201	925(3)(4)(5)	925	*
McKim & Company LLC 8400 E. Crescent Parkway, Suite 600 Greenwood Village, CO 80111	19,500(3)	19,500	*
Michael J. Alfano 10310 Forest Maple Rd. Vienna, VA 22182	40,000	40,000	*
Michael Bayback 45150 Ocean View Blvd., Suite 305 LaCanada, CA 91011	75,000(6)	75,000	*
Michael Bagnulo 1020 Martins Lake Roswell, GA 30076	412	412	*
Michael M. Vuocolo DDS 407 Arrowhead BL 123 Jonesboro, GA 30236	18,462(4)	18,462	*
Mildred Swift McBride Testamentary Trust 50 Church Street, P. O. Box 128 Sutter Creek, CA 95685	10,000	10,000	*
Mohamed Ali Ahmed 5052 Grimm Dr. #512 Alexandria, VA 23233	574(3)(4)(5)	574	*

	NUMBER OF SHARES OF COMMON STOCK OWNED(1)	NUMBER OF SHARES TO BE REGISTERED	PERCENT BEFORE OFFERING
Morgan Stanley Dean Witter FBO Thomas Garrity 1857 Wainwright Dr. Reston, VA 20190	574(3)(4)(5)	574	*
Murray Roark 4400 Post Oak Parkway, Suite 1720	40,000(7)	40,000	*

Houston, TX 77027			
P-Con Consulting 5432 Broadmoor St. Alexandria, VA 22315	9,230(4)	9,230	*
Peyton N. Jackson & Linda M. Jackson 8704 Standish Rd. Alexandria, VA 22308	10,190(3)(4)(5)	10,190	*
Philip A. Nicholas 170 North 5th Street P. O. Box 928 Laramie, WY 82703	4,331	4,331	*
R. A. Fitzner, Jr P. O. Box 8000-260 Mesquite, NV 89024	3,574(3)	3,574	*
Richard A. Peterson 5839 Boca Raton Drive Dallas, TX 75230	4,000	4,000	*
Richard Huebner 16318 E. Berry Avenue Centennial, CO 80115	1,731(4)	1,731	*
Riches In Resources, Inc. 1433 Oakleaf Circle Boulder, CO 80304	15,000	15,000	*
Robert A. Nicholas 107 South Broadway, Suite 213 Riverton, WY 82501	23,474(5)	23,474	*
Robert H. Taggart, Jr. 4163 S. Chapparrel Circle East Aurora, CO 80116	25,148(3)(4)(5)	25,148	*

	NUMBER OF SHARES OF COMMON STOCK OWNED(1)	NUMBER OF SHARES TO BE REGISTERED	PERCENT BEFORE OFFERING
Robert Hockert Petrol Pacific Corporation 3212 Fitzpatrick Dr. Gillette, WY 82718	12,500	12,500	*
Robert Long	31,335	31,335	*

3125 Riverside Drive Riverton, WY 82501			
Robert S. Craig 2931 Highland Lakes Dr. Missouri City, TX 77459	40,000(7)	40,000	*
Roger Conan 14 Oakley Road Dublin 6, Ireland	574(3)(4)(5)	574	*
Roy Van Buskirk & Rachel Deutsch 1513 Forest Lane McLean, VA 22101	872(3)(4)(5)	872	*
Russell A. Pomeroy 1801 Broadway, Suite 680 Denver, CO 80202	9,333	9,333	*
Sterne Agee & Leach, Inc. C/F Michael M. Vuocolo IRA 813 Shades Creek Pkwy., Suite 100B, Birmingham, AL 35209	574(3)(4)(5)	574	*
Sanders Morris Harris Inc. 600 Travis, Suite 3100 Houston, TX 77002	100,000(8)	100,000	*
Steven Bathgate 6376 E. Tufts Avenue Englewood, CO 80112	1,835(4)	1,835	*
SJS Holdings c/o Susan Schoch 350 East 84th Street New York, NY 10028	5,909(3)(4)(5)	5,909	*

	NUMBER OF SHARES OF COMMON STOCK OWNED(1)	NUMBER OF SHARES TO BE REGISTERED	PERCENT BEFORE OFFERING
Timothy R. Crotty TTEE FBO Timothy R. Crotty Trust DTD 3/14/03 13575 Ridge Road Sutter Creek, CA 95685	10,000	10,000	*
Troy G. Taggart	8,894(3)(4)(5)	8,894	*

21220 Craborchard Ct. Ashburn, VA 20147			
Tsunami Partners 2011 Cedar Springs Rd., Apt. 506 Dallas, TX 75201	305,991	305,991	1.7%
Vicki D.E. Barone 7854 S. Harrison Circle Littleton, CO 80122	51(4)	51	*
Vincent Schmitz 4207 Montview Blvd. Denver, CO 80207	19,629(4)(5)	19,629	*
Wayne A. Moore P. O. Box 68 Rock Falls, IL 61071	1,167(3)(4)(5)	1,167	*
Wesley A. Pomeroy 1801 Broadway, Suite 680 Denver, CO 80202	2,668	2,668	*
William N. Anderson 6650 Oakhills Drive Bloomfield, MI 48301-3238	55,385(4)	55,385	*
William Gamello 19 West Sky Lane Clifton Park, NY 12065	550	550	*
William Gavin Kessler 1921 Bissell - Unit C Chicago, IL 60614	275	275	*
William Potter 498 Ridgewood Avenue Glen Ridge, NJ 07028	159(4)(5)	159	*

	NUMBER OF SHARES OF COMMON STOCK OWNED(1)	NUMBER OF SHARES TO BE REGISTERED	PERCENT BEFORE OFFERING
William Powers 19900 Earlwood Dr. Jupiter, FL 33458	550	550	*

William G. Van Buren 6576 Fairview Avenue Downers Grove, IL	29,822(9)	29,822	*
Raymond Lynde 501 Clarion Dr. Gillette, WY 82718	224,000(12)	224,000	1.3%
Richard Lynde P. O. Box 325 Gillette, WY 82718	224,000(12)	224,000	1.3%
Virginia H. Lynde Trustee 604 Warren Avenue Gillette, WY 82718	176,000(12)	176,000	*
Ronald K. Lynde Trustee 604 Warren Avenue Gillett,e WY 82718	176,000(12)	176,000	*
The Riggs Company LLC 155 Scott Drive Sheridan, WY 82801	106,667(12)	106,667	*
Steve Youngbauer 25 Buckhorn Flats Rd. Riverton, WY 82501	106,667(12)	106,667	*
Carl Andresen 8511 W. Donald Dr. Peoria, AZ 85383	53,333(12)	53,333	*
Lion Fund LP 601 Jefferson, Suite 3600 Houston, TX 77002	88,715(13)	88,715	*
Spring Street Partners L.P. 601 Jefferson, Suite 3600 Houston, Tx 77002	177,655(13)	177,655	*

	NUMBER OF SHARES OF COMMON STOCK OWNED(1)	NUMBER OF SHARES TO BE REGISTERED	PERCENT BEFORE OFFERING
Crestview Capital Master L.L.C. 95 Revere Drive, Suite A	1,325,822(13)	1,325,822(14)	7.4%

Northbrook, IL 60062			
Drawbridge Special Opportunities Fund, LP 1251 Avenue of the Americas New York, NY 10020	159,233(15)	159,233	*
Highbridge/Zwirn Special Opportunities Fund, LP 745 Fifth Avenue, 18th Floor New York, NY 10151	159,232(15)	159,232	*
Christopher A. Flanigan Irrevocable Trust 1572 Northfield Lane Lafayette, CO 80026	127,289	127,289	*
Sean Flanigan 904 East Stanford Avenue Englewood, CO 80110	164,120	164,120	*
B.W. Squared LLC 2407 W. Colorado Avenue Colorado, Springs, CO 80904	38,265	38,265	*
Adaya Family Trust 1301 Ocean Avenue Santa Monica, CA 90401	76,531	76,531	*
SHYM, LLC 515 S. Figueroa Street, #1600 Los Angeles, CA 90071	76,531	76,531	*
James Pearl 324 Tenth Avenue, Suit 170 Salt Lake City, UT 84103	2,296	2,296	*
Karl Eppich 15 Piper Road Sheridan, WY 82801	10,000(16)	10,000	*

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(1) Includes shares underlying warrants or options which may not have yet been exercised.

(2) Assumes all shares registered for resale under this prospectus are sold by the selling shareholder.

(3) Includes shares issuable on exercise of warrants and/or options at $3.75 per share.

(4) Includes shares issuable on exercise of warrants and/or options at $4.00 per share.

(5) Includes shares issuable on exercise of warrants and/or options at $3.00 per share.

(6) Includes shares issuable on exercise of warrants and/or options at $2.25 per share.

(7) Includes shares issuable on exercise of warrants and/or options at $3.75 per share. (8) Includes shares issuable on exercise of warrants and/or options at $5.00 per share.

(9) Includes shares issuable upon conversion of RMG common stock and warrants exercisable at $4.00 per share.

(10) Includes shares issuable on exercise of warrants at $3.75, $4.50 and $5.50 per share.

(11) Includes shares issuable on exercise of warrants at $2.00 per share.

(12) Includes shares issuable upon conversion of RMG common stock.

(13) Includes shares issuable upon conversion of Rock Mountain's Series A Convertible Preferred Stock assuming the lowest conversion price of $1.50 per share, shares issuable in lieu of cash dividend payments on Series A Convertible Preferred Stock assuming the preferred stock is outstanding for two years and the interest conversion rate is $1.50 per share, shares issuable upon exercise of a Common Stock Purchase Warrant issued in connection with the issuance of the Series A Convertible Preferred Stock. Does not include additional shares which may be issuable in the event of an adjustment to the conversion price of the Series A Convertible Preferred Stock as a result of a dilutive issuance by the company.

(14) The provisions in the Series A Preferred Stock and Stock Purchase Warrants held by such selling shareholder prohibit such selling shareholder form converting its preferred stock or exercising its warrants to the extent such conversion or exercise would cause its beneficial ownership to exceed 4.99%. Accordingly, the actual beneficial ownership of the selling shareholder at all times cannot exceed 4.99%.

(15) Includes shares issuable on exercise of warrants at $3.30 per share.

(16) Includes shares issuable on exercise of warrants at $2.90 per share.

The shares owned or to be owned by the selling shareholders are registered under rule 415 of the general rules and regulations of the Securities and Exchange Commission, concerning delayed and continuous offers and sales of securities. In regard to the offer and sale of such shares, we have made certain undertakings in Part II of the registration statement of which this prospectus is part, by which, in general, we have committed to keep this prospectus current during any period in which the selling shareholders make offers to sell the covered securities pursuant to rule 415.

PLAN OF DISTRIBUTION

The selling stockholders and any of their pledgees, assignees and successors-in-interest may, from time to time, sell any or all of their shares

of common stock on any stock exchange, market or trading facility on which the shares are traded or in private transactions. These sales may be at fixed or negotiated prices. The selling stockholders may use any one or more of the following methods when selling shares:

- ordinary brokerage transactions and transactions in which the broker-dealer solicits purchasers;
- block trades in which the broker-dealer will attempt to sell the shares as agent but may position and resell a portion of the block as principal to facilitate the transaction;
- purchases by a broker-dealer as principal and resale by the broker-dealer for its account;
- an exchange distribution in accordance with the rules of the applicable exchange;
- privately negotiated transactions;
- settlement of short sales entered into after the date of this prospectus (a short sale occurs when shares, not owned by the seller, are sold in hopes of a decline in market price so the seller can purchase in the market at a lower price to be able to deliver the shares sold);
- broker-dealers may agree with the selling stockholders to sell a specified number of such shares at a stipulated price per share;
- through the writing or settlement of options or other hedging transactions, whether through an options exchange or otherwise;
- a combination of any such methods of sale; or
- any other method permitted pursuant to applicable law.

The selling stockholders may also sell shares under rule 144 under the 1933 Act, if available, rather than under this prospectus. Broker-dealers engaged by the selling stockholders may arrange for other brokers-dealers to participate in sales. Broker-dealers may receive commissions or discounts from the selling stockholders (or, if any broker-dealer acts as agent for the purchaser of shares, from the purchaser) in amounts to be negotiated. The selling stockholders do not expect these commissions and discounts to exceed what is customary in the types of transactions involved. Broker-dealers may agree to sell a specified number of such shares at a stipulated price per share, and, to the extent such broker-dealer is unable to do so acting as agent for us or a selling shareholder, to purchase as principal any unsold shares at the price required to fulfill the broker-dealer commitment. Broker-dealers who acquire shares as principal may thereafter resell such shares from time to time in transactions, which may involve block transactions and sales to and through other broker-dealers, including transactions of the nature described above, in the over-the-counter markets or otherwise at prices and on terms then prevailing at the time of sale, at prices than related to the then-current market price or in negotiated transactions. In connection with such resales, broker-dealers may pay to or receive from the purchasers such share commissions as described above.

In connection with the sale of our common stock or interests therein, the selling stockholders may enter into hedging transactions with broker-dealers or other financial institutions, which may in turn engage in short sales of the common stock in the course of hedging the positions they assume. The selling stockholders may also sell shares of our common stock short and deliver these securities to close out their short positions, or loan or pledge the common

stock to broker-dealers that in turn may sell these securities.

The selling stockholders may also enter into option or other transactions with broker-dealers or other financial institutions or the creation of one or more derivative securities which require the delivery to such broker-dealer or other financial institution of shares offered by this prospectus, which shares such broker-dealer or other financial institution may resell pursuant to this prospectus (as supplemented or amended to reflect such transaction).

The selling stockholders also may transfer the shares of common stock in other circumstances, in which case the transferees, pledgees or other successors in interest will be the selling beneficial owners for purposes of this prospectus.

