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SOUND ADVICE INC  
Form DEF 14A  
March 15, 2001

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SCHEDULE 14A  
(RULE 14A-101)

INFORMATION REQUIRED IN PROXY STATEMENT

SCHEDULE 14A INFORMATION  
PROXY STATEMENT  
(PURSUANT TO SECTION 14(a) OF THE SECURITIES EXCHANGE ACT OF 1934)

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement  Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Pursuant to Rule 14a-11(c) or Rule 14a-12

SOUND ADVICE

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(Name of Registrant as Specified In Its Charter)

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(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- No fee required.
- Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:  
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(2) Aggregate number of securities to which transaction applies:  
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(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):  
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(4) Proposed maximum aggregate value of transaction:  
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[ ] Fee paid previously with preliminary materials:  
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[ ] Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:  
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(2) Form, Schedule or Registration Statement No.:  
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(3) Filing Party:  
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(4) Date Filed:  
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SOUND ADVICE, INC.  
1901 TIGERTAIL BOULEVARD  
DANIA BEACH, FLORIDA 33004  
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NOTICE OF ANNUAL MEETING OF SHAREHOLDERS  
TO BE HELD ON APRIL 12, 2001  
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To our Shareholders:

The 2000 annual meeting of shareholders of Sound Advice, Inc. will be held on Monday, April 12, 2001, at 9:00 a.m., local time, at the Hollywood Sound Advice Store, 4150 North 28th Terrace, Hollywood, Florida 33021, for the following purposes:

1. To elect two members to the Board of Directors to hold office until the 2003 Annual Meeting of Shareholders or until their successors are duly elected and qualified; and
2. To transact any other business as may properly come before the meeting or any postponement or adjournment thereof.

The Board of Directors has fixed March 14, 2001, as the record date for the determination of shareholders entitled to vote at the 2000 annual meeting of shareholders. Only shareholders of record at the close of business on that date will be entitled to notice of, and to vote at, the meeting or any postponement or adjournment thereof.

Copies of the Proxy Statement, our annual report on Form 10-K, as amended, for the year ended January 31, 2000 and our quarterly report on Form 10-Q for the period ended October 31, 2000 accompany this notice.

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WHETHER OR NOT YOU EXPECT TO BE PRESENT AT THE ANNUAL MEETING, PLEASE COMPLETE, SIGN AND DATE THE ENCLOSED PROXY CARD AND RETURN IT PROMPTLY IN THE ENCLOSED RETURN ENVELOPE. NO POSTAGE IS REQUIRED IF MAILED IN THE UNITED STATES. SHAREHOLDERS WHO EXECUTE A PROXY CARD MAY NEVERTHELESS ATTEND THE MEETING, REVOKE THEIR PROXY AND VOTE THEIR SHARES IN PERSON.

By order of the Board of Directors

/s/ Michael Blumberg

-----  
Michael Blumberg  
Secretary

Dania Beach, Florida  
March 15, 2001

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SOUND ADVICE, INC.  
1901 TIGERTAIL BOULEVARD  
DANIA BEACH, FLORIDA 33004  
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PROXY STATEMENT

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This proxy statement, which together with the accompanying proxy card is first being mailed to shareholders on or about March 15, 2001, contains information related to the 2000 annual meeting of shareholders of Sound Advice, Inc., to be held on Monday, April 12, 2001, beginning at 9:00 a.m. local time, at the Hollywood Sound Advice Store, 4150 North 28th Terrace, Hollywood, Florida, and at any postponements or adjournments thereof.

ABOUT THE MEETING

WHAT IS THE PURPOSE OF THE ANNUAL MEETING?

At our annual meeting, shareholders will act upon the matters outlined in the notice of meeting on the cover page of this proxy statement. In addition, management will report on the performance of the Company during fiscal 2000 and respond to questions from shareholders.

WHO IS ENTITLED TO VOTE AT THE MEETING?

Only shareholders of record at the close of business on March 14, 2001, the record date for the meeting, are entitled to receive notice of and to participate in the annual meeting. If you were a shareholder of record on that date, you will be entitled to vote all of the shares that you held on that date at the meeting, or any postponements or adjournments of the meeting.

A list of shareholders entitled to vote at the annual meeting will be available at the Company's offices, 1901 Tigertail Boulevard, Dania Beach, Florida 33004, for a period of ten days prior to the annual meeting and at the annual meeting itself for examination by any shareholder.

WHAT ARE THE VOTING RIGHTS OF THE HOLDERS OF SOUND ADVICE COMMON STOCK?

Holders of Sound Advice common stock will vote as a single class on all matters to be acted upon at the annual meeting. Each outstanding share of Sound Advice common stock will be entitled to one vote on each matter.

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### WHO CAN ATTEND THE MEETING?

All shareholders as of the record date, or their duly appointed proxies, may attend the meeting. If you attend, please note that you may be asked to present valid picture identification, such as a driver's license or passport. Cameras, recording devices and other electronic devices will not be permitted at the meeting.

Please also note that if you hold your shares in "street name" (that is, through a broker or other nominee), you will need to bring a copy of a brokerage statement reflecting your stock ownership as of the record date and check in at the registration desk at the meeting.

### WHAT CONSTITUTES A QUORUM?

The presence at the meeting, in person or by proxy, of the holders of a majority of the aggregate voting power of the common stock outstanding on the record date will constitute a quorum, permitting the meeting to conduct its business. As of the record date, 4,043,245 shares of Sound Advice common stock, representing the same number of votes, were outstanding.

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Proxies received but marked as abstentions and broker non-votes will be included in the calculation of the number of votes considered to be present at the meeting.

### HOW DO I VOTE?

If you complete and properly sign the accompanying proxy card and return it to the Company, it will be voted as you direct. If you are a registered shareholder and attend the meeting, you may deliver your completed proxy card in person. "Street name" shareholders who wish to vote at the meeting will need to obtain a proxy form from the institution that holds their shares.

### CAN I CHANGE MY VOTE AFTER I RETURN MY PROXY CARD?

Yes. Even after you have submitted your proxy, you may change your vote at any time before the proxy is exercised by filing with the Secretary of the Company either a notice of revocation or a duly executed proxy bearing a later date. The powers of the proxy holders will be suspended if you attend the meeting in person and so request, although attendance at the meeting will not by itself revoke a previously granted proxy.

### WHAT ARE THE BOARD'S RECOMMENDATIONS?

Unless you give other instructions on your proxy card, the persons named as proxy holders on the proxy card will vote in accordance with the recommendations of the Board of Directors. The Board's recommendation is set forth together with the description of each item in this proxy statement. In summary, the Board recommends a vote for election of the nominated directors.

With respect to any other matter that properly comes before the meeting, the proxy holders will vote as recommended by the Board of Directors or, if no recommendation is given, in their own discretion.

### WHAT VOTE IS REQUIRED TO APPROVE EACH ITEM?

**ELECTION OF DIRECTORS.** The affirmative vote of a plurality of the votes cast at the meeting is required for the election of directors. A properly executed proxy marked "WITHHOLD AUTHORITY" with respect to the election of one or more directors will not be voted with respect to the director or directors indicated, although it will be counted for purposes of determining whether there

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is a quorum.

OTHER ITEMS. For each other item, the affirmative vote of the holders of a majority of the shares represented in person or by proxy and entitled to vote on the item will be required for approval. A properly executed proxy marked "ABSTAIN" with respect to any such matter will not be voted, although it will be counted for purposes of determining whether there is a quorum. Accordingly, an abstention will have the effect of a negative vote.

If you hold your shares in "street name" through a broker or other nominee, your broker or nominee may not be permitted to exercise voting discretion with respect to some of the matters to be acted upon. Thus, if you do not give your broker or nominee specific instructions, your shares may not be voted on those matters and will not be counted in determining the number of shares necessary for approval. Shares represented by such "broker non-votes" will, however, be counted in determining whether there is a quorum.

Our common stock is quoted on the Nasdaq National Market under the symbol "SUND."

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The following table sets forth, for the fiscal quarters indicated, the high and low sales prices for our common stock on the Nasdaq Stock Market. Nasdaq Stock Market quotations are based on actual transactions and not bid prices.

QUARTER -----	FISCAL YEAR ENDED JANUARY 31, 1999	PRIC
	PERIOD	HIGH
First.....	02/01/98 To 04/30/98	3 9/16
Second.....	05/01/98 To 07/31/98	4 3/8
Third.....	08/01/98 To 10/31/98	3 11/16
Fourth.....	11/01/98 To 01/31/99	4 27/32

QUARTER -----	FISCAL YEAR ENDED JANUARY 31, 2000	PRIC
	PERIOD	HIGH
First.....	02/01/99 To 04/30/99	4 5/8
Second.....	05/01/99 To 07/31/99	8 3/8
Third.....	08/01/99 To 10/31/99	10
Fourth.....	11/01/99 To 01/31/00	12 3/4

QUARTER -----	FISCAL YEAR ENDED JANUARY 31, 2001	PRIC
	PERIOD	HIGH
First.....	02/01/00 To 04/30/00	12 1/2
Second.....	05/01/00 To 07/31/00	11 3/8

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Third..... 08/01/00 To 10/31/00 10 3/16  
 Fourth..... 11/01/00 To 01/31/00 8 7/8

WHAT IS THE COMPANY'S DIVIDEND POLICY?

We have never paid cash dividends on our common stock and do not plan to pay cash dividends in the foreseeable future. We have been and continue to be prohibited under our revolving credit facility from paying cash dividends.

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SECURITY OWNERSHIP OF CERTAIN  
 BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth certain information regarding the beneficial ownership of our common stock, as of March 14, 2001, by (i) each person who is known by us to own beneficially more than 5% of our common stock; (ii) each of our directors who own shares of our common stock; (iii) our Chief Executive Officer and our executive officers other than the Chief Executive Officer; and (iv) all of our directors and executive officers as a group. Except as noted in the footnotes to the table, the persons named in the table have sole voting and investment power with respect to all shares of common stock shown as beneficially owned by them.

NAME AND ADDRESS OF BENEFICIAL OWNER -----	SHARES BENEFICIALLY OWNED	
	NUMBER -----	PERCENTAGE -----
Peter Beshouri (1).....	576,087.9(2) (3) (4)	14.25%(2) (3) (4)
Michael Blumberg(1).....	484,938.0(2) (3) (4)	11.99%(2) (3) (4)
Tweeter Home Entertainment Group, Inc.(5) (6).....	336,000.0(6)	8.31%(6)
FMR Corp.(5) (7).....	207,000.0(7)	5.12%(7)
Dimensional Fund Advisors Inc.(5) (8).....	215,947.0(8)	5.34%(8)
Kenneth L. Danielson(1).....	245,001.2(3) (4)	6.06%(3) (4)
Joseph Piccirilli(1).....	210,467.5(2)	5.21%(2)
Christopher O'Neil(1).....	185,390.8(3) (4)	4.59%(3) (4)
Gregory Sturgis(1).....	155,467.5(2) (4)	3.85%(2) (4)
William F. Hagerty, IV(9).....	57,600.0(4)	1.42%(4)
G. Kay Griffith(10).....	46,000.0(4)	1.14%(4)
Herbert A. Leeds(11).....	10,000.0(4)	*(4)
All directors and executive officers as a group (seven persons including certain of those listed above) (2) (3) (4).....	1,605,017.9	39.70%

\* Represents less than 1%.

