US ENERGY CORP
Form 10-Q
May 16, 2006

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

x Quarterly report pursuant to section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarter ended March 31, 2006 or

o Transition report pursuant to section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from ___________ to ____________

Commission file number 0-6814

U.S. ENERGY CORP.
(Exact Name of Company as Specified in its Charter)

Wyoming (State or other jurisdiction of incorporation or organization)	**83-0205516** (I.R.S. Employer Identification No.)
877 North 8th West, Riverton, WY (Address of principal executive offices)	**82501** **(Zip Code)**
Company's telephone number, including area code:	**(307) 856-9271**

Not Applicable
Former name, address and fiscal year, if changed since last report

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
YES o NO x

Indicate by check mark if the registrant is not required to file reports to Section 13 or Section 15(d) of the Act.

YES o NO x

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Company was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
YES x NO o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange act.

Large accelerated filer o   Accelerated filer o Non-accelerated filer x

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
YES o NO x

APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY
PROCEEDINGS DURING THE PRECEDING FIVE YEARS:

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Section 12, 13, or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court.

YES o NO o

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Outstanding Shares at May 15, 2006
Common stock, $.01 par value	19,530,425

-2-

U.S. ENERGY CORP. and SUBSIDIARIES

INDEX

PART I. FINANCIAL INFORMATION

ITEM 1. Financial Statements

U.S. ENERGY CORP. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
ASSETS

	March 31, 2006 (Unaudited)	December 31, 2005
CURRENT ASSETS:		
Cash and cash equivalents	$ 7,763,800	$ 6,998,700
Marketable securities, available for sale	1,457,800	328,700
Accounts receivable		
Trade, net of allowance of $32,300 each period	61,800	251,400
Affiliates	11,900	14,100
Prepaid expenses and other current assets	357,700	215,000
Inventories	20,100	32,700
Total current assets	9,673,100	7,840,600
INVESTMENTS:		
Non-affiliated companies	14,175,400	14,760,800
Marketable securities, held-to-maturity	6,760,700	6,761,200
Other	54,900	54,900
Total investments	20,991,000	21,576,900
PROPERTIES AND EQUIPMENT:	13,777,900	13,847,600
Less accumulated depreciation,		
depletion and amortization	(7,397,900)	(7,481,800)
Net properties and equipment	6,380,000	6,365,800
OTHER ASSETS:		
Note receivable trade	20,800	20,800
Real estate held for resale	1,819,700	1,819,700
Deposits and other	477,900	482,900
Total other assets	2,318,400	2,323,400
Total assets	$ 39,362,500	$ 38,106,700

The accompanying notes are an integral part of these statements.

U.S. ENERGY CORP. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
LIABILITIES AND SHAREHOLDERS' EQUITY

		March 31, 2006 (Unaudited)		December 31, 2005
CURRENT LIABILITIES:				
Accounts payable	$	249,400	$	433,000
Accrued compensation expense		205,200		177,100
Asset retirement obligation		233,100		233,200
Current portion of long-term debt		283,600		156,500
Other current liabilities		384,500		232,400
Total current liabilities		1,355,800		1,232,200
LONG-TERM DEBT, net of current portion		907,500		880,300
ASSET RETIREMENT OBLIGATIONS, net of current portion		5,945,200		5,669,000
OTHER ACCRUED LIABILITIES		1,413,400		1,400,500
MINORITY INTERESTS		1,807,500		1,767,500
COMMITMENTS AND CONTINGENCIES				
FORFEITABLE COMMON STOCK, $.01 par value 442,740 shares issued, forfeitable until earned		2,599,000		2,599,000
PREFERRED STOCK, $.01 par value; 100,000 shares authorized No shares issued or outstanding		--		--
SHAREHOLDERS' EQUITY:				
Common stock, $.01 par value; unlimited shares authorized; 19,218,010 and 18,825,134 shares issued respectively		192,200		188,200
Additional paid-in capital		69,441,800		68,005,600
Accumulated deficit		(41,239,200)		(40,154,100)
Treasury stock at cost, 1,004,174 and 999,174 shares respectively		(2,923,500)		(2,892,900)
Unrealized gain (loss) on marketable securities		353,300		(98,100)
Unallocated ESOP contribution		(490,500)		(490,500)
Total shareholders' equity		25,334,100		24,558,200
Total liabilities and shareholders' equity	$	39,362,500	$	38,106,700

The accompanying notes are an integral part of these statements.