The selling stockholders and any broker-dealers or agents that are involved in selling the shares may be deemed to be "underwriters" within the meaning of the 1933 Act in connection with such sales. In such event, any commissions received by such broker-dealers or agents and any profit on the resale of the shares purchased by them may be deemed to be underwriting commissions or discounts under the 1933 Act. The selling stockholders have informed the company that none of them have any agreement or understanding, directly or indirectly, with any person to distribute the common stock.

The company is required to pay all fees and expenses incurred by the company incident to the registration of the shares. The company has agreed to indemnify certain of the selling stockholders against certain losses, claims, damages and liabilities, including liabilities under the 1933 Act.

In order to comply with the securities laws of certain states, if applicable, the shares will be sold in such jurisdictions, if required, only through registered or licensed brokers or dealers. In addition, in certain states the shares may not be sold unless the shares have been registered or qualified for sale in such state or an exemption from registration or qualification is available.

BUSINESS AND PROPERTIES OF THE COMPANY

COALBED METHANE

GENERAL

Rocky Mountain Gas, Inc. ("RMG") was incorporated in Wyoming on November 1, 1999 for business in the coalbed methane industry in Wyoming and Montana. RMG is a subsidiary of the company (owned 49.4% by the company and 39.1% by Crested as of the date of this prospectus).

In 2003, RMG transferred all of its interest in certain coalbed methane properties, including a producing property, to Pinnacle. At the same time, Carrizo Oil & Gas, Inc.'s wholly owned subsidiary CCBM, Inc. ("CCBM") (with which RMG has an agreement to jointly acquire and explore properties) transferred to Pinnacle all of its interests in the same properties, and affiliates of Credit Suisse First Boston contributed equity financing to Pinnacle. See "Transaction with Pinnacle Gas Resources, Inc."

On January 30, 2004, RMG (through its wholly-owned, newly organized subsidiary RMG I LLC ("RMG I") acquired coalbed methane properties in the Powder

River Basin of Wyoming. See "Acquisition of Producing and Non-Producing Properties from Hi-Pro Production, LLC." Part of the purchase price was financed under a $25 million mezzanine credit facility.

RMG I plans to drill five development wells on the Hi-Pro properties in 2004 and upgrade existing infrastructure to improve gas production, and, subject to raising equity funding, drill up to 120 exploratory wells on undeveloped Hi-Pro acreage in 2004 and 2005.

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In addition, RMG plans to drill exploratory wells on the Castle Rock and Oyster Ridge properties, and seek to acquire other producing coalbed methane properties, primarily in Wyoming. Financing may be available under the mezzanine credit facility for more acquisitions, if approved by the lenders. RMG does not have any agreements to acquire other producing properties.

RMG raised $1.8 million of equity financing in the first quarter of 2004.

RMG holds leases and options on approximately 261,180 gross mineral acres of federal, state and private (fee) land in the Powder River Basin ("PRB") of Wyoming and Montana and adjacent to the Green River Basin of Wyoming, not including acreage held by Pinnacle.

There are 108 producing wells on the properties bought by RMG from Hi-Pro Production, LLC. RMG owns an average 58% working interest (46.4% average net revenue interest, before deduction of overriding royalty interests held by lenders) in these properties.

From RMG's inception, through December 31, 2003, 72 exploratory wells have been drilled, almost all with funds provided by industry partner CCBM and former industry partner SENGAI (see below). 43 of the wells were on properties transferred to Pinnacle in mid-2003. The balance of 29 wells (15 of which have been plugged and abandoned) are on properties held by RMG. Reserves have not been established for any of the properties on which these wells were drilled.

The Castle Rock property in southeast Montana , and the Oyster Ridge property adjacent to the Green River Basin (southwest Wyoming), are large properties which will require the drilling of numerous exploratory wells and extended dewatering for each group or "pod" of wells (possibly as much as 24 months after drilling and completion) before an assessment of reserves can be made.

Among the uncertainties we face in determining if our coalbed methane investments will yield value are the following: Prices for gas sold in the Powder River Basin are typically lower than national prices, and therefore, the economics of Powder River Basin properties can be adversely affected more readily by lower gas prices. The Hi-Pro properties, and all revenues therefrom, are pledged to service $3,635,000 of debt. To continue exploration efforts, additional capital (in addition to RMG's one-half of remaining balance under the CCBM $5.0 million drilling commitment, which one half of remaining balance was $305,100 at December 31, 2003) will be needed. Permitting issues for new wells on undeveloped acreage may be delayed. An unfavorable confluence of these uncertainties could result in a write-down of the carrying value of those properties which don't produce enough gas at low prices to be economic; in a write-down of the carrying value of other properties which need more wells drilled and dewatered to establish or improve the economics of production; and/or the delay (whether from lack of capital or permitting problems) in

establishing reserves for the larger prospects where many wells will have to be drilled to assess their value.

Certain technical terms used in the oil and gas industry appear in this prospectus. The following are general definitions of those terms: Working interests percentages of a mineral lease total 100%; the working interest owners together (an aggregate of 100%) pay all of the costs to hold undeveloped leases, drill and complete wells on leases, and produce minerals from the leased property (including pump costs, gathering and transmission costs and marketing costs). Net revenue interests are the percentages of production which the working interest owners own, after deduction for payment of royalties to the owners of the minerals under lease (private parties, the Bureau of Land Management, or the State, as applicable). Owners of royalty interests pay none of the costs to drill, complete, or operate wells on a lease. An overriding royalty interest is carved out of the total net revenue interest; overriding royalty interest holders pay none of the costs to hold, drill, or produce the minerals. All owners pay their share of ad valorem and severance taxes.

TRANSACTION WITH PINNACLE GAS RESOURCES, INC.

On June 23, 2003, RMG, CCBM and its parent company Carrizo Oil & Gas, Inc.; and seven affiliates of Credit Suisse First Boston Private Equity (the "CSFB Parties") signed and closed agreements for a transaction with Pinnacle. The transaction included: (1) the contribution to Pinnacle by RMG and CCBM of all of their ownership of a portion of the CBM properties owned by RMG and CCBM, in exchange for common stock and options to buy common stock in Pinnacle; and (2) $17,640,000 cash to Pinnacle by the CSFB Parties for common stock and series A preferred stock of Pinnacle, and warrants to purchase series A preferred stock of Pinnacle.

Pinnacle is a private corporation. Only such information about Pinnacle, as its board of directors elects to release, is available to the public. All other information about Pinnacle is subject to confidentiality agreements between Pinnacle, RMG, and the other parties to the June 2003 transaction.

RMG's ownership in Pinnacle's common stock is 37.5%. RMG's ownership of Pinnacle on a fully-diluted basis will change if the CSFB Parties exercise their warrants to buy equity in Pinnacle, and/or if RMG and/or CCBM exercise their options to buy equity in Pinnacle, or other events occur. See the discussion under Pinnacle Equity Transaction below.

Immediately following, and in connection with, the transaction, Pinnacle acquired additional producing and non-producing CBM properties located in the Powder River Basin of Wyoming from Gastar Exploration, Ltd. ("Gastar," listed on the Toronto Stock Exchange), referred to below as the "Gastar acquisition."

The transaction and the follow-on Gastar acquisition provide (1) Pinnacle the funded opportunity to explore and develop the contributed and acquired assets, and to acquire and explore, and if warranted, develop, additional CBM properties in Wyoming and Montana; and (2) RMG (through its ownership interest in Pinnacle) the opportunity to benefit (on a passive basis) from the continued development of the contributed assets and other properties which Pinnacle may acquire in the future. Since June 2003, Pinnacle has acquired additional acreage, and drilled numerous exploratory and development wells.

RMG now has interests in approximately 261,180 gross (126,920 net) mineral

acres:(A) 171,500 gross (68,675 net) acres in the Castle Rock, Oyster Ridge, and Baggs properties, which were not contributed to Pinnacle (these properties are operated by RMG and held with its industry partner CCBM, Inc.); and (B) 51,500 gross (46,790 net) mineral acres acquired from Hi-Pro Production, LLC, and (C) 38,184 gross and net acres held by another company, which are at the north and south ends of the Anadarko acreage. The acreage total does not reflect properties held by Pinnacle.

CCBM is a wholly-owned subsidiary of Carrizo Oil & Gas, Inc. ("Carrizo," a Nasdaq listed company). Carrizo, CCBM and RMG entered into an agreement in July 2001 for CCBM to buy a 50% interest in, and fund exploration and development of, RMG's CBM properties then owned. Prior to and in connection with the Pinnacle transaction, CCBM paid RMG approximately $1.8 million cash to complete its purchase of 50% of RMG's contributed CBM properties, thus enabling CCBM to contribute its interests in the CBM properties to Pinnacle as having been fully paid for. See "Continuing Operations of RMG, Continuing Agreement with CCBM, and the AMI Agreement, After the Pinnacle Transaction" below.

- PINNACLE EQUITY TRANSACTION

Pinnacle is authorized to issue common stock (100 million shares, $0.01 par value) and preferred stock (100 million shares, $0.01 par value). Pinnacle has established series A preferred stock with the following provisions: Liquidation preference of $100.00 per share; 10.5% compounded cumulative annual dividend (12.5% after July 1, 2010); redeemable at Pinnacle's option after July 1, 2004 at a premium declining to

par after July 1, 2009 (mandatory redemption if there is a change in control of RMG or CCBM); and with voting rights (a) pari passu with the common stock on regular matters, and (b) as a separate class, to authorize changes in the series A preferred stock, to authorize issuance of stock senior to or in parity with the series A preferred stock, to approve any reorganization or merger of Pinnacle, to approve Pinnacle's sale of substantially all its assets, and similar matters.

Pinnacle's board of directors has eight directors (two each from RMG and CCBM, and four from the CSFB Parties).

The chart below summarizes (a) the contributions made by the parties to the transaction at the closing, and (b) thereafter in 2004 (subsequent capital call funded by the CSFB parties - see footnote (3)). At April 26, 2004, RMG owns 37.5% of the common stock of Pinnacle.

		Equity in Pinnacle			
Parties	Contribution	Common Stock	Series A Preferred Stock	Equity Warrants(1)	Rights O
RMG	All CBM properties (except Castle Rock, Baggs	75,000 shares	-0-	-0-	30,00

	and Oyster Ridge)				
CCBM	All CBM properties (except Castle Rock, Baggs and Oyster Ridge)	75,000 shares	-0-	-0-	30,00
CSFB Parties	$29,400,000(3)	50,000 shares	250,000 shares	250,000	

As of December 31, 2003, RMG has recorded its 37.5% equity investment in Pinnacle at the carrying value of its coalbed methane properties of approximately $922,600.

Sanders Morris Harris Inc. ("SMH") of Houston, Texas acted as financial advisor to RMG on the Pinnacle transaction. For its services in connection with the transaction and the Gastar acquisition, SMH was paid $650,000 by Pinnacle. As additional compensation for SMH's services, USE issued to SMH 50,000 restricted shares of common stock and warrants to purchase (until June 30, 2006) another 50,000 restricted shares of common stock (at $5.00 per share). Resale of these shares and warrant shares is covered by this prospectus (See "Selling Shareholders"). SMH did not receive any equity or equity rights in Pinnacle in connection with the transaction or the Gastar acquisition.

- GASTAR ACQUISITION

With proceeds from the CSFB financing, Pinnacle paid Gastar $6.2 million, effective June 1, 2003, for approximately 50% of Gastar's working interest in existing producing and non-producing CBM properties which included 95 producing wells in the early stages of dewatering and approximately 36,529 gross developed and undeveloped acres. The majority of the leases are either part of or located adjacent to the producing Bobcat property, which RMG and CCBM contributed to Pinnacle.

Pinnacle also agreed to fund up to $14.5 million of future drilling and development costs on behalf of Gastar and Pinnacle prior to December 31, 2005, on the properties purchased from Gastar.

- CONTINUING OPERATIONS OF RMG, CONTINUING AGREEMENT WITH CCBM, AND THE AMI AGREEMENT AFTER THE PINNACLE TRANSACTION

RMG retained ownership, with CCBM, of the Castle Rock, Oyster Ridge, and Baggs projects, totaling about 189,000 gross acres (currently about 171,500 gross acres net of 15,200 gross acres returned to Anadarko after the transaction date and expiration of three leases). RMG and CCBM plan to continue exploration and development activities on these properties as well as acquiring other

properties in Wyoming and Montana, under their July 2001 agreement (see "Carrizo - Purchase and Sale Agreement"). Presently there are no agreements for RMG and CCBM to acquire producing properties.

CCBM paid RMG approximately $1.8 million for CCBM's outstanding purchase obligation (under the July 2001 agreement) on CCBM's interests in those properties it contributed to Pinnacle. The balance on the note at December 31, 2003 was $836,200. The balance of CCBM's original purchase obligation is payable in monthly installments of approximately $52,800 through November 2004 with a balloon payment of $282,400 due on December 31, 2004.

In connection with the transaction with Pinnacle, RMG and Pinnacle signed a transition services agreement, for Pinnacle to pay RMG to assist in setting up operational accounting systems for Pinnacle through December 2003. The agreement was terminated by RMG effective January 1, 2004.

Also in connection with the transaction, RMG, CCBM, Carrizo, USE and the CSFB Parties signed an area of mutual interest ("AMI") agreement: Until June 23, 2008, Pinnacle has the right to acquire from the other parties up to 100% of any interest in oil and gas leases, or interests therein or mineral interests or rights to acquire same, which the other parties acquire, at the same price paid or payable by the other parties, within the Powder River Basin in Montana and Wyoming (excluding most of Powder River County, Montana). The original AMI agreement between CCBM and RMG from July 2001 is superseded by the new AMI agreement, except for areas outside the new AMI agreement territory, wherein the original agreement is still in effect.

With respect to the properties acquired from Hi-Pro (see below), CCBM and Pinnacle waived their rights to buy any of the producing or undeveloped acreage.

