US ENERGY CORP
Form 10-Q
November 14, 2007

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 September 30, 2007 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 November 13, 2007
Common stock, $.01 par value	21,087,396

U.S. ENERGY CORP. and SUBSIDIARIES

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Certifications	See Exhibits

PART I. FINANCIAL INFORMATION

ITEM 1. Financial Statements

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

	September 30, 2007	December 31, 2006
CURRENT ASSETS:		
Cash and cash equivalents	$ 6,821,600	$ 16,973,500
Marketable securities		
Held to maturity - treasury bills	71,274,000	--
Trading securities	--	123,400
Available for sale securities	574,900	1,148,500
Accounts receivable		
Trade	68,000	156,500
Reimbursable project costs	781,500	188,400
Dissolution of subsidiaries	218,600	--
Note receivable	--	560,500
Assets held for sale	2,932,200	11,506,000
Deferred tax assets	253,500	14,321,600
Prepaid expenses and other current assets	175,400	166,500
Total current assets	83,099,700	45,144,900
PROPERTIES AND EQUIPMENT:	24,322,400	11,563,500
Less accumulated depreciation,		
depletion and amortization	(4,561,700)	(5,454,200)
Net properties and equipment	19,760,700	6,109,300
OTHER ASSETS:		
Deferred tax assets	457,700	610,200
Deposits and other	5,214,300	37,000
Total other assets	5,672,000	647,200
Total assets	$ 108,532,400	$ 51,901,400

The accompanying notes are an integral part of these condensed consolidated statements.

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

	September 30, 2007	December 31, 2006
CURRENT LIABILITIES:		
Accounts payable	$ 3,367,200	$ 1,115,000
Accrued compensation expense	761,800	1,190,200
Dividends payable	--	--
Income taxes payable	1,569,700	--
Current portion of long-term debt	78,600	937,200
Liabilities held for sale	--	7,375,800
Refundable deposits	--	800,000
Other current liabilities	228,100	177,000
Total current liabilities	6,005,400	11,595,200
LONG-TERM DEBT, net of current portion	228,400	294,900
ASSET RETIREMENT OBLIGATIONS	131,300	124,400
OTHER ACCRUED LIABILITIES	1,051,000	462,700
MINORITY INTERESTS	8,391,900	4,700,200
COMMITMENTS AND CONTINGENCIES		
FORFEITABLE COMMON STOCK, $.01 par value		
-0- and 297,540 shares issued, respectively		
forfeitable until earned	--	1,746,600
PREFERRED STOCK,		
$.01 par value; 100,000 shares authorized		
No shares issued or outstanding	--	--
SHAREHOLDERS' EQUITY:		
Common stock, $.01 par value;		
unlimited shares authorized; 21,161,805		
and 19,659,591 shares issued net of		
treasury stock, respectively	211,600	196,600
Additional paid-in capital	79,152,900	72,990,700
Accumulated surplus (deficit)	16,017,000	(39,101,900)
Treasury stock at cost, 725,845 and 497,845		
shares, respectively	(1,970,800)	(923,500)
Unrealized (loss) gain on marketable securities	(195,800)	306,000
Unallocated ESOP contribution	(490,500)	(490,500)
Total shareholders' equity	92,724,400	32,977,400

Total liabilities and shareholders' equity	$ 108,532,400	$ 51,901,400

The accompanying notes are an integral part of these condensed consolidated statements.