U.S. ENERGY CORP. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	Three months ended March 31, 2006	2005
OPERATING REVENUES:		
Real estate operations	$ 54,800	$ 85,100
Management fees and other	121,800	256,300
	176,600	341,400
OPERATING COSTS AND EXPENSES:		
Real estate operations	70,200	68,100
Mineral holding costs	501,100	292,900
General and administrative	2,548,700	1,164,400
	3,120,000	1,525,400
OPERATING LOSS	(2,943,400)	(1,184,000)
OTHER INCOME & (EXPENSES):		
Gain on sales of assets	2,414,900	9,500
Gain on sale of investment	--	66,500
Loss from valuation of derivatives	(585,400)	--
Dividends	2,800	--
Interest income	51,300	54,900
Interest expense	(29,500)	(273,100)
	1,854,100	(142,200)
LOSS BEFORE MINORITY INTEREST, DISCONTINUED OPERATIONS AND PROVISION FOR INCOME TAXES	(1,089,300)	(1,326,200)
MINORITY INTEREST IN LOSS OF CONSOLIDATED SUBSIDIARIES	4,200	53,800
LOSS BEFORE DISCONTINUED OPERATIONS AND PROVISION FOR INCOME TAXES	(1,085,100)	(1,272,400)
DISCONTINUED OPERATIONS, net of taxes	--	(326,100)
LOSS BEFORE PROVISION FOR INCOME TAXES	(1,085,100)	(1,598,500)
PROVISION FOR INCOME TAXES	--	--

The accompanying notes are an integral part of these statements.

-6-

U.S. ENERGY CORP. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	Three months ended March 31, 2006		Three months ended March 31, 2005	
NET LOSS	$	(1,085,100)	$	(1,598,500)
PER SHARE DATA				
Loss from continuing operations	$	(0.06)	$	(0.09)
Loss from discontinued operations		--		(0.02)
NET LOSS PER SHARE BASIC AND DILUTED	$	(0.06)	$	(0.11)
BASIC AND DILUTED WEIGHTED AVERAGE SHARES OUTSTANDING		18,127,158		14,398,093

The accompanying notes are an integral part of these statements.

U.S. ENERGY CORP. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Three months ended March 31, 2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$ (1,085,100)	$ (1,598,500)
Adjustments to reconcile net loss to net cash used in operating activities:		
Minority interest in loss of consolidated subsidiaries	(4,200)	(53,800)
Amortization of deferred charge	--	23,600
Depreciation	159,700	92,800
Accretion of asset retirement obligations	192,700	91,700
Amortization of debt discount	--	167,700
Loss from valuation of derivatives	585,400	--
Extension of warrants	321,100	--
Noncash services	4,500	35,600
Initial valuation of asset retirement obligation	83,400	--
(Gain) on sale of assets	(2,293,700)	(9,500)
(Gain) on sale investments	--	(66,500)
Noncash compensation	358,800	86,100
Net changes in assets and liabilities:	(76,500)	410,200
NET CASH USED IN OPERATING ACTIVITIES	(1,753,900)	(820,600)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Development of unproved mining claims	(9,200)	(53,300)
Proceeds on sale of property and equipment	1,639,400	9,500
Proceeds from sale investments	--	66,500
Escrow proceeds	--	500,000
Net change in restricted investments	500	800
Purchase of property and equipment	(107,400)	(96,700)
Net change in notes receivable	(30,600)	14,500
Net change in investments in affiliates	44,200	117,300
NET CASH PROVIDED BY BY INVESTING ACTIVITIES	1,536,900	558,600

The accompanying notes are an integral part of these statements.

U.S. ENERGY CORP. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Three months ended March 31, 2006	2005
CASH FLOWS FROM FINANCING ACTIVITIES:		
Issuance of common stock	$ 908,500	$ 1,416,700
Issuance of subsidiary stock	--	--
Proceeds from long term debt	184,400	3,750,000
Repayments of long term debt	(110,800)	(73,500)
NET CASH PROVIDED BY FINANCING ACTIVITIES	982,100	5,093,200
Net cash used in operating activities of disontinued operations	--	(453,500)
Net cash used in investing activities of disontinued operations	--	(215,000)
Net cash used in financing activites of disontinued operations	--	(8,500)
NET INCREASE IN CASH AND CASH EQUIVALENTS	765,100	4,154,200
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	6,998,700	3,842,500
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 7,763,800	$ 7,996,600
SUPPLEMENTAL DISCLOSURES:		
Income tax paid	$ --	$ --
Interest paid	$ 29,500	$ 105,400

The accompanying notes are an integral part of these statements.

U.S. ENERGY CORP. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Three months ended March 31,			
	2006		2005	
NON-CASH INVESTING AND FINANCING ACTIVITIES:				
Satisfaction of receivable - employee with stock in company	$	30,600	$	20,500
Acquisition of assets through issuance of debt	$	80,700	$	50,000
Issuance of stock warrants in conjunction with debt	$	--	$	1,226,200
Issuance of stock as coversion of subsidiary stock	$	--	$	499,700
Issuance of stock for services	$	--	$	35,600

The accompanying notes are an integral part of these statements.