ACQUISITION OF PRODUCING AND NON-PRODUCING PROPERTIES FROM HI-PRO PRODUCTION, LLC

On January 30, 2004, RMG I, LLC ("RMG I"), a wholly-owned subsidiary of RMG, purchased coalbed methane properties from Hi-Pro for $6,800,000. This transaction was closed after December 31, 2003. See the subsequent event footnote to the audited financial statements in this prospectus.

The purchased properties (all located in the Powder River Basin of Wyoming) include 247 completed wells and 40,120 undeveloped fee acres. As of the date of this prospectus, 108 wells now are producing approximately 4.7 million cubic feet (Mmcf) of gas per day (approximately 2.7 Mmcf per day net to RMG I). Net daily Mmcf sales are less than gross production, due to produced gas being consumed to run compressors, and from adjustments by purchasers for thermal content (gas is sold based on BTU heat content).

RMG I owns an average 58% working (average 46.4% net revenue) interest in the producing wells and proved developed acreage, and a 100% working (average 80% net revenue) interest in all of the undeveloped acreage. The net revenue interest percentage after deduction of the overriding royal interests held by lenders (see "Mezzanine Credit Facility") are 44.66% for the producing and five future wells to the Wyodak coal, and 78.0% for production from deeper coals and all of the undeveloped acreage.

The transaction was structured as an asset purchase, with RMG I as the purchaser, in connection with the establishment of a mezzanine credit facility for up to $25,000,000 of secured loans to acquire and develop more proven coalbed methane reserves. RMG may utilize RMG I for future acquisitions (none are presently under contract or agreement in principle). See "Mezzanine Credit Facility." A substantial portion of the cash consideration paid to Hi-Pro was funded with the initial advance on the credit facility. RMG I replaced Hi-Pro as the contract operator for 89% of the wells that were acquired.

RMG negotiated the purchase based on the $7,113,000 present value, discounted 10%, of gas reserves recoverable (and the estimated future net revenues to be derived) from proved reserves in the Hi-Pro properties, as estimated as of November 1, 2003 by Netherland Sewell and Associates, Inc. See "Reserve Data" below for the estimate as of December 31, 2003.

The $6,800,000 purchase price reflects a deduction, negotiated by the parties in January 2004, to account for the decrease in gas production from October 2003 due to the impact on production from deferred maintenance on the properties, and the expected cost of such maintenance work after closing.

- TERMS OF THE PURCHASE. The purchase price of $6,800,000 was paid:

- $ 776,700 cash by RMG.
- $ 588,300 net revenues from November 1, 2003 to December 31, 2003, which were retained by Hi-Pro.(1)
- $ 500,000 by USE's 30 day promissory note (secured by 166,667 restricted shares of USE common stock, valued at $3.00 per share).(2)
- $ 600,000 by 200,000 restricted shares of USE common stock (valued at $3.00 per share) (2).
- $ 700,000 by 233,333 restricted shares of RMG common stock (valued at $3.00 per share).(3)
- $3,635,000 cash, loaned to RMG I under the credit facility agreement.(4)

$6,800,000

(1) RMG paid all January operating costs at closing. Net revenues from the purchased properties for January 2003 were credited to RMG I's obligations under the credit facility agreement. These net revenues were considered by the parties to be a reduction in the purchase price which RMG otherwise would have paid at the January 30, 2004 closing.

(2) The note subsequently was paid in full by delivery of the collateral shares. Resale of such shares, and the 200,000 shares issued in the transaction (all of which now are held by the owners of Hi - Pro in proportion to their ownership in Hi - Pro), is covered by this prospectus.
See "Selling Shareholders."

(3) These RMG shares are held by the owners of Hi - Pro in proportion to their ownership in Hi - Pro). From November 1, 2004 to November 1, 2006, the RMG shares shall be convertible at the election of the holders into restricted shares of common stock of USE. The number of

USE shares to be issued shall equal (A) the number of RMG shares to be converted, multiplied by $3.00 per share, divided by (B) the average closing sale price of the shares of USE for the 10 trading days prior to notice of conversion. The conversion right is exercisable cumulatively. Resale of the conversion shares is covered by this prospectus. See "Selling Shareholders."

(4) See "Mezzanine Credit Facility."

- PROPERTIES PURCHASED.

RESERVE DATA

Netherland Sewell and Associates, Inc. ("NSAI," Houston, Texas), independent petroleum engineers, have prepared a report on the proved reserves, as of December 31, 2003, estimating recoverable reserves from the Hi-Pro properties, and the present value (discounted 10%) of future cash flow therefrom. NSAI's report takes into account fixed pricing for some production in 2004 and 2005, reflects the reduction in RMG's net revenue interests due to the overriding royalty interests held by lenders, and (except for fixed pricing in 2004 and 2005) is based on the Henry Hub Spot market price of $5.965 per mmbtu, adjusted by lease for energy content, transportation fees and regional price differentials on December 31, 2003, without price escalation. Henry Hub Spot prices closely approximate the prices paid to Powder River Basin producers.

	RESERVES (Mmcf)	NET PRESENT VALUE (discounted at 10%)
Proved Developed Producing	2,206.490	$4,589,600
Proved Developed Non-Producing	464.423	$1,084,800
Proved Undeveloped	733.780	$1,382,000
Total	3,404.693	$7,056,400

The present value, discounted 10% value ("PV10 value") was prepared after ad valorem and production taxes on a pre-income tax basis, and is not intended to represent the current market value of the estimated gas reserves purchased from Hi-Pro. The PV10 discount factor is not the same as the standardized measure of present value calculations which are determined on an after-income tax basis.

Reserves as of November 1, 2003 were calculated by NSAI based on actual production up to June 30, 2003, with production decline curves to November 1, 2003 estimated based on that production, resulting in total net proven reserves of 4,034.5 Mmcf. For estimates as of December 31, 2003, NSAI was supplied with actual production data through that date. Because actual production was below the production predicted for the same period by the November 1, 2003 decline curves, the decline curves for the later report had a lower starting point on January 1, 2004 and a steeper rate of decline. These new decline curves thus predict lower future production (3,404.693 Mmcf net to RMG) as of December 31, 2003.

We expect production in 2004 from producing wells, and hence proven reserves (after adjustments for actual gas produced), will increase as maintenance work now in progress (which had been deferred by Hi-Pro in the last two quarters of 2003) is completed in the second quarter 2004. The reduction in the present value, discounted 10%, of proven reserves at November 1, 2003 ($7,113,000) as compared to December 31, 2003 ($7,056,400) was less than 1%, notwithstanding the decreased volume of reserves, due

to the higher price at the later date compared with prices used in the November 1, 2003 estimate ($4.50 per mcf in 2003, $4.29 in 2004, and $4.25 in 2005).

There are numerous uncertainties inherent in estimating gas reserves and their estimated values. Reservoir engineering is a subjective process of estimating underground accumulations of gas that cannot be measured exactly. Estimates of economically recoverable gas, and the future net cash flows which may be realized from the reserves, necessarily depend on a number of variable factors and assumptions, such as historical production from the area compared with production from other areas, the assumed effects of regulations by government agencies, assumptions about future gas prices and operating costs, severance and excise taxes, development costs, and work-over and remedial costs. The outcomes, in fact, may vary considerably from the assumptions.

The PV10 value takes into account RMG I's contracts to sell 2,000 Mmbtu per day in 2004 at a fixed price of $4.76 per Mmbtu, and 1,000 Mmbtu per day in 2005 at a fixed price of $4.14 per Mmbtu. From time to time, RMG I may sign fixed price contracts for more production. In addition, gas market prices will vary, possibly by significant amounts, throughout each year, and on an average basis from year to year. For these reasons, the cash flow realized from production likely will vary from the estimates of cash flow used to determine the PV10 value.

Estimates of the economically recoverable quantities of gas attributable to any particular property, the classification of reserves as to proved developed and proved undeveloped based on risk of recovery, and estimates of the future net cash flows expected from the properties, as prepared by different engineers or by the same engineers but at different times, may vary substantially, and the estimates may be revised up or down as assumptions change.

In addition, it is likely that actual production volumes will vary from the estimates.

The PV10 discount factor, which is required by the SEC for use in calculating discounted future net cash flows for reporting purposes, is not necessarily the most appropriate discount factor, based on interest rates in effect in the financial markets, and risks associated with the gas business.

The business of exploring for, developing, or acquiring reserves is capital intensive. To the extent operating cash flow is reduced and external capital becomes unavailable or limited, RMG's ability to make the necessary capital investment to maintain or expand the gas reserves asset base would be impaired. There is no assurance future exploration, development, and acquisition activities will result in additional proved reserves. Even if revenues increase because of higher gas prices, increased exploration and development costs could neutralize cash flows from the increased revenues.

- FUTURE PLANS FOR THE HI-PRO PRODUCTION PROPERTIES

In the second quarter of 2004, RMG I plans to drill five proven undeveloped locations to the Wyodak coal, continue a remedial workover program on a number of existing wells, and upgrade the gas gathering and pipeline facilities included in the purchase. The workover program is estimated to cost $250,000 and will be funded by the working interest partners. The drilling and gathering upgrade is estimated to cost approximately $640,000, and is being funded with a loan from the mezzanine credit facility. The programs are designed to enhance production from current levels. After the 5 new wells to the Wyodak are drilled,

there will be no more undrilled locations on the currently producing properties available for the Wyodak coal. The first coals of interest under the undeveloped acreage are the Anderson and Canyon coals (for exar valign="top">

- Search for, recruit, screen, interview and select qualified director candidates to fill vacancies or the additional needs of the Board, including the consideration of candidates recommended to and deemed appropriate by the Committee;

- Evaluate the qualifications and performance of incumbent directors and determine whether to recommend them for re-election to the Board;
- Recommend to the Board nominees to fill vacancies on the Board as they occur;
- Recommend to the Board, annually in advance of the annual meeting of stockholders, a slate of nominees to be submitted to the stockholders for election or re-election as directors at the annual meeting;
- Recommend to the Board the removal of a director where appropriate;
- Review, evaluate and periodically make recommendations to the Board with respect to the size of the Board;
- Recommend to the Board the directors to be appointed to the committees of the Board;
- Monitor and evaluate the orientation and training needs of directors and make recommendations to the Board where appropriate;
- Develop, periodically review and recommend to the Board a set of corporate governance principles applicable to the Company and make recommendations to the Board regarding corporate governance matters and practices;
- Review and approve, prior to acceptance, the CEO's service on any other public company Board;
- Oversee the annual evaluation of the performance and effectiveness of the Board and its committees;
- Oversee and evaluate compliance by the Board and management with the Company's corporate governance principles and its Code of Business Conduct and Ethics;
- Perform any other activities consistent with this charter, the Company's bylaws and governing law as the Committee or the Board deem appropriate.

The Committee will also conduct an evaluation of the Committee's performance and charter at least annually, and will report to the Board the results of such evaluation and any recommended changes to this charter.

The Committee has not established any specific, minimum qualifications that the Committee believes must be met by a Committee-recommended nominee for a position on our Board of Directors. The Committee is of the opinion that any nominee should have a substantial amount of general business managerial experience, with significant financial acumen and ability to understand financial statements in general. Further, although not a definitive requisite, general experience and working knowledge of the oil and gas industry in general is considered as a positive factor in any potential nominee.

The Committee does not have a formal policy with regard to the consideration of any director candidates recommended by security holders, primarily due to the infrequent changes in membership of the Board of Directors on an historical basis, and because it is felt that the responsibilities of the Committee as set forth in its charter otherwise adequately cover the nominations process. The Committee has not yet established a process for identifying and evaluating nominees for director, including nominees recommended by security holders, or any differences in the manner in which the nominating committee evaluates nominees for director based on whether the nominee is recommended by a security holder.

A copy of the charter of the Nominating and Corporate Governance Committee can be found at our website, www.arenaresourcesinc.com. The Company's website also contains our Code of Business Conduct (which applies to both employees and directors) and our Corporate Governance Guidelines. A written copy of the charter of the Nominating and Corporate Governance Committee and/or the Code of Business Conduct and Corporate Governance Guidelines will also be provided to a stockholder upon request. Any such request should be directed to Mr. William Parsons, Vice President of Investor Relations. Mr. Parsons can be contacted at (480) 947-1589.

Audit Committee

The Audit Committee is currently comprised of Messrs. Woodrum, Petrelli and Fiddner, all of whom are "independent" directors, as required by Rule 303A.02 of the New York Stock Exchange Stock Exchange. The Board has determined that Messrs. Woodrum and Fiddner qualify as "audit committee financial experts" under the rules of the Securities and Exchange Commission adopted pursuant to the Sarbanes-Oxley Act of 2002. Mr. Woodrum has served on the Committee since August of 2003, and currently serves as the Chairman of the Committee.

The primary responsibility of the Audit Committee is to oversee our financial reporting process on behalf of the Board and report the results of its activities to the Board. The Audit Committee meets with the accountants to review their effectiveness during the annual audit and to discuss our internal control policies and procedures. The Audit Committee and the independent public accountants met and discussed the audit of the financial statements for the year ended December 31, 2008; the Audit Committee and the auditors further discussed the financial statements for the first three quarters of 2008. Thus far in 2009, on four occasions the Audit Committee has met or discussed with the auditors our financial statements.

A copy of the charter of the Audit Committee charter can be found at the Company's website, "www.arenaresourcesinc.com". A written copy of the charter of the Audit will also be provided to a stockholder upon request. Any such request should be directed to Mr. William Parsons, Vice President of Investor Relations. Mr. Parsons can be reached at (480) 947-1589. The audit committee report for the fiscal year ended 2008 is set forth below.