- (1) The address of each person is care of Sound Advice, Inc., 1901 Tigertail Boulevard, Dania Beach, Florida 33004.
- (2) See "Right of First Refusal and Voting Trust Agreement" hereinbelow.
- (3) Includes the person's or members' of a group vested interest (if any) in shares of our common stock resulting from the person's or members' participation in our ESOP based upon the latest available annual report of the ESOP for the fiscal year ended January 31, 1999. Based on the annual report, Mr. Beshouri had 620.448 vested shares, Mr. Blumberg had 620.452 vested shares, Mr. Danielson had 1.205 vested shares and Mr. O'Neil had

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390.811 vested shares, and all current directors and executive officers as a group had 1,632.916 vested shares.

- (4) Includes (as applicable) immediately exercisable stock options held by: (i) Mr. Beshouri for 30,000 shares of common stock at an exercise price of \$1.69 per share, for 75,000 shares at an exercise price of \$1.89 per share, for 60,000 shares at an exercise price of \$8.00 per share and for 60,000 shares at an exercise price of \$5.00 per share; (ii) Mr. Blumberg for 15,000 shares of common stock at an exercise price of \$1.69 per share, 75,000 shares at an exercise price of \$1.89 per share, for 24,000 shares at an exercise price of \$8.00 per share and for 24,000 shares at an exercise price of \$5.00 per share; (iii) Mr. Danielson for 35,000 shares at an exercise price of \$1.69 per share, for 75,000 shares at an exercise price of \$1.89 per share, for 24,000 shares at an exercise price of \$8.00 per share and for 24,000 shares at an exercise price of \$5.00 per share; (iv) Mr. O'Neil for 15,000 shares at an exercise price of \$1.70 per share, for 26,000 shares at an exercise price of \$1.69 per share, for 75,000 shares at an exercise price of \$1.89 per share, for 24,000 shares at an exercise price of \$8.00 per share and for 24,000 shares at an exercise price of \$5.00 per share; (v) Mr. Hagerty for 5,000 shares at an exercise price of \$5.00 per share; (vi) Ms. Griffith for 40,000 shares of common stock at an exercise price of \$1.89 per share and for 5,000 shares at an exercise price of \$5.00 per share and (vii) Mr. Leeds for 5,000 shares at an exercise

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price of \$5.00 per share. Includes warrants held by Mr. Leeds for 5,000 shares of common stock at an exercise price of \$1.89 per share.

- (5) The information set forth herein with respect to each the person(s) is based solely upon a Schedule(s) 13G (and any amendments thereto) filed with the SEC by the person(s) with respect to the calendar year ended December 31, 2000 and, accordingly, may not reflect their respective holdings as of the date of this report.
- (6) Tweeter Home Entertainment Group, Inc. ("Tweeter"), 10 Pequot Way, Canton, MA 02021. Tweeter, a specialty retailer of mid to high-end audio and video consumer electronics products, is deemed to be the beneficial owner of 336,000 shares of Common Stock. This number includes 10,000 shares of Common Stock held by Samuel and Carolina Bloomberg and 30,000 shares of Common Stock held by the Samuel Bloomberg Family Trusts from the benefit of Mr. Bloomberg's children. Samuel Bloomberg is the Chairman of the Board of Tweeter. Tweeter has sole dispositive power to vote and dispose of 296,000 shares of Common Stock. Samuel and Carolina Bloomberg have shared power to vote and dispose of 10,000 shares of Common Stock. Mr. Bloomberg disclaims beneficial ownership of the shares of Common Stock holder by the Samuel Bloomberg Family Trusts.
- (7) FMR Corp., 82 Devonshire Street, Boston, Massachusetts 02109, through the ownership of its wholly-owned subsidiaries, Fidelity Management & Research Company ("FMRC") and Fidelity Management Trust Company ("FMTC"), is deemed to be the beneficial owner of 207,000 shares of Common Stock. FMRC, a registered investment advisor, is deemed to be the beneficial owner of 207,000 shares of Common Stock. FMR Corp. has sole dispositive power as to these 207,000 shares as a result of acting as an investment advisor to various registered investment companies. In addition, Edward C. Johnson 3rd, the Chairman of FMR Corp. and who together with various Johnson family members and trusts for the benefit of Johnson family members form a control group with respect to FMR Corp., indirectly would also be deemed the beneficial owner of such 207,000 shares by reasoning of having sole dispositive power over such shares. Fidelity Low-Priced Stock Fund, one of the registered investment companies as to which FMRC acts as an investment advisor and located at the same address as FMR Corp., may also be deemed a beneficial owner of all 207,000 of these shares as a result of its right to receive or the power to direct the receipt of dividends on, or proceeds

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from the sale of, these 207,000 shares.

- (8) Dimensional Fund Advisors Inc. ("Dimensional"), 1299 Ocean Avenue, 11th Floor, Santa Monica, California 90401, which is a registered investment advisor, is deemed to have beneficial ownership of 223,647 shares of common stock, with respect to which shares it has sole voting power and sole dispositive power. Dimensional, an investment advisor registered under Section 203 of the Investment Advisors Act of 1940, furnishes investment advice to four investment companies registered under the Investment Company Act of 1940, and serves as investment manager to certain other investment vehicles, including commingled group trusts (these investment companies and investment vehicles are referred to as the "Portfolios"). In its role as investment advisor and investment manager, Dimensional possesses both voting and investment power over the securities of the issuer that are owned by the Portfolios. All securities reported in this schedule are owned by the Portfolios, and Dimensional disclaims beneficial ownership of all the shares.
- (9) The address of William F. Hagerty, IV is 720 East Main Street, Gallatin, Tennessee 37066. Mr. Hagerty is deemed the beneficial owner of 42,600 shares of common stock as a result of having shared voting and investment power over these shares.
- (10) The address of G. Kay Griffith is 1902 East Lake View Avenue, Pensacola, Florida 32503.
- (11) The address of Herbert A. Leeds is 1110 Brickell Avenue, Suite 508, Miami, Florida 33131.

### RIGHT OF FIRST REFUSAL AND VOTING TRUST AGREEMENT

On June 30, 1986, our principal shareholders at that time, Peter Beshouri, Michael Blumberg, Joseph Piccirilli and Gregory Sturgis, entered into a right of first refusal and voting trust agreement. The voting trust under the agreement expired on June 30, 1996, while the right of first refusal continues. Pursuant to the agreement, each principal shareholder, for himself and on behalf of his heirs, beneficiaries, legal representatives and permitted assigns, has agreed not to sell, transfer, assign, pledge, encumber or otherwise dispose of any of his shares of common stock except (a) by will or the laws of intestate succession, (b) to a trust in

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which the principal shareholder or his immediate family are the sole beneficiaries, (c) with the written consent of all of the other principal shareholders or (d) pursuant to the right of first refusal granted to the other principal shareholders. Under the right of first refusal, in the event a principal shareholder or his heirs, beneficiaries, legal representatives or permitted assigns desires to sell any shares of common stock pursuant to a bona fide offer or otherwise, the other principal shareholders shall have the right and option to purchase the shares at a price equal to the bona fide offer price per share, if any, or the average of the closing bid and ask prices on the Nasdaq National Market for our common stock over the four full weeks preceding the date the notice of intent to sell is given.

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### PROPOSAL 1 ELECTION OF CLASS I DIRECTORS

Our Board of Directors is divided into three classes: Class I, Class II and Class III. Each director serves for a term ending at the third annual meeting of stockholders following the annual meeting at which he was elected, except that any director appointed by the Board of Directors serves, subject to election by



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the stockholders at the next annual meeting after appointed, for a term ending at the annual meeting of stockholders at which the term of the class to which the director was appointed ends. Each director serves until his successor is elected and qualified or until his or her earlier death, resignation or removal.

Two Class I directors will be elected at the annual meeting to serve for a three-year term expiring at the 2003 annual meeting. We have nominated William F. Hagerty IV and Herbert A. Leeds for these positions. You can find information with respect to the two nominees for Class I directors, as well as the directors whose term will expire after the 2000 Annual Meeting, as well as those other directors whose terms will continue after the 2000 Annual Meeting, below.

Unless otherwise instructed, the enclosed Proxy will be voted FOR the election of William F. Hagerty IV and Herbert A. Leeds, except that the persons designated as proxies reserve full discretion to cast their votes for another person recommended by the Board of Directors in the unanticipated event that any nominee is unable or declines to serve.

Directors will be elected by the plurality vote of the holders of common stock entitled to vote at the Annual Meeting and present in person or by proxy.

The following table sets forth the name, age and the position with the Company for each member of the Board of Directors:

NAME OF NOMINEE -----	AGE ---	DIRECTOR SINCE -----	CLASS -----	POSITION WITH THE CO -----
Peter Beshouri.....	46	1982	III	Chairman of the Board, Pres Chief Executive Officer
Michael Blumberg.....	52	1982	III	Director, Senior Vice Presi Secretary
G. Kay Griffith.....	56	1992	II	Director
Herbert A. Leeds.....	84	1996	I	Director
William F. Hagerty, IV.....	41	1998	I	Director

PETER BESHOURI, who has been an employee of the Company since 1974, has served as Chairman of the Board and Chief Executive Officer since August 1982. Prior thereto, he was the general sales manager of the Company, as well as having served as a showroom manager and district manager. He was elected President in May 1985. Mr. Beshouri currently serves as a director of Progressive Retailers Organization, Inc., a buying group comprised of approximately 14 retailers (including the Company) of home entertainment and consumer electronic products located throughout the country. In August 1995, Mr. Beshouri, together with the Company and a former chief financial officer of the Company, voluntarily agreed with the Securities and Exchange Commission, without admitting or denying any wrongdoing, to the entry of a cease and desist order by the SEC concerning our Form 10-K for fiscal year 1991 and Forms 10-Q for the quarters ended September 30 and December 31, 1991, which the Securities and Exchange Commission found in such order had been materially misstated. The cease and desist order with respect to Mr. Beshouri related to his supervisory responsibility in connection with the company violating certain provisions of the securities laws that require public companies to keep accurate books and records, to maintain appropriate internal accounting controls and to file accurate annual and quarterly reports. No censure, fine or penalty was imposed by the Securities and Exchange Commission on Mr. Beshouri.