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

	Three months ended September 30, 2007	Three months ended September 30, 2006	Nine months ended September 30, 2007	Nine months ended September 30, 2006
OPERATING REVENUES:				
Real estate operations	$ 582,500	$ 35,000	$ 766,600	$ 137,800
Management fees and other	24,300	246,100	165,300	468,200
	606,800	281,100	931,900	606,000
OPERATING COSTS AND EXPENSES:				
Real estate operations	81,400	85,200	250,400	221,500
Mineral holding costs	574,200	1,078,900	2,369,800	2,262,300
General and administrative	2,332,900	5,593,000	12,156,800	10,509,000
	2,988,500	6,757,100	14,777,000	12,992,800
LOSS BEFORE INVESTMENT AND PROPERTY TRANSACTIONS	(2,381,700)	(6,476,000)	(13,845,100)	(12,386,800)
OTHER INCOME & (EXPENSES):				
Gain on sales of assets	139,800	240,000	1,962,000	3,063,500
Loss on sale of marketable securities	(2,227,000)	(860,500)	(8,318,400)	(860,500)
Gain on foreign exchange	(86,600)	--	430,000	--
Gain on sale of uranium assets	--	--	111,728,200	--
Loss from valuation of derivatives	--	--	--	(630,900)
Loss from dissolution of subsidiaries	(78,700)	--	(78,700)	(3,845,800)
Gain (loss) on sale of investment	--	10,869,800	--	10,842,300
Settlement of litigation	--	(7,000,000)	--	(7,000,000)
Dividends	34,600	136,600	40,200	141,600
Interest income	1,194,900	168,200	2,062,000	418,200
Interest expense	(14,100)	(40,500)	(63,800)	(97,600)
	(1,037,100)	3,513,600	107,761,500	2,030,800
INCOME (LOSS) BEFORE MINORITY INTEREST, AND PROVISION FOR INCOME TAXES	(3,418,800)	(2,962,400)	93,916,400	(10,356,000)
MINORITY INTEREST IN (GAIN) LOSS OF CONSOLIDATED SUBSIDIARIES	147,200	28,700	(3,551,400)	76,300
INCOME (LOSS) BEFORE PROVISION BEFORE INCOME TAXES	(3,271,600)	(2,933,700)	90,365,000	(10,279,700)
INCOME TAXES:				
Current provision for	1,995,200	--	(18,625,100)	--
Deferred (provision for) benefit from	526,400	--	(14,512,700)	--
	2,521,600	--	(33,137,800)	--

NET INCOME (LOSS)	$ (750,000)	$ (2,933,700)	$ 57,227,200	$ (10,279,700)
PER SHARE DATA				
Basic earnings (loss) per share	$ (0.04)	$ (0.16)	$ 2.86	$ (0.56)
Diluted earnings (loss) per share	$ (0.04)	$ (0.16)	$ 2.61	$ (0.56)
BASIC WEIGHTED AVERAGE SHARES OUTSTANDING	20,558,882	18,367,198	20,024,465	18,283,573
DILUTED WEIGHTED AVERAGE SHARES OUTSTANDING	20,558,882	18,367,198	21,901,936	18,283,573

The accompanying notes are an integral part of these condensed consolidated statements.

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

	Nine months ended September 30,	
	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	$ 57,227,200	$ (10,279,700)
Adjustments to reconcile net income (loss)		
to net cash used in operating activities:		
Minority interest in loss of		
consolidated subsidiaries	3,551,400	(76,300)
Depreciation	342,100	380,700
Accretion of asset		
retirement obligations	6,900	578,400
Initial valuation of asset		
retirement obligation	--	83,400
Noncash interest income	(1,274,000)	--
Deferred income taxes	14,512,700	--
Income tax payable	1,569,700	--
Gain on sale of assets to sxr	(111,728,100)	--
Gain on sale of assets	(1,962,000)	(3,063,500)
Gain on foreign exchange	(443,300)	--
Loss on valuation of Enterra units	--	3,845,800
Loss on valuation of derivatives	--	630,900
Gain on sale of Pinnacle Resources	--	(10,842,300)
Loss on sales of marketable securities	8,318,400	860,500
Proceeds from the sale of trading securities	--	8,304,300
Warrant extension and repricing	156,500	484,700
Noncash compensation	1,133,000	1,481,200
Noncash services	--	185,500
Net changes in assets and liabilities:	488,400	1,295,300
NET CASH USED IN		
OPERATING ACTIVITIES	(28,101,100)	(6,131,100)

The accompanying notes are an integral part of these condensed consolidated statements.