Audit Committee Report

The Audit Committee assists the Board of Directors in its oversight of the integrity of the Company's financial statements and the Company's accounting and financial reporting processes and systems of internal control. Management has primary responsibility for the Company's internal controls and the preparation of financial statements in accordance with generally accepted accounting principles. The Committee also reviews the qualifications, independence and performance of the Company's independent accountants, who are in turn responsible for performing an audit of the Company's financial statements in accordance with generally accepted auditing standards and issuing a report thereon. The Committee has received the written disclosures and the letter from the independent accountants required by Independence Standards Board Standard No. 1, and has discussed with the independent accountant the independent accountant's independence. Members of the Committee should not be assumed to be accounting experts and are not deemed to have accepted a duty of care greater than other members of the Board of Directors. In discharging their responsibilities, the Committee members rely on the representations made, and information provided to them, by management and the independent accountants.

The Committee reviewed with management and the independent accountants the following financial statements: Year ended December 31, 2008 and quarters ended September 30, 2008, June 30, 2008 and March 31, 2008, and the Committee has discussed with the independent accountants the matters required to be discussed by the Statement on Auditing Standards No. 61, as amended.

The Committee recommended to the Board of Directors that these financial statements be accepted.

The Committee performed all procedures described in its Charter, as amended, including review and approval of all press releases made by management prior to their release.

Clayton E. Woodrum, Chairman
Anthony B. Petrelli
Carl H. Fiddner

No member of the Audit Committee is or has been a former or current officer of the Company or had any relationships requiring disclosure by us under the SEC's rules requiring disclosure of certain relationships and related-party transactions. None of our officers identified herein served as a director or a member of a compensation committee (or other committee serving an equivalent function) of any other entity.

Executive Sessions of Non-Management Directors

In accordance with the rules of the New York Stock Exchange, the independent members of the Board of Directors, who are our only "non-management" Directors, meet separately following each regularly scheduled meeting of the Board of Directors, without management participation. The current non-management Directors (Messrs. Woodrum, Petrelli and Fiddner) have chosen to informally rotate which of such Directors will preside at their meetings.

Any shareholder who wishes to make any concern known to the non-management directors can do so by providing a sealed writing addressed to the "Non-Management Directors of Arena Resources" c/o either William R. Broaddrick, our Secretary, or William Parsons, Vice President of Investor Relations, at our principal offices, and such individuals shall see that the communication is delivered, unopened, to each of the non-management Directors.

Certification With New York Stock Exchange.

In fulfillment of certain rules of the New York Stock Exchange, each year our Chief Executive Officer must certify in writing to such Exchange that such officer is not aware of the existence of any discrepancies between the Company's

policies and any corporate governance listing standards adopted by the Exchange, or “qualify” such certification if any discrepancies exist. No qualifications were contained in our certification submitted in December 2008.

BOARD OF DIRECTORS INTERLOCKS AND INSIDER
PARTICIPATION IN COMPENSATION DECISIONS

There have been no “interlocks” or “insider participation” [as those terms are defined in Item 402(j) of S.E.C. Regulation S-K] in compensation decisions. There were no reportable business relationships between the Company (or any other corporation that requires specific disclosure under this heading) and the members of the Board of Directors in 2008.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

There have been no transactions between us and any related persons, promoters or control persons since January 1, 2008, and no such transactions are currently proposed.

PROPOSAL 2:

APPROVAL OF A NEW RESTRICTED STOCK AWARD PLAN

The Board of Directors is proposing that stockholders adopt the Arena, Inc. Restricted Stock Award Plan (the “Restricted Stock Plan”). If the stockholders vote to adopt the Restricted Stock Plan we will have the ability to include restricted stock awards in addition to granting stock options currently allowed under our existing Stock Option Plan

A summary description of the Restricted Stock Plan is set forth below. You are being asked to vote in favor of adopting the Restricted Stock Plan as it has been approved by the Board of Directors. The full text of the Restricted Stock Plan is set forth in Appendix A to this Proxy Statement.

Our currently existing Stock Option Plan provides for 5,500,000 shares that may be issued pursuant to its terms. Of those shares, options have previously been issued and exercised covering 2,530,000 shares, and options entitling the holders thereof to an additional 1,965,000 shares upon exercise are currently outstanding. These options shall remain outstanding. This currently leaves 1,005,000 shares available for issuance under the Stock Option Plan.

IF APPROVED, RESTRICTED STOCK AWARDS THAT MAY BE GRANTED UNDER THE RESTRICTED STOCK PLAN WILL BE ISSUED FROM THE SAME POOL OF SHARES THAT ARE CURRENTLY AVAILABLE ONLY FOR THE GRANT OF STOCK OPTIONS. PURSUANT TO A SEPARATE AND DISTINCT PROPOSAL BEING PRESENTED TO THE SHAREHOLDERS, WE ARE ALSO ASKING STOCKHOLDERS TO INCREASE THE NUMBER OF SHARES THAT MAY BE AVAILABLE JOINTLY UNDER THE STOCK OPTION PLAN AND THE RESTRICTED STOCK PLAN, FROM 5,500,000 TO 6,000,000.

The Board of Directors recommends that the stockholders vote “FOR” the adoption of the Restricted Stock Award Plan.

Summary Description of Restricted Stock Award Plan.

General

The Restricted Stock Plan is named the "Arena, Inc. Restrict Stock Award Plan." The purpose of the Restricted Stock Plan is to provide an incentive for our employees, directors and certain consultants and advisors to remain in our service, to extend to them the opportunity to acquire a proprietary interest in us so that they will apply their best efforts for our benefit and to aid us in attracting able persons to enter our service or the service of our subsidiaries. To accomplish this purpose, the Restricted Stock Plan offers an ownership interest in us through the distribution of awards of restricted stock ("Awards").

No Awards may be made under the Restricted Stock Plan after the date that is ten years from the date of stockholder approval of the last amendment to the Restricted Stock Plan.

Administration of the Restricted Stock Plan

The Board of Directors has appointed the Compensation Committee (the "Committee") to administer the Restricted Stock Plan. The Committee has broad discretion to administer the Restricted Stock Plan, interpret its provisions, and adopt policies for implementing the Restricted Stock Plan. This discretion includes the ability to select the recipient of an Award, determine the type and amount of each Award, establish the terms of each Award, accelerate restrictions applicable to an Award, waive conditions and provisions of an Award, permit the transfer of an Award to family trusts and other persons and otherwise modify or amend any Award under the Restricted Stock Plan.

Persons Who May Participate in the Restricted Stock Plan

Any person (a "Participant") may participate in the Restricted Stock Plan if he or she is (i) an employee of Arena or any of our subsidiaries, including officers and directors who are also employees of Arena or of any of our subsidiaries, (ii) a non-employee director, or (iii) any other person that the Committee designates as eligible for an Award because the person performs bona fide consulting or advisory services for us or any of our subsidiaries (other than services in connection with the offer and sale of securities in a capital-raising transaction).

Types of Awards

Shares Subject to the Restricted Stock Plan. The shares of Common Stock in respect of which awards may be granted for all purposes under the Restricted Stock Plan will be drawn from the pool of shares available for issuance under our existing Stock Option Plan. This pool of shares currently consists of 5,500,000 shares, although the Board of Directors is recommending, by a separate proposal, that the shareholders approve an increase of the number of shares in this pool to 6,000,000. As of October 1, 2009, there were outstanding options to acquire an aggregate of 1,965,000 shares of Common Stock under our existing Stock Option Plan. These options shall remain outstanding. As of October 1, 2009, there remained 1,005,000 shares available for issuance under the Stock Option Plan. If the Restricted Stock Award Plan is approved by the stockholders, such shares (and, if the separate proposal to increase the number of shares in the pool by 500,000 is approved, such additional shares) shall be available for issuance under either the Stock Option Plan or the Restricted Stock Award Plan.

If Common Stock subject to any Award is not issued or transferred, or ceases to be issuable or transferable for any reason, including (but not exclusively) because an Award is forfeited, terminated, expires unexercised, is settled in cash in lieu of Common Stock or is exchanged for other awards, the shares of Common Stock that were subject to that Award will again be available for issue, transfer or exercise pursuant to Awards under the Restricted Stock Plan (and the Stock Option Plan) to the extent of such forfeiture, termination, expiration, settlement or exchange. The Common Stock issued under the Restricted Stock Plan may be shares originally issued by us, shares held by us in treasury,

shares which have been reacquired by us or shares which have been bought on the market for the purposes of the Restricted Stock Plan. There are no fees, commissions or other charges applicable to the receipt of Common Stock under the Restricted Stock Plan.

Restricted Stock. A Restricted Stock Award is a grant of shares of Common Stock that are nontransferable and subject to risk of forfeiture until specific conditions are met. The restrictions will lapse in accordance with a schedule or other conditions as the Committee determines. During the restriction period, the holder of a Restricted Stock Award may, in the Committee's discretion, have certain rights as a stockholder, including the right to vote the stock subject to the award or receive dividends on that stock.

Merger, Recapitalization or Change of Control. If any change is made to our capitalization, such as a stock split, stock combination, stock dividend, exchange of shares or other recapitalization, merger or otherwise, which results in an increase or decrease in the number of outstanding shares of Common Stock, appropriate adjustments will be made by the Committee in the shares subject to an Award under the Restricted Stock Plan. In general, upon a change in control of Arena, if approved by the Compensation Committee, the restriction period on all awards of restricted stock will immediately be accelerated and the restrictions will expire. In the event that a change in control involves a merger or consolidation in which Arena is not the surviving entity or in which all of our outstanding shares of capital stock are exchanged for shares of capital stock in another entity, or in the event a change in control involves a sale of substantially all of our assets, and in connection with the change in control securities, cash or property are issuable or deliverable in exchange for our capital stock, then the holders of Awards granted under the Restricted Stock Plan will be entitled to receive the amount of securities, cash or property to which they would be entitled as if all restrictions on their Award had lapsed. The Committee has discretion to determine whether an Award under the Restricted Stock Plan will have change-of-control features. The Committee also has discretion to vary the change-of-control features as it deems appropriate.

Amendment. The Board of Directors may (insofar as permitted by law and applicable regulations of the New York Stock Exchange, or any exchange or inter-dealer quotation system on which our stock may then be listed) with respect to any shares which, at the time, are not subject to Awards, suspend, discontinue, revise, or amend the Restricted Stock Plan in any respect whatsoever, and may amend any provision of the Restricted Stock Plan or any Award Agreement to make the Restricted Stock Plan or the Award Agreement, or both, comply with Section 16(b) of the Exchange Act of 1934 (the “Exchange Act”) and the exemptions therefrom, the Internal Revenue Code, ERISA, or any other law, rule or regulation that may affect the Restricted Stock Plan. The Board of Directors may also amend, modify, suspend or terminate the Restricted Stock Plan for the purpose of meeting or addressing any changes in other legal requirements applicable to Arena or the Restricted Stock Plan or for any other purpose permitted by law. However, the Restricted Stock Plan may not be amended without stockholder approval to increase materially the aggregate number of shares of Common Stock that may be issued under the Restricted Stock Plan, or in any other respect if such material amendment requires stockholder approval under applicable law or the regulations of the New York Stock Exchange (or any exchange or inter-dealer quotation system on which our stock may then be listed).

A copy of the Restricted Stock Plan is attached as Appendix A.

PROPOSAL 3:

AMENDMENT OF THE OUR STOCK OPTION PLAN TO INCREASE THE NUMBER OF SHARES COVERED BY THE PLAN FROM 5,500,000 TO 6,000,000

In 2003 we adopted the Stock Option Plan ("Option Plan") for certain of our directors, officers, employees and consultants. The purpose of the Plan is to enable the Company and its stockholders to secure the benefits of common stock ownership, or increased ownership, by key personnel of the Company and our subsidiaries. The Board believes that the granting of options under the Plan has fostered our ability to attract, retain and motivate those individuals who will be largely responsible for our continued profitability and long-term future growth. The Option Plan was last amended at the 2008 annual shareholders meeting to increase the shares eligible for award thereunder from 5,000,000 to 5,500,000.

As of October 15, 2009, options had been granted to 21 individuals, for a total of 4,495,000 shares. As a result, only 1,005,000 shares remain eligible under the Option Plan for issuance.

In addition, the shareholders at this annual meeting are being asked to approve the Restricted Stock Award Plan. Under the terms of the Restricted Stock Award Plan, shares currently available for issuance under the Option Plan would also serve as the same "pool" of shares available for issuance as restricted stock under the Restricted Stock Plan. Therefore, the Board of Directors believes an increase of 500,000 shares available for grant or issuance under either the Option Plan or the Restricted Stock Plan is in the best interest of the Company, and consistent with the overall purpose of both the Option Plan and the Restricted Stock Award Plan.

In the event the shareholders approve the proposal for the Restricted Stock Award Plan but not this proposal, then the number of shares that may be subject to either grants of options under the Option Plan or restricted stock awards under the Restricted Stock Award Plan will remain at 5,500,000. In the event the shareholders approve this proposal, but reject the proposal for the creation of the Restricted Stock Award Plan, then the number of shares for which options may be granted under the Option Plan will be increased to 6,000,000. No other change to the terms of the Option Plan will be made if this proposal is approved.

The Board of Directors recommends that the stockholders vote "FOR" the amendment to the Stock Option Plan.

STOCK PERFORMANCE GRAPH

The following graph compares the cumulative total shareholder return of the Company, the S&P 500 and its peer group named below as of the end of each year indicated. The graph assumes a $100 investment at the closing price on December 31, 2003, and reinvestment of dividends on the date of payment without commissions. This table is not intended to forecast future performance of our common stock.