MICHAEL BLUMBERG, one of our founders, was elected a Vice President in August 1982, Vice President -- Purchasing and Finance in May 1986, Vice President -- Purchasing and Marketing in December 1987, and Senior Vice

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President in May 1989. From our inception until February 1995, Mr. Blumberg served as

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Treasurer of the Company and, since October 13, 1989, he has also been serving as our Secretary. His responsibilities include overall supervision of all purchasing and selecting new product categories and lines for the company, as well as consulting with certain of our manufacturers in connection with product design.

G. KAY GRIFFITH, was elected a director of Sound Advice and a member of the audit committee of the Board of Directors in July 1992 and was appointed a member of the stock option committee in January 1997. Ms. Griffith joined us as an employee in May 1993 and served as our Executive Vice President and Chief Administrative Officer from September 1993 until February 1996. Since March 1998, Ms. Griffith has served as the President/Chief Executive Officer of the G&L Holding Group, Inc. and G&L Banks headquartered in Pensacola, Florida. In February 1996, Ms. Griffith formed Corporate Growth Consultants, Inc., a management consulting firm that specializes in finance, strategic planning and training. From the formation of that firm through 1997, Ms. Griffith performed consulting services for us. From June 1991 to May 1993, Ms. Griffith was Chairman and President/Chief Executive Officer of Admiralty Bank, headquartered in Palm Beach Gardens, Florida. From September 1983 to June 1991, she held a variety of officer positions with NationsBank of Florida, N.A., the last of which was Senior Vice President/Regional Banking Executive.

HERBERT A. LEEDS, was elected a director of Sound Advice in April 1996 and was appointed a member of our audit committee in May 1996 and our stock option committee in January 1997. Since 1975, Mr. Leeds has been President and Chief Executive Officer of Leeds Business Counseling, Inc., a consulting firm owned by him which has provided consulting services mainly to companies in the retail industry and developers of retail malls. Since forming that firm, Mr. Leeds has, from time to time, performed consulting services for us. Prior to launching his company, Mr. Leeds served as the President and Chief Executive Officer and held other senior executive positions with major department store chains.

WILLIAM F. HAGERTY, IV, was elected a director of Sound Advice in February 1998 and a member of the audit committee of the Board of Directors in February 1998 and was appointed a member of the stock option committee in October 1999. Mr. Hagerty has been a principal of Hagerty, Peterson & Company, LLC, a private equity investment firm based in Washington, D.C., since 1996. From August 1996 to January 2001, Mr. Hagerty was the Vice Chairman of National Electronics Warranty Corporation, an administrator of warranty programs based in Sterling, Virginia which is primarily engaged in the sale of product warranty contracts and through which administrator we offer customers extended warranty contracts for most of our products. From 1994 to present, Mr. Hagerty has been a principal of the Management Advisory Group, a Washington, D.C. based consulting firm which is a wholly-owned subsidiary of Hagerty, Peterson & Company, LLC. During 1993 and 1994, Mr. Hagerty was affiliated with Trident Capital, L.P., a private equity investment firm based in Chicago, Illinois. During the Bush Administration (1991-1993), Mr. Hagerty served in the White House as the Chief Economist of the President's Council on Competitiveness. From 1984 to 1991, he was a management consultant with the Boston Consulting Group serving as the senior expatriate in its Tokyo office with responsibility for all of that firm's international activities in Japan.

HOW OFTEN DID THE BOARD MEET IN FISCAL 2000?

The Board of Directors met twice during the fiscal year ended January 31, 2000. Each director attended 75% or more of the total number of meetings of the

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Board and the Committees on which he or she served.

### WHAT COMMITTEES HAS THE BOARD ESTABLISHED?

The Board of Directors has an Audit Committee comprised of a majority of directors who are not officers or employees of the Company. The written charter of the Audit Committee, as adopted by the Board of Directors, is attached hereto as APPENDIX A. The functions of the Audit Committee include meeting independently with representatives of our independent public accountants and representatives of our senior management, reviewing the general scope of our annual audit, the fee charged by the independent public accountants and other matters relating to internal accounting controls and financial procedures and reporting, reviewing and monitoring the performance of non-audit services by our auditors, recommending the engagement or discharge of our independent public accountants and conducting an appropriate review of all related party transactions and conflict of interest situations where appropriate. The Audit Committee held two

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formal meetings during the fiscal year ended January 31, 2000, although members of the Audit Committee, on an informal basis and in their capacity as members of the Board of Directors, kept informed throughout the fiscal year ended January 31, 2000 of our financial condition and our internal accounting controls and financial reporting. The Audit Committee consists of G. Kay Griffith, William F. Hagerty, IV and Herbert A. Leeds.

The Board of Directors does not currently have a Nominating Committee or a Compensation Committee or committees performing similar functions. However, a Stock Option Committee of the Board of Directors establishes and implements compensation policies and programs for our executive officers and exercises all powers of the Board of Directors in connection with our stock option plans. The Stock Option Committee of the Board of Directors consists of G. Kay Griffith, William F. Hagerty, IV and Herbert A. Leeds. The Stock Option Committee held one meeting during the fiscal year ended January 31, 2000.

### SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Securities Exchange Act of 1934 requires our officers and directors, and persons who own more than ten percent of a registered class of our equity securities, to file reports of ownership and changes in ownership with the SEC and the National Association of Securities Dealers, Inc. Officers, directors and greater than ten percent shareholders are required by SEC regulations to furnish us with copies of all Section 16(a) forms they file.

Based solely on review of the copies of the forms furnished to us and written representations that no Form 5's were required when applicable, we believe that during the fiscal year ended January 31, 2000 all Section 16(a) filing requirements applicable to our officers, directors and greater than ten percent beneficial owners were complied with, with the exception of: one report by William F. Hagerty IV, a Director, reporting his status as a director which was reported on a Form 5 in March 2001. This late filing resulted from administrative oversights.

### EXECUTIVE COMPENSATION

#### HOW ARE DIRECTORS COMPENSATED?

Directors who are also our officers or employees are not paid additional compensation for acting as a director. We have established a standard arrangement for compensating directors who are not our officers or employees for

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services provided in that person's capacity as a director. Effective January 1, 1998, each outside director receives a fee of \$5,000 on a quarterly basis for serving as our director, as well as reimbursement of any out-of-pocket expenses incurred for travel, lodging and meals in connection with attendance at any meeting.

### HOW ARE EXECUTIVE OFFICERS COMPENSATED?

**General Compensation Philosophy.** Our Board of Directors determines the Chief Executive Officer's salary and bonus. The Chief Executive Officer, in consultation with the Board of Directors, determines the salary of our other executive officers. The Stock Option Committee of the Board of Directors administers our 1999 Stock Option Plan. The Board of Directors' and Stock Option Committee's strategy is to develop and implement an executive compensation program that allows us to attract and retain highly qualified persons to manage the company in order to enhance shareholders' value. The objective of this strategy is to provide a compensation policy that permits the recognition of individual contributions and achievements as well as our operating results. Within this strategy, the Board of Directors and the Stock Option Committee consider it essential to the vitality of the company to maintain levels of compensation opportunity that are competitive with similar companies in our industry, including our public company peer group.

**Executive Compensation.** Executive compensation is comprised of base salary, annual bonus compensation and long-term incentive compensation in the form of stock options.

**Base Salaries.** Base salary levels for executive officers are designed to be consistent with competitive practice and level of responsibility. In the fiscal year ended June 30, 1995, our Board of Directors adopted a

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compensation program that would, over time, shift a higher percentage of total compensation to annual bonus and long term incentive programs in order to strengthen the link between our operating performance and compensation and to more effectively reward individuals for corporate performance and individual achievement.

**Annual Bonus Compensation.** During the fiscal year ended June 30, 1995, our Board of Directors adopted an annual incentive bonus plan for four categories of employees, two of which categories were the Chief Executive Officer and other executive officers, based upon our annual operating performance. The percentage of the targeted bonus award to be earned by the different employee categories is directly tied to a percentage of our projected operating performance (after taking into account accruals for the annual incentive bonus plan) to be approved each year by the Board of Directors. Achievement of 100% of the projected operating performance will result in the award of a targeted bonus ranging from approximately 10% to up to 25% of base salary (with the Chief Executive Officer at approximately 25% and other executive officers at approximately 20%), with the percentage of the targeted bonus award earned increasing or decreasing based upon the percentage (ranging from 70% to 130%) of projected operating performance achieved.

**Long-Term Incentive Compensation.** The Stock Option Committee believes that the use of equity-based long-term compensation plans directly links executive officers' interests to enhancing shareholders' value. Stock options are an integral part of our executive compensation program in order to align the interests of the Company's executive officers and shareholders. Stock option compensation bears a direct relationship to corporate performance in that, over the long term, share price appreciation depends upon corporate performance, and without share price appreciation the stock options are of no value. The Stock

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Option Committee awarded 132,000 options to our named executive officers during the fiscal year ended January 31, 2000. All of these options were granted under our 1999 Stock Option Plan and are immediately exercisable incentive stock options.

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### EXECUTIVE COMPENSATION SUMMARY TABLE

The following table sets forth information about the compensation of our Chief Executive Officer and each of our three other executive officers each of whose salary and bonus, combined, exceed \$100,000 during each of the past three full fiscal years for services in all capacities (these individuals are referred to as named executives):

NAME AND PRINCIPAL POSITION	FISCAL YEAR	ANNUAL COMPENSATION		LONG TERM COMPENSATION
		SALARY (\$)	BONUS (\$)	SECURITIES UNDERLYING OPTIONS
Peter Beshouri..... Chairman, President and Chief Executive Officer	2000	400,000	200,000	60,000
	1999	324,008	20,250	0
	1998*	189,005	0	0
	1997	324,008	0	105,000 (1)
Michael Blumberg..... Senior Vice President	2000	320,000	75,000	24,000
	1999	294,008	9,200	0
	1998*	171,504	0	0
	1997	294,008	0	90,000 (1)
Christopher O'Neil..... Executive Vice President and Chief Operating Officer	2000	184,000	75,000	24,000
	1999	178,333	9,200	0
	1998*	87,500	0	0
	1997	150,000	0	101,000 (1) (2)
Kenneth L. Danielson..... Chief Financial and Accounting Officer and Treasurer	2000	184,000	75,000	24,000
	1999	180,000	9,200	0
	1998*	93,333	0	0
	1997	160,000	0	110,000 (1) (4)

\* Seven month transition period ended January 31, 1998

- (1) 75,000 of the options granted to each officer in fiscal 1997 were non-qualified stock options. Those options vested and became exercisable during fiscal 2000 with an exercise price of \$1.89 per share and a term of five years expiring on April 28, 2002. The remainder of these options are qualified options.
- (2) 11,000 of the incentive stock options issued to this officer in fiscal 1997 were issued in exchange for the cancellation of 11,000 incentive stock options previously granted to such officer in fiscal 1994 which had an exercise price of \$6.29 per share and expired on September 21, 1998. The 11,000 incentive stock options which replaced the cancelled stock options have an exercise price of \$1.69 per share and expire on March 9, 2002.
- (3) This sum represents the aggregate amount of a monthly automobile allowance paid during fiscal 1997, the transition period and fiscal 1999.
- (4) 20,000 of the incentive stock options issued to Mr. Danielson in fiscal 1997 were issued in exchange for the cancellation of 20,000 incentive stock

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options previously granted to him in fiscal 1994 which had an exercise price of \$6.29 per share and expired on September 21, 1998. The 20,000 incentive stock options which replaced the cancelled stock options have an exercise price of \$1.69 per share and expire on March 9, 2002.