U.S. ENERGY CORP. & SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (Unaudited)

1) The Condensed Consolidated Balance Sheet as of March 31, 2006, the Condensed Consolidated Statements of Operations for the three months ended March 31, 2006 and 2005 and the Condensed Consolidated Statements of Cash Flows for the three months ended March 31, 2006 and 2005, have been prepared by the Company without audit. The Condensed Consolidated Balance Sheet at December 31, 2005 has been taken from the audited financial statements included in the Company's Annual Report on Form 10-K for the period then ended. In the opinion of the Company, the accompanying financial statements contain all adjustments (consisting of only normal recurring accruals) necessary to present fairly the financial position of the Company as of March 31, 2006 and December 31, 2005, the results of operations for the three months ended March 31, 2006, and 2005 and cash flows for the three months ended March 31, 2006 and 2005.

2) Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted. It is suggested that these financial statements be read in conjunction with the Company's December 31, 2005 Form 10-K. The results of operations for the periods ended March 31, 2006 and 2005 are not necessarily indicative of the operating results for the full year.

3) The consolidated financial statements of the Company and subsidiaries include the accounts of the Company, the accounts of its majority-owned or controlled subsidiaries Plateau Resources Limited, Inc. (“Plateau”) (100%), Four Nines Gold, Inc. ("FNG") (50.9%), Sutter Gold Mining Inc. (“SGMI”) (65.4%), Crested Corp. (“Crested”) (71.0%), Yellow Stone Fuels, Inc. (“YSFI”) (35.9%), and the USECC Joint Venture ("USECC"), a consolidated joint venture which is equally owned by the Company and Crested, through which the bulk of their operations are conducted.

Investments of less than 20% are accounted for by the cost method. All material inter-company profits, transactions and balances have been eliminated. Because of management control, YSFI is consolidated into the financial statements of the Company.

4) Stock- based compensation

We adopted Statement of Financial Accounting Standards No. 123 (revised 2004), Share-Based Payment (SFAS 123R), effective January 1, 2006. SFAS 123R requires the recognition of the fair value of stock-based compensation in net income. Stock-based compensation primarily consists of stock options. Stock options are granted to employees at exercise prices equal to the fair market value of our stock at the dates of grant. Generally, options fully vest immediately and expire 90 days after the employee voluntarily terminates their employment with the Company and twelve months after retirement, disability or death. We recognize the stock-based compensation expense over the requisite service period of the individual grantees, which generally equals the vesting period. We provide newly issued shares to satisfy stock option exercises. There were no option awards granted in the three months ended March 31, 2006. There are however options that vest on June 1, 2006. The expense associated with the vesting of these shares will be recorded during the six months ended June 30, 2006 as a result of the adoption of SFAS 123(R).

U.S. ENERGY CORP. & SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (Unaudited)
(Continued)

Prior to January 1, 2006, we followed Accounting Principles Board (APB) Opinion 25, Accounting for Stock Issued to Employees, and related interpretations in accounting for our stock-based compensation. Under APB 25, no compensation expense was recognized for stock options since the exercise price of our employee stock options equals the market price of the underlying stock on the date of grant. We have elected the modified prospective transition method for adopting SFAS 123R. Under this method, the provisions of SFAS 123R apply to all awards granted or modified after the date of adoption.

FAS 123R requires us to present pro forma information for periods prior to the adoption as if we had accounted for all our employee stock options and performance awards under the fair value method of that statement. For purposes of pro forma disclosure, the estimated fair value of the options and performance awards at the date of the grant is amortized to expense over the requisite service period, which generally equals the vesting period. For pro forma purposes, the estimated fair value of our stock-based awards to employees is amortized over the respective vesting periods.

The following table illustrates the effect on net loss and net loss per share if we had applied the fair value recognition provisions of SFAS No. 123, “Accounting for Stock-Based Compensation,” to our stock-based employee compensation for the periods indicated:

	Three Months Ended March 31, 2005
Net loss	$ (1,598,500)
Deduct:	
Stock-based employee compensation determined under fair value method for all awards, net of related tax effects	(102,900)
Net income/(loss) available to common stockholders - pro forma	$ (1,701,400)
Basic and diluted loss per share as reported	$ (0.11)
Basic and diluted loss per share pro forma	$ (0.12)
Weighted average basic and diluted common stock outstanding	14,398,093

5) Components of Properties and Equipment at March 31, 2006, consist of land, buildings and equipment.

	Cost	Accumulated Amortization Depletion and Depreciation	Net Book Value