Comparison of Five-Year Cumulative Total Return
Among Arena Resources, Inc., S&P 500 and Peer Group*

	2003	2004	2005	2006	2007	2008
Arena Resources, Inc.	$100.00	$140.26	$455.45	$704.62	$1,376.57	$927.06
S&P 500	$100.00	$108.99	$112.26	$127.55	$132.06	$81.23
Peer Group	$100.00	$145.82	$282.76	$304.62	$335.72	$226.98

*The peer group consists of Clayton Williams Energy, Inc., Goodrich Petroleum Corporation, Berry Petroleum Company, GMX Resources, Inc. and Carrizo Oil and Gas, Inc., all of which are in the oil and gas production industry. In prior years the peer group included Parallel Petroleum Corporation and Edge Petroleum Corp., rather than Clayton Williams Energy, Inc. and Berry Petroleum Company. Edge Petroleum Corp. has been replaced in the peer group because it has filed for bankruptcy. Parallel Petroleum has been replaced because it is in the process of being acquired by a larger corporation, no longer making it suitable for peer group comparison.

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

A disclosure of directors, officers or beneficial owners of more than ten percent of our common stock who failed to file on a timely basis reports of beneficial ownership as required by Section 16(a) of the Securities Exchange Act of 1934, as amended, is contained in Item 10 of our Annual Report on Form 10-K, which accompanies these proxy materials.

INDEPENDENT PUBLIC ACCOUNTANTS

The firm of Hansen, Barnett & Maxwell, ("HBM") has served as our independent auditors since 2000. The Audit Committee selected HBM as the independent auditors of the Company for the fiscal year ending December 31, 2008 and the Audit Committee has selected HBM to serve in the same capacity for the fiscal year ending December 31, 2009. The Audit Committee has adopted a policy that requires advance approval of all audit, audit-related, tax services and other services performed by the independent auditor. Representatives of HBM are not expected to be present at the Annual Meeting. A complete description of the fees paid to HBM over each of the last two years is contained in Item 14 of our Annual Report on Form 10-K which accompanies these proxy materials.

STOCKHOLDER PROPOSALS FOR 2010 ANNUAL MEETING

Stockholder proposals intended to be presented at the 2010 Annual Meeting and to be included in our Proxy Statement must be received at our executive offices, 6555 South Lewis Avenue, Tulsa, Oklahoma 74136, no later than July 7, 2010.

OTHER MATTERS

Management knows of no business which will be presented at the Annual Meeting other than to elect directors for the ensuing year and to vote on adoption of the Company's Restricted Stock Award Plan.

The cost of preparing, assembling and mailing all proxy solicitation materials will be paid by the Company. It is contemplated that the solicitation will be conducted only by use of the mails. We will, upon request, reimburse brokers for the costs incurred by them in forwarding solicitation materials to such of their customers as are the beneficial holders of our common stock registered in the names of such brokers.

By Order of the Board of Directors

/s/ Phillip W. Terry,
President

October 26, 2009

Appendix A

ARENA RESOURCES, INC.
RESTRICTED STOCK AWARD PLAN
(proposed for adoption at the December 11, 2009 Annual Meeting of Shareholders)

Scope and Purpose of the Plan

Arena, Inc., a Nevada, corporation (the "Corporation"), has adopted this Restricted Stock Award Plan (the "Plan") to provide for the granting of Restricted Stock Awards to certain Employees and other persons.

The purpose of the Plan is to provide an incentive for Employees and directors of the Corporation or its Subsidiaries to remain in the service of the Corporation or its Subsidiaries, to extend to them the opportunity to acquire a proprietary interest in the Corporation so that they will apply their best efforts for the benefit of the Corporation, and to aid the Corporation in attracting able persons to enter the service of the Corporation and its Subsidiaries.

SECTION 1. DEFINITIONS

As used in this Plan, the following terms have the meanings set forth below:

1.1 "Award" means the grant of any form of Restricted Stock Award under the Plan, whether granted singly, in combination, or in tandem with other awards, to a Holder pursuant to the terms, conditions, and limitations that the Committee may establish in order to fulfill the objectives of the Plan.

1.2 "Award Agreement" means the written document or agreement delivered to Holder evidencing the terms, conditions and limitations of an Award that the Corporation granted to that Holder.

1.3 "Board of Directors" means the board of directors of the Corporation.

1.4 "Business Day" means any day other than a Saturday, a Sunday or a day on which banking institutions in the State of Oklahoma are authorized or obligated by law or executive order to close.

1.5 "Cause," with respect to any Holder that is an Employee, means termination of the Holder's employment by the Corporation because of: (a) the Holder's conviction of, or plea of nolo contendere to, a felony or crime involving moral turpitude; (b) the Holder's personal dishonesty, incompetence, willful misconduct, willful violation of any law, rule or regulation (other than minor traffic violations or similar offenses) or breach of fiduciary duty which involves personal profit; (c) the Holder's commission of material mismanagement in the conduct of the Holder's duties as assigned to him or her by the Board of Directors or the Holder's supervising officer or officers of the Corporation or any Subsidiary; (d) the Holder's willful failure to execute or comply with the policy of the Corporation or any of its Subsidiaries or the Holder's stated duties as established by the Board of Directors or the Holder's supervising officer or officers of the Corporation or any Subsidiary or the Holder's intentional failure to perform the Holder's stated duties; or (e) substance abuse or addiction on the part of the Holder. Notwithstanding the foregoing, in the case of any Holder who, subsequent to the effective date of this Plan, enters into an employment agreement with the Corporation or any Subsidiary that contains the definition of "cause" (or any similar definition), then during the term of such employment agreement the definition contained in such Employment Agreement shall be the applicable definition of "cause" under the Plan as to such Holder if such Employment Agreement expressly so provides.

1.6 "Change in Control" means the occurrence of any of the following events:

(i) The acquisition by any individual, entity or group (within the meaning of Section 13(d)(3) or 14(d)(2) of the Exchange Act) (a "Person") of beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of 50% or more of either (x) the then outstanding shares of Common Stock of the Corporation (the "Outstanding Corporation Common Stock") or (y) the combined voting power of the then outstanding voting securities of the Corporation entitled to vote generally in the election of directors (the "Outstanding Corporation Voting Securities"); provided, however, that for purposes of this subsection (i), the following acquisitions shall not constitute a Change of Control: (A) any acquisition directly from the Corporation, (B) any acquisition by the Corporation, (C) any acquisition by any employee benefit plan (or related trust) sponsored or maintained by the Corporation or any corporation controlled by the Corporation or (D) any acquisition by any corporation pursuant to a transaction which complies with clauses (A), (B) and (C) of paragraph (iii) below; or

(ii) Individuals who constitute the Incumbent Board cease for any reason to constitute at least a majority of the Board of Directors; or

(iii) Consummation of a reorganization, merger or consolidation or sale or other disposition of all or substantially all of the assets of the Corporation or an acquisition of assets of another corporation (a "Business Combination"), in each case, unless, following such Business Combination, (A) all or substantially all of the individuals and entities who were the beneficial owners, respectively, of the Outstanding Corporation Common Stock and Outstanding Corporation Voting Securities immediately prior to such Business Combination beneficially own, directly or indirectly, more than 50% of, respectively, the then outstanding shares of common stock and the combined voting power of the then outstanding voting securities entitled to vote generally in the election of directors, as the case may be, of the corporation resulting from such Business Combination (including, without limitation, a corporation which as a result of such transaction owns the Corporation, or all or substantially all of the Corporation's assets either directly or through one or more subsidiaries) in substantially the same proportions as their ownership, immediately prior to such Business Combination, of the Outstanding Corporation Common Stock and Outstanding Corporation Voting Securities, as the case may be, (B) no Person (excluding any employee benefit plan (or related trust) of the Corporation or the corporation resulting from such Business Combination) beneficially owns, directly or indirectly, 20% or more of, respectively, the then outstanding shares of common stock of the corporation resulting from such Business Combination or the combined voting power of the then outstanding voting securities of such corporation except to the extent that such ownership of the Corporation existed prior to the Business Combination and (C) at least a majority of the members of the board of directors of the corporation resulting from such Business Combination were members of the Incumbent Board at the time of the execution of the initial agreement, or of the action of the Board, providing for such Business Combination; or

(iv) Approval by the stockholders of the Corporation of a complete liquidation or dissolution of the Corporation.

1.7 "Code" means the Internal Revenue Code of 1986, as amended.

1.8 "Committee" means the Compensation Committee of the Corporation or a subcommittee appointed pursuant to Section 3 by either the Compensation Committee or by the Board of Directors to administer this Plan.

1.9 "Common Stock" means the authorized common stock, par value $.001 per share, as described in the Corporation's Articles of Incorporation.

1.10 "Common Stock Equivalent" means (without duplication with any other Common Stock or Common Stock Equivalents) rights, warrants, options, convertible securities, exchangeable securities or indebtedness, or other rights, exercisable for or convertible or exchangeable into, directly or indirectly, Common Stock or securities convertible or exchangeable into Common Stock, whether at the time (or within sixty days of that date) the number of shares of Common Stock Equivalents are determined, and that are traded or are of the same class as securities that are traded on the New York Stock Exchange, a national securities exchange or quoted on the NASDAQ National Market System, NASDAQ, or National Quotation Bureau Incorporated. The number of shares of Common Stock Equivalents outstanding shall equal the number of shares of Common Stock plus the number of shares of Common Stock issuable upon exercise, conversion or exchange of all other Common Stock Equivalents.

1.11 "Corporation" means Arena, Inc., a Nevada corporation.

1.12 "Date of Grant" has the meaning given it in Paragraph 4.3.

1.13 "Disability" has the meaning given it in Paragraph 7.5.

1.14 "Effective Date" means the date upon which this Plan shall be approved by the Board of Directors and stockholders of the Corporation. The Plan will be deemed to be approved by the stockholders if it receives the affirmative vote of the holders of a majority of the shares of stock of the Corporation present or represented and entitled to vote at a meeting at which a quorum representing a majority of all outstanding voting stock is, either in person or by proxy, present and voting and duly held in accordance with the applicable provisions of the Corporation's

Bylaws

1.15 “Eligible Individuals” means (a) Employees, (b) Non employee Directors and (c) any other Person that the Committee designates as eligible for an Award because the Person performs bona fide consulting or advisory services for the Corporation or any of its Subsidiaries (other than services in connection with the offer or sale of securities in a capital raising transaction).

1.16 “Employee” means any employee of the Corporation or of any of its Subsidiaries, including officers and directors of the Corporation who are also employees of the Corporation or of any of its Subsidiaries.

1.17 “Exchange Act” means the Securities Exchange Act of 1934, as amended.

1.18 "Fair Market Value" means, for a particular day:

(a) If shares of Stock of the same class are listed or admitted to unlisted trading privileges on the New York Stock Exchange or any other national or regional securities exchange at the date of determining the Fair Market Value, then the last reported sale price, regular way, on the composite tape of that exchange on the last Business Day before the date in question or, if no such sale takes place on that Business Day, the average of the closing bid and asked prices, regular way, in either case as reported in the principal consolidated transaction reporting system with respect to securities listed or admitted to unlisted trading privileges on that securities exchange; or

(b) If shares of Stock of the same class are not listed or admitted to unlisted trading privileges as provided in Subparagraph 1.18(a) and if sales prices for shares of Stock of the same class in the over-the-counter market are reported by the NASDAQ National Market System (or a similar system then in use) at the date of determining the Fair Market Value, then the last reported sales price so reported on the last Business Day before the date in question or, if no such sale takes place on that Business Day, the average of the high bid and low asked prices so reported; or

(c) If shares of Stock of the same class are not listed or admitted to unlisted trading privileges as provided in Subparagraph 1.18(a) and sales prices for shares of Stock of the same class are not reported by the NASDAQ National Market System (or a similar system then in use) as provided in Subparagraph 1.18(b), and if bid and asked prices for shares of Stock of the same class in the over-the-counter market are reported by NASDAQ (or, if not so reported, by the National Quotation Bureau Incorporated) at the date of determining the Fair Market Value, then the average of the high bid and low asked prices on the last Business Day before the date in question; or

(d) If shares of Stock of the same class are not listed or admitted to unlisted trading privileges as provided in Subparagraph 1.18(a) and sales prices or bid and asked prices therefor are not reported by NASDAQ (or the National Quotation Bureau Incorporated) as provided in Subparagraph 1.18(b) or Subparagraph 1.18(c) at the date of determining the Fair Market Value, then the value determined in good faith by the Committee, which determination shall be conclusive for all purposes; or

(e) If shares of Stock of the same class are listed or admitted to unlisted trading privileges as provided in Subparagraph 1.18(a) or sales prices or bid and asked prices therefor are reported by NASDAQ (or the National Quotation Bureau Incorporated) as provided in Subparagraph 1.18(b), 1.18(c) or 1.18(d) at the date of determining the Fair Market Value, but the volume of trading is so low that the Board of Directors determines in good faith that such prices are not indicative of the fair value of the Stock, then the value determined in good faith by the Committee, which determination shall be conclusive for all purposes notwithstanding the provisions of Subparagraphs 1.18(a), (b), (c) or (d).

1.19 "Holder" means an Eligible Individual to whom an Award has been granted.

1.20 "Incumbent Board" means the individuals who, as of the Effective Date, constitute the Board of Directors and any other individual who becomes a director of the Corporation after that date and whose election was approved by stockholders holding a majority of the Voting Securities or (in the case of a vacancy in the board) by appointment by the Board of Directors, but excluding, for this purpose, any such individual whose initial assumption of office occurs as a result of an actual or threatened election contest with respect to the election or removal of directors or other actual or threatened solicitation of proxies or consents by or on behalf of a Person other than the Incumbent Board.

1.21 "NASDAQ" means the National Association of Securities Dealers, Inc. Automated Quotations, Inc.

1.22 "Non-employee Director" means a director of the Corporation who while a director is not an Employee.

1.23 “Non-Surviving Event” means an event of Restructure as described in either subparagraph (b) or (c) of Paragraph 1.27.