The annual compensation amounts set forth above do not include any amounts for perquisites and other personal benefits, securities or property extended to our named executives, such as life insurance and disability insurance, because we do not believe that, with respect to any individual, the dollar value of that other annual compensation would equal or exceed the lesser of \$50,000 or 10% of the individual's total annual compensation shown above.

Securities underlying options in the table above represent incentive stock options or non-qualified stock options issued pursuant to our 1999 Stock Option Plan adopted in September 1999 or our 1986 Stock Option Plan adopted in May 1986, as subsequently amended and restated.

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### OPTION GRANTS IN THE FISCAL YEAR ENDING JANUARY 31, 2000

The following table shows all grants of options to the named executive officers during fiscal year ended January 31, 2000. The table also shows the value of the options granted at the end of the option term of ten years if the price of our stock was to appreciate annually by 5% and 10%. These rates are mandated by the SEC rules and do not represent our estimate or projection of the future price of our common stock. There were 132,000 options granted to the named executive officers during the fiscal year ended January 31, 2000. All of these options were granted under our 1999 Stock Option Plan and are immediately exercisable incentive stock options.

### OPTION GRANTS IN LAST FISCAL YEAR

NAME	DATE OF GRANT	INDIVIDUAL GRANTS				EXPIRATION DATE	POTENTIAL ANNUAL R PRICE AP OPTI 5% (\$)
		NUMBER OF SECURITIES UNDERLYING OPTIONS GRANTED	% OF TOTAL OPTIONS GRANTED TO EMPLOYEES IN FISCAL YEAR	EXERCISE PRICE (\$/SHARE)	---		
Peter Beshouri.....	11/02/99	60,000	27.02%	8.00	11/02/09	299,250	
Michael Blumberg.....	11/02/99	24,000	10.81%	8.00	11/02/09	119,808	
Christopher O'Neil.....	11/02/99	24,000	10.81%	8.00	11/02/09	119,808	
Kenneth L. Danielson.....	11/02/99	24,000	10.81%	8.00	11/02/09	119,808	

### AGGREGATE OPTION EXERCISES IN 2000 FISCAL YEAR AND 2000 FISCAL YEAR-END OPTION VALUES

The following table provides information as to options exercised by each of the named executive officers during the fiscal year ended January 31, 2000, and the value of unexercised options held by the named executive officers at the fiscal year-end measured in terms of the closing market price of our common stock on January 31, 2000.

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NAME	SHARES ACQUIRED ON EXERCISE	VALUE REALIZED	NUMBER OF SECURITIES
			UNDERLYING UNEXERCISED OPTIONS AT JANUARY 31, 2000 EXERCISABLE/ UNEXERCISABLE
Peter Beshouri.....	0	0	165,000/-0-
Michael Blumberg.....	0	0	114,000/-0-
Christopher O'Neil.....	0	0	155,000/-0-
Kenneth L. Danielson.....	0	0	164,000/-0-

(1) The closing market price of our common stock on the NASDAQ National Market on January 31, 2000 was \$9.25.

EMPLOYMENT AGREEMENTS

During the fiscal year ended June 30, 1997, the seven-month transition period ended January 31, 1998 and the fiscal year ended January 31, 1999, Peter Beshouri and Michael Blumberg each had an employment agreement with us which provided for an annual base salary of \$320,650 for Peter Beshouri and \$290,400 for Michael Blumberg. The actual salaries paid to each of Messrs. Beshouri and Blumberg are set forth in the Executive Compensation table. The term of each employment agreement was originally for a three year period expiring June 30, 1992, and had been extended each fiscal year thereafter for an additional one year period.

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Effective as of July 1, 1999, these employment agreements were extended for an additional three year term (until January 31, 2002) on substantially the same terms and conditions as in effect under their respective employment agreements during the previous fiscal year except that the annual base salary payable to Mr. Beshouri and Mr. Blumberg pursuant to the amended agreements was increased to \$400,000 and \$320,000, respectively, effective February 1, 1999. Under the latest extension of the employment agreements, each of Messrs. Beshouri and Blumberg are entitled to participate in our annual incentive bonus plan and long term incentive stock option program. We are also required to furnish each of Messrs. Beshouri and Blumberg with, among other things, family health, life and disability insurance coverage.

The employment agreements with Messrs. Beshouri and Blumberg also provide that, in the event of a change in control of Sound Advice, each of them can terminate his full-time employment. A change in control occurs when Messrs. Beshouri and Blumberg and other individuals or designees voted for or approved by them no longer collectively comprise at least a majority of the members of our board of directors or if either Mr. Beshouri or Mr. Blumberg is forced by a merger, consolidation, reorganization or otherwise by operation of law or other form of transaction to sell his shares of voting capital stock in Sound Advice or if 50% or more of the consolidated assets, properties and businesses of Sound Advice is sold or otherwise transferred to a third party or if an individual, other than either Messrs. Beshouri and Blumberg, or another company or entity or a group acting in concert becomes the beneficial owner of 25% or more of the outstanding voting capital stock of Sound Advice as a result of acquisitions made from persons other than Messrs. Beshouri and Blumberg or Sound Advice, assuming such acquisitions from Sound Advice were approved by Messrs. Beshouri

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and Blumberg. In the event that change in control was resisted by either Messrs. Beshouri or Blumberg as evidenced by that person's failure to approve that change in control either in his capacity as our director or shareholder, and he would be entitled to his compensation (both annual salary and any bonus) and the other benefits provided for in his employment agreement for the greater of three years or the remaining term of his employment agreement.

Effective February 1, 1999, we entered into employment agreements with each of Christopher O'Neil, our Executive Vice President and Chief Operating Officer, and Kenneth L. Danielson, our Chief Financial Officer and Treasurer. The term of each agreement is for a three year period ending January 31, 2002. The agreements provide for an annual salary of \$184,000, participation in the annual incentive bonus plan, long term incentive stock option plan and fringe benefits. The agreements provide that if a change in control occurs, each of Messrs. O'Neil and Danielson are entitled to receive a lump sum severance payment equal to three times his salary and bonus for the last fiscal year. This severance payment is not owed if the employee is either terminated for cause, as defined, or is no longer employed with us on the closing date or effective date of the change in control, whichever is later.

### SEVERANCE AGREEMENTS

We have entered into severance agreements with approximately 12 of our employees. These agreements, which expire on February 1, 2002, provide that if a change in control occurs, the employee is entitled to receive a lump sum severance payment equal to up to one half of the employee's gross wages from the 12 months immediately preceding the month in which the change in control occurs. This severance payment is not owed if the employee is:

- terminated for cause;
- is no longer employed with us on the later of the closing date of the change in control or effective date of the change in control; or
- offered, on or prior to the change in control, to continue as an employee of ours or our successor in substantially the same position then held and the employee receives a written agreement from us or our successor to the effect that, in the event that the employee is terminated without cause within one year after the change in control date, he shall be paid the severance payment in one lump sum on the date of termination.

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### PERFORMANCE GRAPH

The following graph shows a comparison of:

- five year-cumulative total returns to our shareholders;
- Center for Research in Security Prices ("CRSP") Index for Nasdaq Stock Market (U.S. Companies); and
- CRSP Index for Nasdaq Stocks (SIC 5730-5739 U.S. Companies) of U.S. Companies operating radio, television, consumer electronics and/or music stores.

COMPARISON OF 67 MONTH CUMULATIVE TOTAL RETURN\*  
AMONG SOUND ADVICE, INC., THE NASDAQ STOCK MARKET (U.S.) INDEX  
AND A PEER GROUP



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	SOUND ADVICE, INC. -----	NASDAQ STOCK MARKET (U.S.) -----
6/95	100.00	100.00
6/96	65.38	128.38
6/97	65.38	156.13
1/98	36.54	176.30
1/99	134.62	273.97
1/00	284.62	431.30
1/01	182.71	302.55

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\* \$100 invested on 6/30/95 in stock or index including reinvestment of dividends.

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### CERTAIN TRANSACTIONS

#### COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

Due to the fact that, during the fiscal years ended January 31, 2000 and 1999, the seven month transition period ended January 31, 1998 and the fiscal year ended January 31, 1997, we did not have a compensation committee of our Board of Directors (or Board committee performing equivalent functions), Peter Beshouri and Michael Blumberg, in their capacities as members of our Board of Directors, participated in deliberations of the Board of Directors concerning the authorization of the three-year renewals of the employment agreements of Messrs. Beshouri and Blumberg discussed in "Employment Agreements." Furthermore, Messrs. Sturgis (a former director), McEwen (a former director) and Leeds, in their capacities as members of our Board of Directors during the fiscal year ended January 31, 1997, participated in deliberations of the Board concerning the granting of warrants to purchase 5,000 shares of common stock to each of them.

### INDEPENDENT PUBLIC ACCOUNTANTS

KPMG acted as our independent public accountants for the fiscal year ended January 31, 2000. This firm has acted as our independent public accountants since the fiscal year ended June 30, 1993. After the Audit Committee's review of, among other things, the terms of engagement of KPMG for fiscal year 2000, the Audit Committee recommended to the Board, for its approval, the selection of KPMG to serve as our independent public accountants for the fiscal year ending January 31, 2001. The independent public accountants will continue to serve at the pleasure of the Board. The selection of independent public accountants is not being submitted to shareholders for approval because there is no legal requirement to do so. A representative of KPMG is expected to be present at the annual meeting in order to be available to respond to appropriate questions relating to the examination by KPMG of our 2000 consolidated financial statements.

### OTHER MATTERS

As of the date of this proxy statement, we know of no other business that will be presented for consideration at the annual meeting other than the items referred to herein. If any other matter is properly brought before the meeting for action by shareholders, proxies in the enclosed form returned to the Company

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will be voted in accordance with the recommendation of the Board of Directors or, in the absence of such a recommendation, in accordance with the judgement of the proxy holder.

### SHAREHOLDER PROPOSALS FOR THE 2001 ANNUAL MEETING

Shareholder proposals intended to be presented at the 2001 annual meeting of shareholders must be submitted to the Secretary, at our principal executive offices, 1901 Tigertail Boulevard, Dania Beach, Florida 33004, no later than June 15, 2001, in order to receive consideration for inclusion in our 2001 proxy materials. Any shareholder proposal must comply with the requirements of Rule 14a-8 promulgated under the Securities Exchange Act of 1934.

After the June 15, 2001 deadline, a shareholder may present a proposal at our 2001 annual meeting of shareholders if it is submitted to our Secretary, at our principal executive offices, 1901 Tigertail Boulevard, Dania Beach, Florida 33004, no later than August 1, 2001. If timely submitted, the shareholder may present the proposal at the 2001 annual meeting of shareholders, but we are not obligated to present the matter in our proxy materials.

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EACH PERSON SOLICITED HEREUNDER CAN OBTAIN, WITHOUT CHARGE, A COPY OF OUR ANNUAL REPORT ON FORM 10-K (WITH EXHIBITS) FOR THE COMPANY'S FISCAL YEAR ENDED JANUARY 31, 2000, AS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION, BY SENDING A WRITTEN REQUEST TO KENNETH L. DANIELSON, OUR CHIEF FINANCIAL AND ACCOUNTING OFFICER, AT OUR EXECUTIVE OFFICES LOCATED AT 1901 TIGERTAIL BOULEVARD, DANIA BEACH, FLORIDA 33004.

By order of the Board of Directors

/s/ Michael Blumberg

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Michael Blumberg  
Secretary

March 15, 2001

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### APPENDIX A

#### SOUND ADVICE, INC.

##### CHARTER OF THE AUDIT COMMITTEE OF THE BOARD OF DIRECTORS

###### I. AUDIT COMMITTEE PURPOSE

The Audit Committee is appointed by the Board of Directors to assist the Board in fulfilling its oversight responsibilities. The Audit Committee's primary duties and responsibilities are to:

- Monitor the integrity of the Company's financial reporting process and systems of internal controls regarding finance, accounting, and legal compliance.
- Monitor the independence and performance of the Company's independent auditors and internal auditing department.
- Provide an avenue of communication among the independent auditors,

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management, the internal auditing department, and the Board of Directors.

The Audit Committee has the authority to conduct any investigation appropriate to fulfilling its responsibilities, and it has direct access to the independent auditors as well as anyone in the organization. The Audit Committee has the ability to retain, at the Company's expense, special legal, accounting, or other consultants or experts it deems necessary in the performance of its duties.

### II. AUDIT COMMITTEE COMPOSITION AND MEETINGS

Audit Committee members shall meet the requirements of the NASD/AMEX Exchange. The Audit Committee shall be comprised of three or more directors as determined by the Board, each of whom shall be independent nonexecutive directors, free from any relationship that would interfere with the exercise of his or her independent judgment. All members of the Committee shall have a basic understanding of finance and accounting and be able to read and understand fundamental financial statements, and at least one member of the Committee shall have accounting or related financial management expertise.

Audit Committee members shall be appointed by the Board on recommendation of the Nominating Committee. If an audit committee Chair is not designated or present, the members of the Committee may designate a Chair by majority vote of the Committee membership.

The Committee shall meet at least four times annually, or more frequently as circumstances dictate. The Audit Committee Chair shall prepare and/or approve an agenda in advance of each meeting. The Committee should meet privately in executive session at least annually with management, the director of the internal auditing department, the independent auditors, and as a committee to discuss any matters that the Committee or each of these groups believe should be discussed. In addition, the Committee, or at least its Chair, should communicate with management and the independent auditors quarterly to review the Company's financial statements and significant findings based upon the auditors limited review procedures.

### III. AUDIT COMMITTEE RESPONSIBILITIES AND DUTIES

#### REVIEW PROCEDURES

1. Review and reassess the adequacy of this Charter at least annually. Submit the charter to the Board of Directors for approval and have the document published at least every three years in accordance with SEC regulations.

2. Review the Company's annual audited financial statements prior to filing or distribution. Review should include discussion with management and independent auditors of significant issues regarding accounting principles, practices, and judgments.

3. In consultation with the management, the independent auditors, and the internal auditors, consider the integrity of the Company's financial reporting processes and controls. Discuss significant financial risk

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exposures and the steps management has taken to monitor, control, and report such exposures. Review significant findings prepared by the independent auditors and the internal auditing department together with management's responses.

4. Review with financial management and the independent auditors the Company's quarterly financial results prior to the release of earnings and/or

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the company's quarterly financial statements prior to filing or distribution. Discuss any significant changes to the Company's accounting principles and any items required to be communicated by the independent auditors in accordance with SAS 61 (see item 9). The Chair of the Committee may represent the entire Audit Committee for purposes of this review.

### INDEPENDENT AUDITORS

5. The independent auditors are ultimately accountable to the Audit Committee and the Board of Directors. The Audit Committee shall review the independence and performance of the auditors and annually recommend to the Board of Directors the appointment of the independent auditors or approve any discharge of auditors when circumstances warrant.

6. Approve the fees and other significant compensation to be paid to the independent auditors.

7. On an annual basis, the Committee should review and discuss with the independent auditors all significant relationships they have with the Company that could impair the auditors' independence.

8. Review the independent auditors audit plan -- discuss scope, staffing, locations, reliance upon management, and internal audit and general audit approach.

9. Prior to releasing the year-end earnings, discuss the results of the audit with the independent auditors. Discuss certain matters required to be communicated to audit committees in accordance with AICPA SAS 61.

10. Consider the independent auditors' judgments about the quality and appropriateness of the Company's accounting principles as applied in its financial reporting.

### INTERNAL AUDIT DEPARTMENT AND LEGAL COMPLIANCE

11. Review the budget, plan, changes in plan, activities, organizational structure, and qualifications of the internal audit department, as needed.

12. Review the appointment, performance, and replacement of the senior internal audit executive.

13. Review significant reports prepared by the internal audit department together with management's response and follow-up to these reports.

14. On at least an annual basis, review with the Company's counsel, any legal matters that could have a significant impact on the organization's financial statements, the Company's compliance with applicable laws and regulations, and inquiries received from regulators or governmental agencies.

### OTHER AUDIT COMMITTEE RESPONSIBILITIES

15. Annually prepare a report to shareholders as required by the Securities and Exchange Commission. The report should be included in the Company's annual proxy statement.

16. Perform any other activities consistent with this Charter, the Company's by-laws, and governing law, as the Committee or the Board deems necessary or appropriate.

17. Maintain minutes of meetings and periodically report to the Board of Directors on significant results of the foregoing activities.

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OTHER OPTIONAL CHARTER DISCLOSURES

18. Establish, review, and update periodically a Code of Ethical Conduct and ensure that management has established a system to enforce this Code.

19. Periodically perform self-assessment of audit committee performance.

20. Review financial and accounting personnel succession planning within the company.

21. Annually review policies and procedures as well as audit results associated with directors' and officers expense accounts and perquisites. Annually review a summary of director and officers' related party transactions and potential conflicts of interest.

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SOUND ADVICE, INC.

2000 ANNUAL MEETING OF SHAREHOLDERS--APRIL 12, 2001

PROXY SOLICITED ON BEHALF OF THE COMPANY'S BOARD OF DIRECTORS

The undersigned hereby constitutes and appoints Peter Beshouri and Michael Blumberg, and either one of them individually, as attorneys and proxies of the undersigned, with full power of substitution for and in the name, place and stead of the undersigned, to appear at the annual meeting of shareholders of Sound Advice, Inc. to be held on the 12th day of April, 2001, and at any postponement or adjournment thereof, and to vote all of the shares of Sound Advice, Inc. which the undersigned is entitled to vote, with all the powers and authority the undersigned would possess if personally present. The undersigned hereby directs that this proxy be voted as follows:

1. To elect two Class I members to our Board of Directors to serve until the 2003 annual meeting.

FOR the election of all nominees: William F. Hagerty, IV and Herbert A. Leeds as directors.

WITHHOLD AUTHORITY to vote for all nominees.

To WITHHOLD AUTHORITY to vote for any individual, write that nominee's name on the space provided below.

2. Upon such other business as may properly come before the annual meeting. This proxy, when properly executed, will be voted in the manner directed by the undersigned shareholder. IF NO DIRECTIONS TO THE CONTRARY ARE INDICATED, THIS PROXY WILL BE VOTED FOR THE ELECTION OF ALL OF THE AFOREMENTIONED NOMINEES LISTED IN PROPOSAL NO. 1 AS DIRECTORS.

A majority of said proxies present and acting in person or by their substitutes (or if only one is present and acting, then that one) may exercise all the powers conferred hereby. DISCRETIONARY AUTHORITY IS CONFERRED HEREBY AS TO SUCH OTHER BUSINESS AS MAY PROPERLY COME BEFORE THE ANNUAL MEETING.

Receipt of the Company's 2000 annual report to shareholders and the notice of annual meeting of shareholders to be held April 12, 2001, and the proxy statement relating thereto is hereby acknowledged.

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PLEASE DATE AND SIGN THIS PROXY AND RETURN IT PROMPTLY IN THE ENCLOSED,  
POSTAGE PAID ENVELOPE.

Dated \_\_\_\_\_, 2001

(Please date this Proxy)

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Signature(s)  
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If Held Jointly

Note: It would be helpful if you signed your name exactly as it appears hereon, indicating any official position or representative capacity. If shares are registered in more than one name, all owners must sign.

mmercially viable quantities.

Our prospects are in various stages of evaluation, ranging from prospects that are currently being drilled, to prospects that will require substantial additional seismic data processing and interpretation. There is no way to predict in advance of drilling and testing whether any particular prospect will yield oil or natural gas in sufficient quantities to recover drilling or completion costs or to be economically viable. This risk may be enhanced in our situation, due to the fact that a significant percentage (62%, as of December 31, 2006) of our proved reserves are currently proved undeveloped reserves. The use of seismic data and other technologies and the study of producing fields in the same area will not enable us to know conclusively prior to drilling whether oil or natural gas will be present or, if present, whether oil or natural gas will be present in commercial quantities. We cannot assure you that the analogies we draw from available data from other wells, more fully explored prospects or producing fields will be applicable to our drilling prospects.