1.24 “Person” means any person or entity of any nature whatsoever, specifically including (but not limited to) an individual, a firm, a company, a corporation, a limited liability company, a partnership, a trust or other entity. A Person, together with that Person’s affiliates and associates (as those terms are defined in Rule 12b-2 under the Exchange Act for purposes of this definition only), and any Persons acting as a partnership, limited partnership, joint venture, association, syndicate or other group (whether or not formally organized), or otherwise acting jointly or in concert or in a coordinated or consciously parallel manner (whether or not pursuant to any express agreement), for the purpose of acquiring, holding, voting or disposing of securities of the Corporation with that Person, shall be deemed a single “Person.”

1.25 “Plan” means the Arena, Inc. Restricted Stock Award Plan, as it may be amended from time to time.

1.26 "Restricted Stock Award" means the grant or purchase, on the terms and conditions that the Committee determines or on the terms and conditions of Section 5, of Stock that is nontransferable or subject to substantial risk of forfeiture until specific conditions are met.

1.27 "Restructure" means the occurrence of any one or more of the following:

(a) The merger or consolidation of the Corporation with any Person, whether effected as a single transaction or a series of related transactions, with the Corporation remaining the continuing or surviving entity of that merger or consolidation and the Stock remaining outstanding and not changed into or exchanged for stock or other securities of any other Person or of the Corporation, cash or other property;

(b) The merger or consolidation of the Corporation with any Person, whether effected as a single transaction or a series of related transactions, with (i) the Corporation not being the continuing or surviving entity of that merger or consolidation or (ii) the Corporation remaining the continuing or surviving entity of that merger or consolidation but all or a part of the outstanding shares of Stock are changed into or exchanged for stock or other securities of any other Person or the Corporation, cash, or other property; or

(c) The transfer, directly or indirectly, of all or substantially all of the assets of the Corporation (whether by sale, merger, consolidation, liquidation or otherwise) to any Person whether effected as a single transaction or a series of related transactions.

1.28 "Retirement" means the separation of the Holder from employment with the Corporation and its Subsidiaries on account of retirement.

1.29 "Rule 16b-3" means Rule 16b-3 under Section 16(b) of the Exchange Act, or any successor rule, as it may be amended from time to time.

1.30 "Securities Act" means the Securities Act of 1933, as amended.

1.31 "Stock" means Common Stock, or any other securities that are substituted for Stock as provided in Section 6.

1.32 "Subsidiary" means, with respect to any Person, any corporation, limited partnership, limited liability company or other entity of which a majority of the voting power of the voting equity securities or equity interest is owned, directly or indirectly, by that Person.

1.33 "Voting Securities" means any securities that are entitled to vote generally in the election of directors, in the admission of general partners, or in the selection of any other similar governing body.

SECTION 2. SHARES OF STOCK SUBJECT TO THE PLAN

2.1 Maximum Number of Shares. Subject to the provisions of Section 6 of the Plan, the maximum aggregate number of shares of Stock in respect of which Awards may be granted for all purposes under the Plan shall be limited to the number of shares of Stock that are authorized for issuance under the Corporation's Stock Option Plan (as such Stock Option Plan may be amended from time to time); and provided, further, that if any shares of Stock subject to an Award are forfeited or if any Award based on shares of Stock is otherwise terminated without issuance of such shares of Stock, the shares of Stock subject to such Award shall to the extent of such forfeiture or termination, again be available for Awards under the Plan.

2.2 Description of Shares. The shares to be delivered under the Plan shall be made available from (a) authorized but unissued shares of Stock, (b) Stock held in the treasury of the Corporation, or (c) previously issued shares of Stock reacquired by the Corporation, including shares purchased on the open market, in each situation as the

Board of Directors or the Committee may determine from time to time at its sole option.

2.3 Registration and Listing of Shares. From time to time, the Board of Directors and appropriate officers of the Corporation shall be, and are, authorized to take whatever actions are necessary to file required documents with governmental authorities, stock exchanges and other appropriate Persons to make shares of Stock available for issuance pursuant to Awards.

SECTION 3. ADMINISTRATION OF THE PLAN

3.1 Committee. The Committee shall administer the Plan with respect to all Eligible Individuals or may delegate all or part of its duties under this Plan to a subcommittee or any executive officer of the Corporation, subject in each case to such conditions and limitations as the Board of Directors may establish, the Committee's Charter and subject to the following additional requirements: (a) the Committee shall be constituted in a manner that satisfies the requirements of Rule 16b-3.1, (i.e., composed solely of "non-employee directors" as defined in such Rule) and shall administer the Plan with respect to all Eligible Individuals who are subject to the "short-swing profits" provisions of Section 16 of the Exchange Act in a manner that satisfies the exemption from Section 16 pursuant to the requirements of Rule 16b-3; and (b) the Committee shall be constituted in a manner that satisfies the requirements of Section 162(m) (i.e., composed of two or more "outside directors"), which Committee shall administer the Plan with respect to "performance-based compensation" for all Eligible Individuals who are reasonably expected to be "covered employees" as those terms are defined in Section 162(m), in order to insure the deductibility of compensation paid as provided in such Section.

3.2 Committee's Powers. Subject to the Charter of the Compensation Committee, the rules and regulations of the New York Stock Exchange or any other exchange on which the Corporation's stock may be listed from time to time (including, without limitation, rules requiring the approval of the stockholders with respect to any material amendment to the Plan), and subject also to the express provisions of the Plan and any applicable law with which the Corporation intends the Plan to comply, the Committee shall have the authority, in its sole and absolute discretion, (a) to adopt, amend and rescind administrative and interpretive rules and regulations relating to the Plan, including without limitation to adopt and observe such procedures concerning the counting of Awards against the Plan and individual maximums as it may deem appropriate from time to time; (b) to determine the Eligible Individuals to whom, and the time or times at which, Awards shall be granted; (c) to determine the shares of Stock that will be the subject of each Restricted Stock Award; (d) to determine the terms and provisions of each Award Agreement (which need not be identical), including provisions defining or otherwise relating to (i) the term and the period or periods of any restrictions or forfeitures, (ii) the extent to which the transferability of shares of Stock issued or transferred pursuant to any Award is restricted, (iii) the effect of termination of employment on the Award, and (iv) the effect of approved leaves of absence (consistent with any applicable regulations of the Internal Revenue Service); (e) to accelerate, pursuant to Section 6, the restriction period of any Restricted Stock Award; (f) to construe the respective Award Agreements and the Plan; (g) to make determinations of the Fair Market Value of the Stock pursuant to the Plan; (h) to delegate its duties under the Plan to such agents as it may appoint from time to time, subject to Paragraph 3.1; and (i) to make all other determinations, perform all other acts, and exercise all other powers and authority necessary or advisable for administering the Plan, including the delegation of those ministerial acts and responsibilities as the Committee deems appropriate. The Committee may correct any defect, supply any omission or reconcile any inconsistency in the Plan, in any Award, or in any Award Agreement in the manner and to the extent it deems necessary or desirable to carry the Plan into effect, and the Committee shall be the sole and final judge of that necessity or desirability. The determinations of the Committee on the matters referred to in this Paragraph 3.2 shall be final and conclusive. The Committee shall not have the power to terminate or materially modify or materially amend the Plan. Those powers are vested in the Board of Directors, subject to requisite approval of the stockholders of the Corporation.

3.3 Transferability of Awards. Notwithstanding any limitation on a Holder's right to transfer an Award, the Committee may (in its sole discretion) permit a Holder to transfer an Award, or may cause the Corporation to grant an Award that otherwise would be granted to an Eligible Individual, in any of the following circumstances: (a) pursuant to a qualified domestic relations order, (b) to a trust established for the benefit of the Eligible Individual or one or more of the children, grandchildren or spouse of the Eligible Individual; (c) to a limited partnership in which all the interests are held by the Eligible Individual and that Person's children, grandchildren or spouse; or (d) to another Person in circumstances that the Committee believes will result in the Award continuing to provide an incentive for the Eligible Individual to remain in the service of the Corporation or its Subsidiaries and apply his or her best efforts for the benefit of the Corporation or its Subsidiaries. If the Committee determines to allow such transfers or issuances

of Awards, any Holder or Eligible Individual desiring such transfers or issuances shall make application therefor in the manner and time that the Committee specifies and shall comply with such other requirements as the Committee may require to assure compliance with all applicable laws, including securities laws, and to assure fulfillment of the purposes of this Plan. The Committee shall not authorize any such transfer or issuance if it may not be made in compliance with all applicable federal, state and foreign securities laws. The granting of permission for such an issuance or transfer shall not obligate the Corporation to register the shares of Stock to be issued under the applicable Award.

SECTION 4. ELIGIBILITY AND PARTICIPATION

4.1 Eligible Individuals. Awards may be granted pursuant to the Plan only to persons who are Eligible Individuals at the time of the grant thereof or in connection with the severance or retirement of Eligible Individuals.

4.2 Grant of Awards. Subject to the express provisions of the Plan, the Committee shall determine which Eligible Individuals shall be granted Awards from time to time. In making grants, the Committee shall take into consideration the contribution the potential Holder has made or may make to the success of the Corporation or its Subsidiaries and such other considerations as the Board of Directors may from time to time specify. The Committee shall also determine the number of shares or cash amounts subject to each of the Awards and shall authorize and cause the Corporation to grant Awards in accordance with those determinations.

4.3 Date of Grant. The date on which an Award is granted (the "Date of Grant") shall be the date specified by the Committee as the effective date or date of grant of an Award or, if the Committee does not so specify, shall be the date as of which the Committee adopts the resolution approving the offer of an Award to an individual, including the specification of the number (or method of determining the number) of shares of Stock, even though certain terms of the Award Agreement may not be determined at that time and even though the Award Agreement may not be executed or delivered until a later time. In no event shall a Holder gain any rights in addition to those specified by the Committee in its grant, regardless of the time that may pass between the grant of the Award and the actual execution or delivery of the Award Agreement by the Corporation or the Holder. The Committee may invalidate an Award at any time before the Award Agreement is signed by the Holder (if signature is required) or is delivered to the Holder (if signature is not required), and such Award shall be treated as never having been granted.

4.4 Award Agreements. Each Award granted under the Plan shall be evidenced by an Award Agreement that incorporates those terms that the Committee shall deem necessary or desirable. More than one Award may be granted under the Plan to the same Eligible Individual and be outstanding concurrently.

4.5 No Right to Award. The adoption of the Plan shall not be deemed to give any person a right to be granted an Award.

SECTION 5. RESTRICTED STOCK AWARDS

All Restricted Stock Awards granted under the Plan shall comply with, and the related Award Agreements shall be deemed to include, and be subject to the terms and conditions set forth in this Section 5 and also to the terms and conditions set forth in Paragraph 6.1 and Section 7; provided, however, that the Committee may authorize an Award Agreement relating to a Restricted Stock Award that expressly contains terms and provisions that differ from the terms and provisions of Section 7. The Committee may also authorize an Award Agreement relating to a Restricted Stock Award that contains any or all of the terms and provisions of Paragraphs 6.2 and 6.3 or that contains terms and provisions dealing with similar subject matter differently than do those Paragraphs; nevertheless, no term or provision of Paragraph 6.2 or 6.3 (or any such differing term or provision) shall apply to an Award Agreement relating to a Restricted Stock Award unless the Award Agreement expressly states that such term or provision applies.

5.1 Restrictions. All shares of Restricted Stock Awards granted or sold pursuant to the Plan shall be subject to the following conditions:

(a) Transferability. The shares may not be sold, transferred or otherwise alienated or hypothecated until the restrictions are removed or expire.

(b) Conditions to Removal of Restrictions. Conditions to removal or expiration of the restrictions may include, but are not required to be limited to, continuing employment or service as a director, officer, consultant or advisor or achievement of performance objectives described in the Award Agreement.

(c) Legend. Each certificate representing Restricted Stock Awards granted pursuant to the Plan shall bear a legend making appropriate reference to the restrictions imposed.

(d) Possession. At its sole discretion, the Committee may (i) authorize issuance of a certificate for shares in the Holder's name only upon lapse of the applicable restrictions, (ii) require the Corporation, transfer agent or other custodian to retain physical custody of the certificates representing Restricted Stock Awards during the restriction period and may require the Holder of the Award to execute stock powers, endorsed or in blank, for those certificates and deliver those stock powers to the Corporation, transfer agent or custodian, or (iii) may require the Holder to enter into an escrow agreement providing that the certificates representing Restricted Stock Awards granted or sold pursuant to the Plan shall remain in the physical custody of an escrow holder until all restrictions are removed or expire. The Corporation may issue shares subject to stop-transfer restrictions or may issue such shares subject only to

the restrictive legend described in subparagraph 8.1(c).

(e) Other Conditions. The Committee may impose other conditions on any shares granted or sold as Restricted Stock Awards pursuant to the Plan as it may deem advisable, including, without limitation, (i) restrictions under the Securities Act or Exchange Act, (ii) the requirements of any securities exchange upon which the shares or shares of the same class are then listed, and (iii) any state securities law applicable to the shares.

5.2 Expiration of Restrictions. The restrictions imposed in Paragraph 5.1 on Restricted Stock Awards shall lapse as determined by the Committee and set forth in the applicable Award Agreement, and the Corporation shall promptly cause to be delivered to the Holder of the Restricted Stock Award a certificate representing the number of shares for which restrictions have lapsed, free of any restrictive legend relating to the lapsed restrictions. Each Restricted Stock Award may have a different restriction period, in the discretion of the Committee. The Committee may, in its discretion, prospectively reduce the restriction period applicable to a particular Restricted Stock Award. The foregoing notwithstanding, no restriction not required by law shall remain in effect for more than ten years after the date of the Award.