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

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

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

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

environmental hazards, such as uncontrollable flows of oil, natural gas, brine, well fluids, toxic gas or other pollution into the environment, including groundwater and shoreline contamination;

abnormally pressured formations;  
mechanical difficulties, such as stuck oil field drilling and service tools and casing collapse;  
fires and explosions;  
personal injuries and death; and  
natural disasters.

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

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

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

discharge permits for drilling operations;  
drilling bonds;  
reports concerning operations;  
the spacing of wells;  
unitization and pooling of properties; and  
taxation.

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

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

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

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

We have a \$150 million credit facility in place with a current borrowing base of \$100 million. As of June 5, 2007 approximately \$50 million was drawn under this facility. The level of our indebtedness could affect our operations in several ways, including the following:

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

Although we intend to utilize a portion of the proceeds from this offering to repay our outstanding debt, if market or other conditions cause us to delay selling all or any part of the shares offered hereunder, such delay could potentially result in our having to draw additional amounts under our line of credit.

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

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

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

**The loss of senior management could adversely affect us.**

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



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

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

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

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

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

***Risks Relating to Our Common Stock***

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

While there has been a public market for our common stock on the New York Stock Exchange (and, prior to August 31, 2006, on the American Stock Exchange), in the last twelve months the daily trading volume, or public float, of our common stock has ranged from as low as 67,700 shares to as high as 796,500 shares. The average volume of shares traded during the 90 days prior to this offering was approximately 1,262,845 shares per week.

Additionally, approximately 694,714 shares of our common stock are restricted shares under Rule 144, but could be currently sold under the provisions of Rule 144(k). We also estimate that approximately 127,629 additional shares of common stock that are currently restricted, will soon be capable of being resold under Rule 144(k).

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Finally, as of June 1, 2007, there are currently exercisable warrants outstanding to purchase 240,853 shares of common stock, as well as options to purchase 1,497,500 shares of common stock (of which, options to acquire 575,000 shares are currently exercisable, with 535,000 options vesting over the next two years, with the balance vesting over the next five years).

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

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

We do not anticipate paying any cash dividends on our common stock in the foreseeable future. We currently intend to retain future earnings, if any, to finance the expansion of our business. Our future dividend policy is within the discretion of our board of directors and will depend upon various factors, including our business, financial condition, results of operations, capital requirements and investment opportunities. In addition, our credit facility prohibits us from paying dividends.

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

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

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

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

### USE OF PROCEEDS

We will use the net proceeds from the sale of common stock that we are offering in this prospectus supplement for the repayment of debt, development of our properties, capital expenditures, and for general corporate purposes. Assuming all 1,800,000 shares of common stock we are offering are sold (which does not include any shares issued as a result of over-allotments), we anticipate the net proceeds of the offering, after expenses and fees, will be \$83,740,000, of which \$50,000,000 will be used for the repayment of debt, and the remainder will be used for drilling and development of properties, capital expenditures and general working capital.

If we sell less than all 1,800,000 shares of common stock, the proceeds of the offering will first be used by us to repay our credit facility, with any excess proceeds then being utilized for drilling and development of our properties and for capital expenditures.

We may invest net proceeds temporarily until we use them for their stated purpose.

### DIVIDEND POLICY

We have never declared or paid any cash dividends on our common stock and we do not anticipate paying cash dividends in the foreseeable future. We currently intend to retain our earnings for use in our business. Future dividends on our common stock, if any, will be at the discretion of our board of directors and will depend on, among other things, our operations, capital requirements and surplus, general financial condition, contractual restrictions and such other factors as our board of directors may deem relevant. In addition, our credit facility prohibits us from paying dividends.

### PLAN OF DISTRIBUTION

Dahlman Rose & Company, LLC, SunTrust Robinson Humphrey, Capital One Southcoast, Inc., C.K. Cooper & Company and Pritchard Capital Partners, LLC, which we refer to as the placement agents, have entered into a placement agency agreement with us in which Dahlman Rose & Company, LLC has agreed to act as our lead placement agent and SunTrust Robinson Humphrey, Capital One Southcoast, Inc., C.K. Cooper & Company and Pritchard Capital Partners, LLC have agreed to act as co-placement agents in connection with the offering. Under the placement agency agreement, the placement agents have agreed, on a commercially reasonable best efforts basis, to introduce us to investors who will purchase the common stock. The placement agents have no obligation to buy any of the common stock from us or to arrange the purchase or sale of any specific number or dollar amount of shares of common stock. We will enter into subscription agreements directly with investors in connection with this offering.

The shares of common stock sold in this offering will be listed on the New York Stock Exchange, subject to official notice of issuance.

The closing of the offering is subject to customary conditions and it is possible that not all of the shares offered pursuant to this prospectus supplement and accompanying prospectus will be sold, in which case our net proceeds would be reduced. We have agreed with the placement agents that we will not receive the proceeds of the offering before the completion of the sale of a minimum of 1,000,000 shares of our common stock in the offering.

Investors will deposit the price for the purchased shares into an escrow account at JPMorgan Chase Bank, N.A., who will serve as escrow agent. The escrow agent will not accept any investor funds until June 15, 2007. The funds deposited will be held until we and the placement agents notify the escrow agent that the offering has closed, indicating the date on which the shares are to be delivered to the purchasers and the proceeds are to be delivered to us. We will deposit the shares with The Depository Trust Company and at the closing, The Depository Trust Company will credit the shares to the respective accounts of the investors. If this offering is not completed by June 29, 2007, then all investor funds that were deposited into the escrow account will be returned to investors and this offering will terminate.

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Confirmations and definitive prospectuses will be distributed to all investors who agree to purchase the shares of our common stock offered hereby, informing investors of the closing date as to such shares. We currently anticipate that closing of the sale of the shares of our common stock offered by this prospectus supplement will take place on or about June 20, 2007.

The offering may include up to an additional 250,000 shares of our common stock to cover over-allotments, if any.

The compensation of the placement agents for this offering will consist of the placement fees and reimbursement of their out-of-pocket expenses in certain circumstances. The following table sets forth the placement fees to be paid to the placement agents for this offering, which will equal 5% of the gross offering proceeds from the sale of shares of our common stock, including any over-allotments.

<u>Placement Fees</u>	<u>Per Share</u>	<u>Total Without Over- Allotments</u>	<u>Total, Assuming Sale of Entire Over- Allotment</u>
Common Stock	\$ 2.45	\$ 4,410,000	\$ 5,022,500

The expenses directly related to this offering, excluding the placement fees, are estimated to be approximately \$50,000.00 and will be paid by us. Expenses of the offering, exclusive of the placement fees, include legal and accounting fees, our transfer agent fees and other miscellaneous fees.

In no event will the total amount of compensation paid to any member of the National Association of Securities Dealers upon completion of this offering exceed 8.0% of the maximum gross proceeds of this offering.

We and certain of our officers and directors have agreed that, for a period of 90 days from the date of this prospectus supplement, we and such officers and directors will not offer, sell, contract to sell, grant any option for the sale of, or otherwise dispose of, directly or indirectly, any shares of our common stock or any security or other instrument which by its terms is convertible into, or exercisable or exchangeable for, shares of our common stock or other securities, including, without limitation, any shares of our common stock issuable pursuant to the terms of any stock options or warrants. This restricted period does not apply to shares of our common stock that are transferred other than pursuant to a sale in the public market if the transferee has, prior to such transfer, delivered to the placement agents the transferee's written agreement to be bound by the terms of the restricted period. Dahlman Rose & Company, LLC may waive the restricted period in our case.

We have agreed to indemnify the placement agents and certain affiliated persons against liabilities relating to the offering, including liabilities under the Securities Act of 1933, or to contribute to payments that the placement agents or affiliated persons may be required to make in that respect. The placement agents may be deemed underwriters within the meaning of the Securities Act.

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From time to time, the placement agents and their affiliates have provided, and may from time to time in the future provide, investment banking and other services to us for which they receive customary fees and commissions.

The placement agents have informed us that they do not intend to engage in passive market making, stabilizing transactions or syndicate covering transactions in connection with this offering.

A prospectus supplement and the accompanying prospectus in electronic format may be made available on the web sites maintained by the placement agents and the placement agents may distribute the prospectus supplement and the accompanying prospectus electronically.

### LEGAL MATTERS

The validity of the shares of common stock issued in this offering will be passed upon for us by the law firm of Johnson, Jones, Dornblaser, Coffman & Shorb, P.C. The placement agents will be represented in the offering by Corroero Fishman Haygood Phelps Walmsley & Casteix, L.L.P.

### EXPERTS

The financial statements of Arena Resources, Inc. as of and for the years ended December 31, 2006 and 2005, incorporated by reference in this prospectus supplement, have been included in reliance upon the reports of Hansen, Barnett & Maxwell, P.C., an independent registered public accounting firm, given on the authority of that firm as experts in accounting and auditing.

The information incorporated by reference into this prospectus supplement regarding estimated quantities of oil and natural gas reserves and the discounted present value of future pre-tax cash flows from those reserves is based upon estimates of such reserves and present values prepared by or derived from estimates included in our Annual Report on Form 10-K for the year ended December 31, 2006. These estimates were prepared by Lee Keeling and Associates, Inc., independent petroleum engineering consultants. The information contained in this prospectus supplement under the heading *About Our Company* in the *Summary* regarding the estimated quantities of oil and natural gas reserves and the discounted present value of future pre-tax cash flows from those reserves is based upon estimates of such reserves and present values as of December 31, 2006, prepared by or derived from the *Appraisal of Oil and Gas Properties* dated December 31, 2006, prepared by Lee Keeling and Associates, Inc. All such information in this prospectus supplement has been included in reliance on the authority of Lee Keeling and Associates, Inc. as experts in petroleum engineering.

### WHERE YOU CAN FIND MORE INFORMATION

We have filed with the SEC under the Securities Act a registration statement on Form S-3 in connection with this offering. This prospectus supplement and the accompanying prospectus, which constitute part of the registration statement, do not contain all the information set forth in the registration statement or the exhibits and schedules which are part of the registration statement, portions of which are omitted as permitted by the rules and regulations of the SEC. Statements made in this prospectus supplement and the accompanying prospectus regarding the contents of any contract or other document are summaries of the material terms of the contract or document. With respect to each contract or document filed as an exhibit to the registration statement, reference is made to the corresponding exhibit.

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We file annual, quarterly and current reports, proxy statements and other information with the SEC. You may read and copy any of these documents at the public reference facilities of the SEC at 100 F Street, N.E., Washington, D.C. 20549. Copies of all or any portion of the registration statement may be obtained from the SEC at prescribed rates. Information on the public reference facilities may be obtained by calling the SEC at 1-800-SEC-0330. In addition, the SEC maintains a web site that contains our reports, proxy and information statements and other information that we file through the SEC's EDGAR System, including our registration statement and the exhibits filed with the registration statement. The web site can be accessed at <http://www.sec.gov>.

### INCORPORATION OF DOCUMENTS BY REFERENCE

The SEC allows us to incorporate by reference the information we file with it, which means that we can disclose important information to you by referring you to those documents that we have previously filed with the SEC or documents that we will file with the SEC in the future. The information incorporated by reference is considered to be part of this prospectus supplement, and later information that we file with the SEC will automatically update and supersede this information. This prospectus supplement incorporates by reference the following documents (or portions thereof) set forth below that we have previously filed with the SEC:

Our Annual Report on Form 10-K for the year ended December 31, 2006, filed April 2, 2007 (Commission File No. 001-31657);

Our Quarterly Report on Form 10-Q for the quarter ended March 31, 2007, filed May 4, 2007 (Commission File No. 001-31657);

Our Current Report on Form 8-K filed January 10, 2007 (Commission File No. 001-31657);

Our Current Report on Form 8-K filed February 7, 2007 (Commission File No. 001-31657);

Our Current Report on Form 8-K filed May 3, 2007 (Commission File No. 001-31657);

Our Current Report on Form 8-K filed June 8, 2007 (Commission File No. 001-31657);

Our Current Report on Form 8-K filed June 14, 2007 (Commission File No. 001-31657);

Our definitive Proxy Statement filed on November 11, 2006 in connection with our annual meeting of shareholders held on December 7, 2006 (Commission File No. 001-31657); and

The description of our common stock which is contained under the caption "Description of Securities", in our Registration Statement on Form SB-2 (Commission File No. 333-113712) originally filed on March 18, 2004, as amended, including the Rule 424(b)(1) prospectus filed August 10, 2004 (Commission File No. 333-113712) (which description was incorporated by reference in our Registration Statement on Form 8A filed August 10, 2004 (Commission File No. 001-31657)).

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All documents filed by us pursuant to Sections 13(a), 13(c), 14 and 15(d) of the Exchange Act after the initial filing of the registration statement related to this prospectus supplement and prior to the date of the termination of the offering of the common stock offered in this prospectus supplement shall be deemed to be incorporated by reference into the registration statement and to be a part of this prospectus supplement from the date of filing of such documents. Any statement contained in this prospectus supplement or in a document incorporated or deemed to be incorporated by reference in this prospectus supplement shall be deemed to be modified or superseded for purposes of this prospectus supplement and the accompanying prospectus to the extent that a statement contained in this prospectus supplement or in any document which is or is deemed to be incorporated by reference in this prospectus supplement modifies or supersedes such statement. Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this prospectus supplement.

We will provide without charge to each person to whom a prospectus supplement and accompanying prospectus are delivered, upon written or oral request of any such person, a copy of any or all of the foregoing documents incorporated in this prospectus supplement by reference (other than exhibits to such documents). Written requests should be directed to William R. Broadrick, Chief Financial Officer, 4920 S. Lewis Ave., Suite 107, Tulsa, Oklahoma, 74105. Telephone requests may be directed to (918) 747-6060.

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## **ARENA RESOURCES, INC.**

\$150,000,000

### **Common Stock**

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We may offer and sell, from time to time in one or more offerings, shares of our common stock, \$0.001 par value per share, that have an aggregate maximum offering price of \$150,000,000. Each time we sell shares of our common stock we will provide a supplement to this prospectus that contains specific information about the offering. Any prospectus supplement may also add, update or change information contained in this prospectus. You should read this prospectus and each supplement carefully before you invest.

The aggregate initial offering price of all shares sold by us under this prospectus will not exceed \$150,000,000. We will offer the shares in an amount and on terms to be determined by market conditions and other circumstances at the time of the offering. We will provide you with specific terms in supplements to this prospectus.

Our common stock is traded on the New York Stock Exchange under the symbol **ARD**. On June 6, 2007, the last reported sales price of our common stock was \$52.42 per share.

**Investing in our securities involves risks that are described in the Risk Factors section beginning on page 3 of this prospectus.**

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

The date of this prospectus is June 6, 2007

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**ABOUT THIS PROSPECTUS**

This prospectus is part of a registration statement that we filed with the Securities and Exchange Commission using a shelf registration process. Under the shelf registration process, we may offer shares of common stock in one or more offerings from time to time with an aggregate initial offering price of \$150,000,000.

This prospectus provides you with a general description of the shares we may offer. This prospectus does not contain all the information set forth in the registration statement as permitted by the rules of the Securities and Exchange Commission. Each time we offer shares, in addition to this prospectus we will provide you with a prospectus supplement that contains specific information about the shares being offered. The prospectus supplement may also add, update or change information contained in this prospectus.

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

You should read this prospectus and any prospectus supplement as well as additional information described under Where You Can Find More Information and Incorporation of Documents by Reference on page 13.

**CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS**

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

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

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

**PROSPECTUS SUMMARY**

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

*You should rely only on the information contained in this prospectus, including the documents incorporated by reference. We have not authorized any other person to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it*

**About Our Company**

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

Since our inception in August 2000, we have built our asset base and achieved growth primarily through property acquisitions. From our inception through December 31, 2006, our proved reserves have grown to approximately 43.1 million barrels of oil equivalent ( Boe ), at an average acquisition/drilling cost of \$3.75 per Boe. As of December 31, 2006, our estimated proved reserves had a pre-tax PV10 value of approximately \$848 million, and a Standardized Measure of Discounted Future Cash Flows of approximately \$545 million. The difference between these two amounts is the effect of income taxes. The Company presents the pre-tax PV-10 value, which is a non-GAAP financial measure, because it is a widely used industry standard which we believe is useful to those who may review public information concerning us when comparing our asset base and performance to other comparable oil and gas exploration and production companies. Approximately 25% of our reserves (based on the estimates above) relate to properties located in New Mexico, approximately 64% from our properties in Texas, approximately 8% from our properties in Oklahoma and approximately 3% from our properties in Kansas. We spent approximately \$162 million on capital projects during 2004, 2005 and 2006. We expect to further develop these properties through additional drilling. Our capital budget for 2007 is approximately \$94.6 million for development of existing properties.

We have a portfolio of oil and natural gas reserves, with approximately 84% of our proved reserves consisting of oil and approximately 16% consisting of natural gas. As of December 31, 2006, approximately 28% of our proved reserves are classified as proved developed producing properties or PDP , approximately 5% of our proved reserves are classified as proved developed nonproducing, or PDNP , proved developed behind-pipe PDBP reserves constitute approximately 5% and proved undeveloped, or PUD , reserves constitute approximately 62% of our proved reserves.

Our estimates of proved reserves and related valuations as of December 31, 2006 are based on an analysis prepared by Lee Keeling and Associates, Inc., independent petroleum geological engineers.

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

### **Recent Developments Subsequent to Our Year Ending December 31, 2006**

Subsequent to December 31, 2006, in addition to matters that were reported by us in our Annual Report on Form 10-K for the year ended December 31, 2006, or which may be hereafter reported in Current Reports on Form 8-K or our Quarterly Reports on Form 10-Q which will be incorporated herein by reference when and as filed (see, Incorporation of Certain Documents by Reference ), the following events have also occurred.

Exercise of Options and Warrants. Option holders have exercised 125,000 options, with an exercise price of \$3.70 per share. Proceeds from these exercises totaled \$462,500. In addition, warrant holders exercised 27,476 warrants, 10,000 of which had an exercise price of \$9.00 per share and 17,476 of which had an exercise price of \$10.30 per share. Proceeds from these exercises totaled \$270,003.

Issuance of Options. We issued 50,000 options with an exercise price of \$37.35 per share and 300,000 options with an exercise price of \$38.46 per share under the Company's stock option plan. We also accelerated the vesting of 10,000 options held by a director who recently passed away.

Increased Borrowings Under Credit Facility. We have borrowed an additional \$17,200,000 under our credit facility.

### **Common Stock**

We intend to offer shares of our common stock, par value \$0.001 per share. In this prospectus we provide a general description of, among other things, our dividend policy and the methods by which the shares may be sold.

### **Corporate Information**

Arena Resources, Inc. was incorporated in Nevada on August 31, 2000. Our principal executive offices are located at 4920 South Lewis Avenue, Suite 107, Tulsa, Oklahoma 74105, and our telephone number is (918) 747-6060. On or about June 1, 2007, we will be moving to our new executive offices located at 6555 South Lewis Avenue, Tulsa, Oklahoma 74136. Our telephone number will remain the same.

## RISK FACTORS

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

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

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

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

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

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

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

Because a substantial percentage of our proven properties are proved undeveloped (approximately 62%), or proved developed non-producing (approximately 5%), we will require significant additional capital to develop such properties before they may become productive. Further, because of the inherent uncertainties associated with drilling for oil and gas, some of these properties may never be developed to the extent that they result in positive cash flow. Even if we are successful in our development efforts, it could take several years for a significant portion of our undeveloped properties to be converted to positive cash flow.

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

**Approximately 39% of our proven reserves depend upon secondary recovery techniques to establish production.**

Approximately thirty-nine percent (39%) of our reserves for the year ended December 31, 2006 are associated with secondary recovery projects that are either in the initial stage of implementation or are scheduled for implementation. We anticipate that secondary recovery will be attempted by the use of waterflood of these reserves, and the exact project initiation dates and, by the very nature of waterflood operations, the exact completion dates of such projects are uncertain. In addition, the reserves associated with these secondary recovery projects, as with any reserves, are estimates only, as the success of any development project, including these waterflood projects, cannot be ascertained in advance. If we are not successful in developing a significant portion of our reserves associated with secondary recovery methods, it could have a negative impact on our earnings and our stock price.

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

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

- delays imposed by or resulting from compliance with regulatory requirements;
- pressure or irregularities in geological formations;
- shortages of or delays in obtaining equipment and qualified personnel;
- equipment failures or accidents;
- adverse weather conditions;
- reductions in oil and natural gas prices;
- title problems; and
- limitations in the market for oil and natural gas.

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

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

the amount of recoverable reserves;  
future oil and natural gas prices;  
estimates of operating costs;  
estimates of future development costs;  
estimates of the costs and timing of plugging and abandonment; and  
potential environmental and other liabilities.

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

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

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

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

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

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

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

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

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

Our prospects are in various stages of evaluation, ranging from prospects that are currently being drilled, to prospects that will require substantial additional seismic data processing and interpretation. There is no way to predict in advance of drilling and testing whether any particular prospect will yield oil or natural gas in sufficient quantities to recover drilling or completion costs or to be economically viable. This risk may be enhanced in our situation, due to the fact that a significant percentage (62%, as of December 31, 2006) of our proved reserves are currently proved undeveloped reserves. The use of seismic data and other technologies and the study of producing fields in the same area will not enable us to know conclusively prior to drilling whether oil or natural gas will be present or, if present, whether oil or natural gas will be present in commercial quantities. We cannot assure you that the analogies we draw from available data from other wells, more fully explored prospects or producing fields will be applicable to our drilling prospects.