5.3 Changes in Accounting Rules. Notwithstanding any other provision of the Plan to the contrary, if, during the term of the Plan, any changes in the financial or tax accounting rules applicable to Restricted Stock Awards shall occur that, in the sole judgment of the Board of Directors, may have a material adverse effect on the reported earnings, assets, or liabilities of the Corporation, the Committee shall have the right and power to modify as necessary any then outstanding Restricted Stock Awards as to which the applicable restrictions have not been satisfied.

5.4 Rights as Stockholder. Subject to the provisions of Paragraphs 5.1 and 7.10, the Committee may, in its discretion, determine what rights, if any, the Holder shall have with respect to the Restricted Stock Awards granted or sold, including the right to vote the shares and receive all dividends and other distributions paid or made with respect thereto.

5.5 Other Agreement Provisions. The Award Agreements relating to Restricted Stock Awards shall contain such provisions in addition to those required by the Plan as the Committee may deem advisable.

SECTION 6. ADJUSTMENT PROVISIONS

The Committee may authorize an Award that contains any or all of the terms and provisions of this Section 6 or, with respect to Paragraphs 6.2 and 6.3, that contains terms and provisions dealing with similar subject matter differently than do those Paragraphs; nevertheless, no term or provision of Paragraph 6.2 or 6.3 (or any such differing term or provision) shall apply to an Award Agreement unless the Award Agreement expressly states that such term or provision applies.

6.1 Adjustment of Awards and Authorized Stock. The terms of an Award and the number of shares of Stock authorized pursuant to Paragraph 2.1 for issuance under the Plan shall be subject to adjustment, from time to time, in accordance with the following provisions:

(a) If at any time or from time to time, the Corporation shall subdivide as a whole (by reclassification, by a Stock split, by the issuance of a distribution on Stock payable in Stock or otherwise) the number of shares of Stock then outstanding into a greater number of shares of Stock, then (i) the maximum number of shares of Stock available for the Plan as provided in Paragraph 2.1 shall be increased proportionately, and the kind of shares or other securities available for the Plan shall be appropriately adjusted, and (ii) the number of shares of Stock (or other kind of shares or securities) that may be acquired under any Award shall be increased proportionately, without changing the aggregate value as to which outstanding Awards remain subject to restrictions.

(b) If at any time or from time to time the Corporation shall consolidate as a whole (by reclassification, reverse Stock split, or otherwise) the number of shares of Stock then outstanding into a lesser number of shares of Stock, (i) the maximum number of shares of Stock available for the Plan as provided in Paragraph 2.1 shall be decreased proportionately, and the kind of shares or other securities available for the Plan shall be appropriately adjusted, and (ii) the number of shares of Stock (or other kind of shares or securities) that may be acquired under any Award shall be decreased proportionately, without changing the aggregate value as to which outstanding Awards remain subject to restrictions.

(c) Whenever the number of shares of Stock subject to outstanding Awards are required to be adjusted as provided in this Paragraph 6.1, the Committee shall promptly prepare a notice setting forth, in reasonable detail, the event requiring adjustment, the amount of the adjustment, the method by which such adjustment was calculated, and the change in the number of shares of Stock subject to each Award after giving effect to the adjustments. The Committee shall promptly give each Holder such a notice.

(d) Adjustments under Paragraph 6(a) and (b) shall be made by the Committee, and its determination as to what adjustments shall be made and the extent thereof shall be final, binding and conclusive. No fractional interest shall be issued under the Plan on account of any such adjustments.

6.2 Changes in Control. Upon the occurrence of a Change in Control, but only if approved by the Committee, for Awards held by Participants who are employees or directors of the Corporation (and their permitted transferees pursuant to Paragraph 3.3), the restriction period of any Restricted Stock Award shall immediately be accelerated and the restrictions shall expire. If a Change in Control involves a Restructure or occurs in connection with a series of related transactions involving a Restructure and if such Restructure is in the form of a Non-Surviving Event and as a part of such Restructure shares of stock, other securities, cash or property shall be issuable or deliverable in exchange for Stock, then the Holder of an Award shall be entitled to receive (in lieu of the shares of Stock that the Holder would otherwise be entitled to receive), the number of shares of stock, other securities, cash or property to which that number of shares of Stock would have been entitled in connection with such Restructure.

6.3 Restructure and No Change in Control. In the event a Restructure should occur at any time while there is any outstanding Award hereunder and that Restructure does not occur in connection with a Change in Control or in connection with a series of related transactions involving a Change in Control, then the restriction period of any Restricted Stock Award shall not immediately be accelerated nor shall the restrictions expire merely because of the occurrence of the Restructure. The Corporation shall promptly notify each Holder of any election or action taken by the Corporation under this Paragraph 6.3. In the event of any election or action taken by the Corporation pursuant to this Paragraph 6.3 that requires the amendment or cancellation of any Award Agreement as may be specified in any notice to the Holder thereof, that Holder shall promptly deliver that Award Agreement to the Corporation in order for that amendment or cancellation to be implemented by the Corporation and the Committee. The failure of the Holder to deliver any such Award Agreement to the Corporation as provided in the preceding sentence shall not in any manner affect the validity or enforceability of any action taken by the Corporation and the Committee under this Paragraph 6.3, including, without limitation, any redemption of an Award as of the consummation of a Restructure. Any cash payment to be made by the Corporation pursuant to this Paragraph 6.3 in connection with the redemption of any outstanding Awards shall be paid to the Holder thereof currently with the delivery to the Corporation of the Award Agreement evidencing that Award; provided, however, that any such redemption shall be effective upon the consummation of the Restructure notwithstanding that the payment of the redemption price may occur subsequent to the consummation. If all or any portion of an outstanding Award is to be accelerated upon or after the consummation of a Restructure that is in the form of a Non-Surviving Event and as a part of that Restructure shares of stock, other securities, cash or property shall be issuable or deliverable in exchange for Stock, then the Holder of the Award shall thereafter be entitled to purchase or receive (in lieu of the number of shares of Stock that the Holder would otherwise be entitled to receive) the number of shares of stock, other securities, cash or property to which such number of shares of Stock would have been entitled in connection with the Restructure.

6.4 Notice of Change in Control or Restructure. The Corporation shall attempt to keep all Holders informed with respect to any Change in Control or Restructure or of any potential Change in Control or Restructure to the same extent that the Corporation's stockholders are informed by the Corporation of any such event or potential event.

SECTION 7. ADDITIONAL PROVISIONS

7.1 Termination of Employment. If a Holder is an Eligible Individual because the Holder is an Employee and if that employment relationship is terminated for any reason other than Retirement or that Holder's death or Disability, then the following provisions shall apply to all Awards held by that Holder that were granted because that Holder was an Employee:

(a) If the termination is by the Holder's employer, then the following provisions shall apply: (i) if the termination is for Cause, then that portion, if any, of any and all Awards held by that Holder for which restrictions have not lapsed as of the date of termination shall become null and void; provided, however, that the portion, if any, of any and all Awards held by that Holder for which restrictions have lapsed as of the date of such termination shall survive such termination.

(b) If such termination is by the Holder, then, unless otherwise agreed to by the Corporation, any and all Awards held by that Holder with respect to which restrictions thereon have not lapsed, shall become null and void as of the date of the termination.

7.2 Other Loss of Eligibility. If a Holder is an Eligible Individual because the Holder is serving in a capacity other than as an Employee and if that capacity is terminated for any reason other than the Holder's death, then that portion, if any, of any and all Awards held by the Holder that were granted because of that capacity for which restrictions have not lapsed as of the date of the termination shall become null and void as of the date of the termination; provided, however, that the portion, if any, of any and all of the Awards held by the Holder for which restrictions have lapsed as of the date of the termination shall survive the termination.

7.3 Death. Upon the death of a Holder, then any and all Awards held by the Holder, including those portions of the Awards that pursuant to the terms and provisions of the applicable Award Agreement the restrictions thereon have not yet lapsed, the restriction period of any Restricted Stock Award shall immediately be accelerated and the restrictions shall expire.

7.4 Retirement. If a Holder is an Eligible Individual because the Holder is an Employee and if that employment relationship is terminated by reason of the Holder's Retirement, then the portion, if any, of any and all Awards held by the Holder for which restrictions have not lapsed as of the date of that retirement shall become null and void as of the date of retirement.

7.5 Disability. If a Holder is an Eligible Individual because the Holder is an Employee and if that employment relationship is terminated by reason of the Holder's Disability, then with respect to any and all Awards held by the Holder for which restrictions had not lapsed, the restriction period of any Restricted Stock Award shall immediately be accelerated and the restrictions shall expire. "Disability" shall have the meaning given it in the employment agreement of the Holder; provided, however, that if that Holder has no employment agreement, "Disability" shall mean a physical or mental impairment of sufficient severity that, in the opinion of the Corporation, either the Holder is unable to continue performing the duties he performed before such impairment or the Holder's condition entitles him to disability benefits under any insurance or employee benefit plan of the Corporation or its Subsidiaries and that impairment or condition is cited by the Corporation as the reason for termination of the Holder's employment.

7.6 Leave of Absence. With respect to an Award, the Committee may, in its sole discretion, determine that any Holder who is on leave of absence for any reason will be considered to still be in the employ of the Corporation, provided that rights to that Award during a leave of absence will be limited to the extent to which those rights were earned or vested when the leave of absence began.

7.7 Forfeiture and Restrictions on Transfer. Each Award Agreement may contain or otherwise provide for conditions giving rise to the forfeiture of the Stock acquired pursuant to an Award or otherwise and may also provide for those restrictions on the transferability of shares of the Stock acquired pursuant to an Award or otherwise that the Committee in its sole and absolute discretion may deem proper or advisable. The conditions giving rise to forfeiture may include, but need not be limited to, the requirement that the Holder render substantial services to the Corporation or its Subsidiaries for a specified period of time. The restrictions on transferability may include, but need not be limited to, options and rights of first refusal in favor of the Corporation and stockholders of the Corporation other than the Holder of such shares of Stock who is a party to the particular Award Agreement or a subsequent holder of the shares of Stock who is bound by that Award Agreement.

7.8 Delivery of Certificates of Stock. Subject to Paragraph 7.9, the Corporation shall promptly issue and deliver a certificate representing the number of shares of Stock as to which restrictions have lapsed with respect to a Restricted Stock Award and upon receipt by the Corporation of any tax withholding as may be requested. The value of the shares of Stock transferable because of an Award under the Plan shall not bear any interest owing to the passage of time, except as may be otherwise provided in an Award Agreement.

7.9 Conditions to Delivery of Stock. Nothing herein or in any Award granted hereunder or any Award Agreement shall require the Corporation to issue any shares with respect to any Award if that issuance would, in the opinion of counsel for the Corporation, constitute a violation of the Securities Act or any similar or superseding statute or statutes, any other applicable statute or regulation, or the rules of any applicable securities exchange or securities association, as then in effect. At the time of any grant of a Restricted Stock Award, the Corporation may, as a condition precedent to the vesting of any Restricted Stock Award, require from the Holder of the Award (or in the event of his or her death, his or her legal representatives, heirs, legatees, or distributees) such written representations, if any, concerning the Holder's intentions with regard to the retention or disposition of the shares of Stock being acquired pursuant to the Award and such written covenants and agreements, if any, as to the manner of disposal of such shares as, in the opinion of counsel to the Corporation, may be necessary to ensure that any disposition by that Holder (or in the event of the Holder's death, his legal representatives, heirs, legatees, or distributees) will not involve a violation of the Securities Act or any similar or superseding statute or statutes, any other applicable state or federal statute or regulation, or any rule of any applicable securities exchange or securities association, as then in effect.

7.10 Certain Directors and Officers. With respect to Awards granted to Holders who are directors or officers of the Corporation or any Subsidiary and who are subject to potential liability for "short-swing profits" under Section 16(b) of the Exchange Act, Awards shall contain such other terms and conditions as may be required by Rule 16b-3 unless the majority of the Board of Directors or the Holder has determined not to have the Award comply with the potential exemption from the provisions of 16(b) provided by Rule 16b-3.

7.11 Securities Act Legend. Certificates for shares of Stock, when issued, may have the following legend, or statements of other applicable restrictions endorsed thereon and may not be immediately transferable:

THE SHARES OF STOCK REPRESENTED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933 OR ANY STATE SECURITIES LAWS. THE SHARES MAY NOT BE OFFERED FOR SALE, SOLD, PLEDGED, TRANSFERRED, OR OTHERWISE DISPOSED OF UNTIL THE HOLDER HEREOF PROVIDES EVIDENCE SATISFACTORY TO THE ISSUER (WHICH, IN THE DISCRETION OF THE ISSUER, MAY INCLUDE AN OPINION OF COUNSEL SATISFACTORY TO THE ISSUER) THAT SUCH OFFER, SALE, PLEDGE, TRANSFER, OR OTHER DISPOSITION WILL NOT VIOLATE APPLICABLE FEDERAL OR STATE LAWS.

This legend shall not be required for shares of Stock issued pursuant to an effective registration statement under the Securities Act.

7.12 Legend for Restrictions on Transfer. Each certificate representing shares issued to a Holder pursuant to an Award granted under the Plan shall, if such shares are subject to any transfer restriction, including a right of first refusal, provided for under this Plan or an Award Agreement, bear a legend that complies with applicable law with respect to the restrictions on transferability contained in this Paragraph 7.12, such as:

THE SHARES OF STOCK REPRESENTED BY THIS CERTIFICATE ARE SUBJECT TO RESTRICTIONS ON TRANSFERABILITY IMPOSED BY THAT CERTAIN INSTRUMENT ENTITLED "ARENA, INC. RESTRICTED STOCK AWARD PLAN" AS ADOPTED BY ARENA, INC. (THE "CORPORATION") ON DECEMBER __, 2009, AND AN AGREEMENT THEREUNDER BETWEEN THE CORPORATION AND [HOLDER] DATED _____, _____, AND MAY NOT BE TRANSFERRED, SOLD, OR OTHERWISE DISPOSED OF EXCEPT AS THEREIN PROVIDED. THE CORPORATION WILL FURNISH A COPY OF SUCH INSTRUMENT AND AGREEMENT TO THE RECORD HOLDER OF THIS CERTIFICATE WITHOUT CHARGE ON REQUEST TO THE CORPORATION AT ITS PRINCIPAL PLACE OF BUSINESS OR REGISTERED OFFICE.