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

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

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

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



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

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

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

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

discharge permits for drilling operations;  
drilling bonds;  
reports concerning operations;  
the spacing of wells;  
unitization and pooling of properties; and  
taxation.

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

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

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

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

We have a \$150 million credit facility in place with a current borrowing base of \$65 million. As of March 31, 2007 approximately \$36.5 million was drawn under this facility. The level of our indebtedness could affect our operations in several ways, including the following:

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

Although we intend to utilize the proceeds from this offering, together with our anticipated cash flow from operations, to fund our projected capital expenditures and other operating costs through the remainder of this year, if market or other conditions cause us to delay selling all or any part of the shares offered hereunder, such delay could potentially result in our having to draw additional amounts under our line of credit.

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

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

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

**The loss of senior management could adversely affect us.**

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

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

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

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

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

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

***Risks Relating to Our Common Stock***

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

While there has been a public market for our common stock on the New York Stock Exchange (and, prior to August 31, 2006, on the American Stock Exchange), in the last twelve months the daily trading volume, or public float, of our common stock has ranged from as low as 67,700 shares to as high as 796,500 shares. The average volume of shares traded during the 90 days prior to the date of this prospectus was 1,242,843 shares per week.

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Additionally, approximately 633,400 shares of our common stock are restricted shares under Rule 144, but could be currently sold with little difficulty under the provisions of Rule 144(k). We also estimate that approximately 787,764 additional shares of common stock that are currently restricted, will soon be capable of being resold under Rule 144.

Finally, as of March 31, 2007, there are warrants outstanding to purchase 240,853 shares of common stock, as well as options to purchase 1,505,000 shares of common stock (of which, options to acquire 475,000 shares are currently exercisable, with 840,000 options vesting over the next two years, with the balance vesting over the next five years).

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

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

We do not anticipate paying any cash dividends on our common stock in the foreseeable future. We currently intend to retain future earnings, if any, to finance the expansion of our business. Our future dividend policy is within the discretion of our board of directors and will depend upon various factors, including our business, financial condition, results of operations, capital requirements and investment opportunities. In addition, our credit facility prohibits us from paying dividends.

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

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

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

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

## USE OF PROCEEDS

We will use the net proceeds from the sale of common stock that we may offer with this prospectus and any accompanying prospectus supplement for general corporate purposes. General corporate purposes may include capital expenditures, repayment of debt, drilling and development of our properties, possible acquisitions of additional properties and any other purposes that we may specify in any prospectus supplement. We may invest net proceeds temporarily until we use them for their stated purpose.

## DIVIDEND POLICY

We have never declared or paid any cash dividends on our common stock and we do not anticipate paying cash dividends in the foreseeable future. We currently intend to retain our earnings for use in our business. Future dividends on our common stock, if any, will be at the discretion of our board of directors and will depend on, among other things, our operations, capital requirements and surplus, general financial condition, contractual restrictions and such other factors as our board of directors may deem relevant. In addition, our credit facility prohibits us from paying dividends.

## PLAN OF DISTRIBUTION

### Use of Underwriters, Agents and Dealers

We may sell shares of our common stock through underwriters, dealers, directly to purchasers or agents. The prospectus supplement will set forth the following information:

- The terms of the offering;
- The names of any underwriters or agents;
- The purchase price;
- The net proceeds to us;
- Any delayed delivery requirements;
- Any underwriting discounts and other items constituting underwriters' compensation;
- Any discounts or concessions allowed or reallocated or paid to dealers; and
- Commissions paid to agents.

If we use underwriters in the sale of the offered shares, the underwriters will acquire the shares for their own account. The underwriters may resell the shares from time to time in one or more transactions, including negotiated transactions, at a fixed public offering price or at varying prices determined at the time of sale. Underwriters may offer the shares to the public either through underwriting syndicates represented by one or more managing underwriters or directly by one or more firms acting as underwriters. The underwriters may change from time to time any initial public offering price and any discounts or concessions allowed or reallocated or paid to dealers.

During and after an offering through underwriters, the underwriters may purchase and sell the shares in the open market. These transactions may include overallotment and stabilizing transactions and purchases to cover syndicate short positions created in connection with the offering. The underwriters may also impose a penalty bid, in which selling concessions allowed to syndicate members or other broker-dealers for the offered shares sold for their account may be reclaimed by the syndicate if the offered shares are repurchased by the syndicate in stabilizing or covering transactions. These activities may stabilize, maintain or otherwise affect the market price of the offered shares, which may be higher than the price that might otherwise prevail in the open market. If commenced, these activities may be discontinued at any time. If we use dealers in the sale of shares, we will sell the shares to them as principals. They may then resell those shares to the public at varying prices determined by the dealers at the time of resale. We will include in the prospectus supplement the names of the dealers and the terms of the transaction.

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We may sell the shares directly. In that event, no underwriters or agents would be involved. We may also sell the shares through agents we designate from time to time. In the prospectus supplement, we will name any agent involved in the offer or sale of the offered shares, and we will describe any commissions payable by us to the agent. Unless we inform you otherwise in the prospectus supplement, any agent will agree to use its reasonable best efforts to solicit purchases for the period of its appointment. We may sell the shares directly to institutional investors or others who may be deemed to be underwriters within the meaning of the Securities Act with respect to any sale of those shares. We will describe the terms of any of these sales in the prospectus supplement.

Underwriters, dealers and agents participating in a sale of our shares may be deemed to be underwriters as defined in the Securities Act, and any discounts and commissions received by them and any profit realized by them on resale of the shares may be deemed to be underwriting discounts and commissions under the Securities Act. We may have agreements with the agents, underwriters and dealers to indemnify them against various civil liabilities, including liabilities under the Securities Act, or to contribute to payments that the agents, underwriters or dealers may be required to make as a result of those civil liabilities.

### LEGAL MATTERS

The validity of the shares of common stock issued in this offering will be passed upon for us by the law firm of Johnson, Jones, Dornblaser, Coffman & Shorb, P.C.

### EXPERTS

The financial statements of Arena Resources, Inc as of and for the years ended December 31, 2006 and 2005, incorporated by reference in this prospectus, have been included in reliance upon the reports of Hansen, Barnett & Maxwell, P.C., an independent registered public accounting firm, given on the authority of that firm as experts in accounting and auditing.

The information incorporated by reference into this prospectus regarding estimated quantities of oil and natural gas reserves and the discounted present value of future pre-tax cash flows therefrom is based upon estimates of such reserves and present values prepared by or derived from estimates included in our Annual Report on Form 10-K for the year ended December 31, 2006, prepared by Lee Keeling and Associates, Inc., independent petroleum engineering consultants, incorporated by reference. The information contained in this prospectus under the heading "About Our Company" in the "Prospectus Summary" regarding the estimated quantities of oil and natural gas reserves and the discounted present value of future pre-tax cash flows therefrom is based upon estimates of such reserves and present values as of December 31, 2006, prepared by or derived from the "Appraisal of Oil and Gas Properties" dated December 31, 2006, prepared by Lee Keeling and Associates, Inc. All such information in this prospectus has been included in reliance on the authority of said firm as experts in petroleum engineering.

**WHERE YOU CAN FIND MORE INFORMATION**

We have filed with the SEC under the Securities Act a registration statement on Form S-3 in connection with this offering. This prospectus, which constitutes part of the registration statement, does not contain all the information set forth in the registration statement or the exhibits and schedules which are part of the registration statement, portions of which are omitted as permitted by the rules and regulations of the SEC. Statements made in this prospectus regarding the contents of any contract or other document are summaries of the material terms of the contract or document. With respect to each contract or document filed as an exhibit to the registration statement, reference is made to the corresponding exhibit.

We file annual, quarterly and current reports, proxy statements and other information with the SEC. You may read and copy any of these documents at the public reference facilities of the SEC at 450 Fifth Street, N.W., Washington, D.C. 20549. Copies of all or any portion of the registration statement may be obtained from the SEC at prescribed rates. Information on the public reference facilities may be obtained by calling the SEC at 1-800-SEC-0330. In addition, the SEC maintains a web site that contains our reports, proxy and information statements and other information that we file through the SEC's EDGAR System, including our registration statement and the exhibits filed with the registration statement. The web site can be accessed at <http://www.sec.gov>.

**INCORPORATION OF DOCUMENTS BY REFERENCE**

The SEC allows us to incorporate by reference the information we file with it, which means that we can disclose important information to you by referring you to those documents that we have previously filed with the SEC or documents that we will file with the SEC in the future. The information incorporated by reference is considered to be part of this prospectus, and later information that we file with the SEC will automatically update and supersede this information. This prospectus incorporates by reference the following documents (or portions thereof) set forth below that we have previously filed with the SEC:

Our Annual Report on Form 10-K, for the year ended December 31, 2006, filed April 2, 2007 (Commission File No. 001-31657);

Our definitive Proxy Statement filed on November 11, 2006 in connection with our annual meeting of shareholders held on December 7, 2006 (Commission File No. 001-31657); and

The description of our common stock which is contained under the caption "Description of Securities", in our Registration Statement on Form SB-2 (Commission File No. 333-113712) originally filed on March 18, 2004, as amended, including the Rule 424(b)(1) prospectus filed August 10, 2004 (Commission File No. 333-113712) (which description was incorporated by reference in our Registration Statement on Form 8A filed August 10, 2004 (Commission File No. 001-31657));

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All documents filed by us pursuant to Sections 13(a), 13(c), 14 and 15(d) of the Exchange Act after the initial filing of the registration statement that contains this prospectus and prior to the date of the termination of the offering of the common stock offered hereby shall be deemed to be incorporated by reference into this registration statement and to be a part hereof from the date of filing of such documents. Any statement contained herein or in a document incorporated or deemed to be incorporated by reference herein shall be deemed to be modified or superseded for purposes of this prospectus to the extent that a statement contained herein or in any document which is or is deemed to be incorporated by reference herein modifies or supersedes such statement. Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this prospectus.

We will provide without charge to each person to whom a prospectus is delivered, upon written or oral request of any such person, a copy of any or all of the foregoing documents incorporated herein by reference (other than exhibits to such documents). Written requests should be directed to William R. Broadrick, Chief Financial Officer, 4920 S. Lewis Ave., Suite 107, Tulsa, Oklahoma, 74105. Telephone requests may be directed to (918) 747-6060.



[Back of prospectus]

## **Arena Resources, Inc.**

Up to 1,800,000 Shares of Common Stock

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**PROSPECTUS SUPPLEMENT**

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**June 14, 2007**

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