7.13 Rights as a Stockholder. A Holder shall have no right as a stockholder with respect to any shares covered by his or her Award until a certificate representing those shares is issued in his or her name. No adjustment shall be made for dividends (ordinary or extraordinary, whether in cash or other property) or distributions or other rights for which the record date is before the date that certificate is issued, except as contemplated by Section 6. Nevertheless, dividends and dividend equivalent rights may be extended to and made part of any Award denominated in Stock or units of Stock, subject to such terms, conditions, and restrictions as the Committee may establish. The Committee may also establish rules and procedures for the crediting of interest on deferred cash payments and dividend equivalents for deferred payment denominated in Stock or units of Stock.

7.14 Information. Each Holder shall furnish to the Corporation all information requested by the Corporation to enable it to comply with any reporting or other requirement imposed upon the Corporation by or under any applicable statute or regulation.

7.15 Remedies. The Corporation shall be entitled to recover from a Holder reasonable attorneys' fees incurred in connection with the enforcement of the terms and provisions of the Plan and any Award Agreement whether by an action to enforce specific performance or for damages for its breach or otherwise.

7.16 Information Confidential. As partial consideration for the granting of each Award hereunder, the Holder shall agree with the Corporation that the Holder will keep confidential all information and knowledge that the Holder has relating to the manner and amount of his or her participation in the Plan; provided, however, that such information may be disclosed as required by law and may be given in confidence to the Holder's spouse, tax and financial advisors, or to a financial institution to the extent that such information is necessary to secure a loan. In the event any breach of this promise comes to the attention of the Committee, it shall take into consideration that breach in determining whether to recommend the grant of any future Award to that Holder, as a factor militating against the advisability of granting any such future Award to that individual.

7.17 Consideration. No restriction on any Restricted Stock Award shall lapse with respect to a Holder unless and until the Holder shall have paid cash or property to, or performed services for, the Corporation or any of its Subsidiaries that the Committee believes is equal to or greater in value then the par value of the Stock subject to such Award.

SECTION 8. DURATION AND AMENDMENT OF PLAN

8.1 Duration. No Awards may be granted hereunder after the date that is ten (10) years from the date the last amendment to this Plan involving an increase in authorized shares is approved by the stockholders of the Corporation.

8.2 Amendment. The Board of Directors may (insofar as permitted by law and applicable regulations of any exchange or inter-dealer quotation system on which the Company's stock may be listed), with respect to any shares which, at the time, are not subject to Awards, suspend or discontinue the Plan or revise or amend it in any respect whatsoever, and may amend any provision of the Plan or any Award Agreement to make the Plan or the Award Agreement, or both, comply with Section 16(b) of the Exchange Act and the exemptions therefrom, the Code, the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), the regulations promulgated under the Code or ERISA, or any other law, rule or regulation that may affect the Plan. The Board of Directors may also amend, modify, suspend or terminate the Plan for the purpose of meeting or addressing any changes in other legal requirements applicable to the Corporation or the Plan or for any other purpose permitted by law. The Plan may not be amended without the consent of the holders of a majority of the shares of Stock then outstanding to increase materially the aggregate number of shares of Stock that may be issued under the Plan (except for adjustments pursuant to Section 6 of the Plan).

SECTION 9. GENERAL

9.1 Right of the Corporation and Subsidiaries to Terminate Employment. Nothing contained in the Plan or in any Award Agreement shall confer upon any Holder the right to continue in the employ of the Corporation or any Subsidiary, or interfere in any way with the rights of the Corporation or any Subsidiary to terminate his or her employment at any time.

9.2 No Liability for Good Faith Determinations. Neither the members of the Board of Directors nor any member of the Committee shall be liable for any act, omission or determination taken or made in good faith with respect to the Plan or any Award granted under it, and members of the Board of Directors and the Committee shall be entitled to indemnification and reimbursement by the Corporation in respect of any claim, loss, damage or expense (including attorneys' fees, the costs of settling any suit, provided such settlement is approved by independent legal counsel selected by the Corporation, and amounts paid in satisfaction of a judgment, except a judgment based on a finding of bad faith) arising therefrom to the full extent permitted by law and under any directors and officers liability or similar insurance coverage that may from time to time be in effect. This right to indemnification shall be in addition to, and not a limitation on, any other indemnification rights any member of the Board of Directors or the Committee may have.

9.3 Other Benefits. Participation in the Plan shall not preclude the Holder from eligibility in any other stock or stock option plan of the Corporation or any Subsidiary or any old age benefit, insurance, pension, profit sharing, retirement, bonus or other extra compensation plans that the Corporation or any Subsidiary has adopted or may, at any time, adopt for the benefit of its Employees. Neither the adoption of the Plan by the Board of Directors nor the submission of the Plan to the stockholders of the Corporation for approval shall be construed as creating any limitations on the power of the Board of Directors to adopt such other incentive arrangements as it may deem desirable, including, without limitation, the granting of stock options and the awarding of stock and cash otherwise than under the Plan, and such arrangements may be either generally applicable or applicable only in specific cases.

9.4 Exclusion from Pension and Profit-Sharing Compensation. By acceptance of an Award (whether in Stock or cash), as applicable, each Holder shall be deemed to have agreed that the Award is special incentive compensation that will not be taken into account in any manner as salary, compensation or bonus in determining the amount of any payment under any pension, retirement or other employee benefit plan of the Corporation or any Subsidiary. In addition, each beneficiary of a deceased Holder shall be deemed to have agreed that the Award will not affect the amount of any life insurance coverage, if any, provided by the Corporation or a Subsidiary on the life of the Holder that is payable to the beneficiary under any life insurance plan covering employees of the Corporation or any Subsidiary.

9.5 Execution of Receipts and Releases. Any payment of cash or any issuance or transfer of shares of Stock or other property to the Holder, or to his legal representative, heir, legatee or distributee, in accordance with the provisions hereof, shall, to the extent thereof, be in full satisfaction of all claims of such persons hereunder. The Committee may require any Holder, legal representative, heir, legatee or distributee, as a condition precedent to such payment, to execute a release and receipt therefor in such form as it shall determine.

9.6 Unfunded Plan. Insofar as it provides for Awards of Stock, the Plan shall be unfunded. Although bookkeeping accounts may be established with respect to Holders who are entitled to Stock, other property or rights thereto under the Plan, any such accounts shall be used merely as a bookkeeping convenience. The Corporation shall not be required to segregate any assets that may at any time be represented by Stock, other property or rights thereto, nor shall the Plan be construed as providing for such segregation, nor shall the Corporation nor the Board of Directors nor the Committee be deemed to be a trustee of any Stock, other property or rights thereto to be granted under the Plan. Any liability of the Corporation to any Holder with respect to a grant of Stock, other property or rights thereto under the Plan shall be based solely upon any contractual obligations that may be created by the Plan and any Award Agreement; no such obligation of the Corporation shall be deemed to be secured by any pledge or other encumbrance on any property of the Corporation. Neither the Corporation nor the Board of Directors nor the Committee shall be required to give any security or bond for the performance of any obligation that may be created by the Plan.

9.7 No Guarantee of Interests. The Board of Directors, the Committee and the Corporation do not guarantee the Stock of the Corporation from loss or depreciation.

9.8 Payment of Expenses. All expenses incident to the administration, termination or protection of the Plan, including, but not limited to, legal and accounting fees, shall be paid by the Corporation or its Subsidiaries; provided, however, the Corporation or a Subsidiary may recover any and all damages, fees, expenses and costs arising out of any actions taken by the Corporation to enforce its right to purchase Stock under this Plan.

9.9 Corporation Records. Records of the Corporation or its Subsidiaries regarding the Holder’s period of employment, termination of employment and the reason therefor, leaves of absence, re-employment, and other matters shall be conclusive for all purposes hereunder, unless determined by the Committee to be incorrect.

9.10 Information. The Corporation and its Subsidiaries shall, upon request or as may be specifically required hereunder, furnish or cause to be furnished, all of the information or documentation which is necessary or required by the Committee to perform its duties and functions under the Plan.

9.11 Corporation Action. Any action required of the Corporation shall be by resolution of its Board of Directors or by a person authorized to act by resolution of the Board of Directors.

9.12 Severability. If any provision of this Plan is held to be illegal or invalid for any reason, the illegality or invalidity shall not affect the remaining provisions hereof, but such provision shall be fully severable and the Plan shall be construed and enforced as if the illegal or invalid provision had never been included herein. If any of the terms or provisions of this Plan conflict with the requirements of Rule 16b-3 (as those terms or provisions are applied to Eligible Individuals who are subject to Section 16(b) of the Exchange Act,) or the Code, then those conflicting terms or provisions shall be deemed inoperative to the extent they so conflict with the requirements of Rule 16b-3 or the Code unless the Committee has determined that the Plan should not comply with such requirements.

9.13 Notices. Whenever any notice is required or permitted hereunder, such notice must be in writing and personally delivered or sent by mail. Any such notice required or permitted to be delivered hereunder shall be deemed to be delivered on the date on which it is personally delivered, or, whether actually received or not, on the third Business Day after it is deposited in the United States mail, certified or registered, postage prepaid, addressed to the person who is to receive it at the address which such person has theretofore specified by written notice delivered in accordance herewith. The Corporation or a Holder may change, at any time and from time to time, by written notice to the other, the address which it or he had previously specified for receiving notices. Until changed in accordance herewith, the Corporation and each Holder shall specify as its and his address for receiving notices the address set forth in the Award Agreement pertaining to the shares to which such notice relates.

9.14 Waiver of Notice. Any person entitled to notice hereunder may waive such notice.

9.15 Successors. The Plan shall be binding upon the Holder, his legal representatives, heirs, legatees and distributees, upon the Corporation, its successors and assigns, and upon the Committee and its successors.

9.16 Headings. The titles and headings of Sections and Paragraphs are included for convenience of reference only and are not to be considered in construction of the provisions hereof.

9.17 Governing Law. All questions arising with respect to the provisions of the Plan shall be determined by application of the laws of the State of Nevada except to the extent Nevada law is preempted by federal law. Questions arising with respect to the provisions of an Award Agreement that are matters of contract law shall be governed by the laws of the state specified in the Award Agreement, except to the extent Nevada corporate law conflicts with the contract law of such state, in which event Nevada corporate law shall govern. The obligation of the Corporation to sell and deliver Stock hereunder is subject to applicable laws and to the approval of any governmental authority required in connection with the authorization, issuance, sale, or delivery of such Stock.

9.18 Word Usage. Words used in the masculine shall apply to the feminine where applicable, and wherever the context of this Plan dictates, the plural shall be read as the singular and the singular as the plural.

IN WITNESS WHEREOF, Arena, Inc., acting by and through its officer hereunto duly authorized, has executed this Arena, Inc. Restricted Stock Award Plan this _____ day of December, 2009.

ARENA, INC.

By: _____
Phillip W. Terry
President and Chief Executive Officer

Arena Resources, Inc.
6555 S. Lewis Avenue
Tulsa, Oklahoma 74136

PROXY
THIS PROXY IS SOLICITED ON BEHALF OF THE BOARD OF DIRECTORS.

The undersigned stockholder of Arena Resources, Inc., a Nevada corporation, hereby constitutes and appoints Stanley M. McCabe and Lloyd T. Rochford, and each of them, with full power of substitution, as attorneys and proxies to appear and vote all shares of stock of the Company standing in the name of the undersigned, at the Annual Meeting of Stockholders of the Company to be held at the Doubletree Hotel, Warren Place, 6110 South Yale, Tulsa, Oklahoma, on Friday, December 11, 2009, at 9:00 A..M. (Local Time), and at any adjournment thereof, with all powers that the undersigned would possess if personally present, hereby revoking all previous proxies.

1. Election of Directors:

FOR each of the nominees listed below (except as shown to the contrary below) o

WITHHOLD AUTHORITY to vote for the nominees listed below o

Lloyd T. Rochford	Stanley M. McCabe
Clayton E. Woodrum	Anthony B. Petrelli
Carl H. Fiddner	

(INSTRUCTION: To withhold authority to vote for any nominee, write that nominee's name on the space provided below.)

2. Adoption of the Restricted Stock Award Plan: To adopt the Restricted Stock Award Plan

FOR the adoption o

AGAINST the adoption o

3. Adoption of the Amendment to the Stock Option Plan (increasing the number of shares subject thereto from 5,500,000 to 6,000,000)

FOR the amendment o

AGAINST the amendment o

4. In their discretion, upon any other matters as may properly come before the meeting.

(over)

This proxy when properly executed will be voted in the manner directed herein by the undersigned stockholder. If no direction is made, this proxy will be voted FOR management's nominees for director, FOR the adoption of the Restricted Stock Award Plan and FOR the amendment to the Stock Option Plan.

The undersigned hereby acknowledge(s) receipt of the Notice of the aforesaid Annual Meeting and the Proxy Statement accompanying the same, both dated October 26, 2009.

Dated: , 2009

(Please sign exactly as your name appears at left. When shares are held in the names of two or more persons, all should sign individually. Executors, administrators, trustees, etc., should so indicate when signing. When shares are held in the name of a corporation, the name of the corporation should be written first and then an authorized officer should sign on behalf of the corporation, showing the office held.)

PLEASE COMPLETE, SIGN, DATE AND RETURN THIS PROXY CARD PROMPTLY, USING THE ENCLOSED ENVELOPE.

(over)