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

	Nine months ended September 30, 2007	2006
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sale of marketable securities	92,250,700	491,600
Acquisition of unproved oil & gas properties	(2,894,100)	--
Proceeds from sale of uranium assets	14,022,700	--
Acquisition of unproved mining claims	(259,200)	(644,800)
Proceeds on sale of property and equipment	1,294,200	2,410,400
Purchase of property and equipment	(5,586,700)	(599,800)
Proceeds from sale of investments	--	13,800,000
Purchase of treasury bills	(70,000,000)	--
Purchase of real estate for development	(6,595,200)	--
Net change in restricted investments	--	8,100
Net change in notes receivable	560,500	(20,200)
Net change in investments in affiliates	(79,500)	30,600
NET CASH PROVIDED BY BY INVESTING ACTIVITIES	22,713,400	15,475,900
CASH FLOWS FROM FINANCING ACTIVITIES:		
Issuance of common stock	$ 2,284,100	$ 915,900
Issuance of subsidiary stock	342,000	3,173,700
Deferred taxes from stock options	1,415,400	--
Restricted cash for credit facility	(4,725,000)	--
Payment of cash dividend	(2,108,300)	--
Proceeds from long term debt	164,100	184,300
Repayments of long term debt	(1,089,200)	(327,000)
Purchase of treasury stock	(1,047,300)	--
NET CASH (USED IN) PROVIDED BY FINANCING ACTIVITIES	(4,764,200)	3,946,900
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(10,151,900)	13,291,700
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	16,973,500	6,998,700
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 6,821,600	$ 20,290,400

The accompanying notes are an integral part of these condensed consolidated statements.

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

	Nine months ended September 30, 2007	2006
SUPPLEMENTAL DISCLOSURES:		
Income tax paid	$ 15,640,000	$ --
Interest paid	$ 63,800	$ 97,600
NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Issuance of subsidiary stock to acquire mining claims	$ 33,700	$ --
Receipt of marketable securities from the sale of assets	$ 99,400,600	$ --
Acquisition of assets through issuance of debt	$ --	$ 355,800
Satisfaction of receivable - employee with stock in company	$ --	$ 30,600
Conversion of Enterra shares to tradable units	$ --	$ 13,880,100
Issuance of stock warrants in conjunction with agreements	$ --	$ 727,300
Unrealized loss/gain	$ 195,800	$ 42,200

The accompanying notes are an integral part of these condensed consolidated statements.

U.S. ENERGY CORP. & SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (Unaudited)

1) Basis of Presentation

The Condensed Consolidated Balance Sheet as of September 30, 2007, the Condensed Consolidated Statements of Operations for the three and nine months ended September 30, 2007 and 2006 and the Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2007 and 2006, have been prepared by the Company without audit. The Condensed Consolidated Balance Sheet at December 31, 2006 was derived from financial statements audited by Moss Adams, LLP, independent public accountants, as indicated on their report for the year ended December 31, 2006, (which report is not included in this Form 10-Q Report). In the opinion of the Company, the accompanying condensed financial statements contain all adjustments (consisting of only normal recurring adjustments) necessary to present fairly the financial position of the Company as of September 30, 2007 and December 31, 2006, the results of operations for the three and nine months ended September 30, 2007 and 2006 and cash flows for the nine months ended September 30, 2007 and 2006.

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, 2006 Form 10-K. The results of operations for the periods ended September 30, 2007 and 2006 are not necessarily indicative of the operating results for the full year.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates based on certain assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period.

2) Principles of Consolidation

The consolidated financial statements of the Company and subsidiaries at September 30, 2007 include the accounts of the Company, the accounts of its majority-owned or controlled subsidiaries Crested Corp. (“Crested”) (70.1%), 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, Sutter Gold Mining Inc. (“Sutter”) (54.4%) and Plateau Resources Limited, Inc. (“Plateau”) (100%). The consolidated financial statements of the Company and subsidiaries at December 31, 2006 and the Statement of Operations for the nine months ended September 30, 2006 also included the accounts of two additional controlled subsidiaries Four Nines Gold, Inc. ("FNG") (50.9%) and Yellow Stone Fuels, Inc. (“YSFI”) (35.9%). Both Four Nines Gold Inc. and Yellow Stone Fuels, Inc. were dissolved during the quarter ended September 30, 2007. The Company received $198,400 cash, carried as an account receivable at September 30, 2007, as a result of the dissolution of Four Nines Gold and $44,600 in cash, which also was carried as an account receivable at September 30, 2007, as a result of the dissolution of YSFI. The Company also purchased 21,868 shares of it’s common stock valued at a five day Volume Weighted Average Price ("VWAP") of $4.40 per share from YSFI prior to YSFI being dissolved and three pieces of equipment from FNG that were appraised by a third party and valued at $59,000.

Investments in joint ventures and 20% to 50% owned companies are accounted for using the equity method. Because of management control and debt to the Company which may be converted to equity, YSFI was consolidated into the financial statements of the Company. Investments of less than 20% are accounted for by the cost method. All material inter-company profits, transactions and balances have been eliminated.

U.S. ENERGY CORP. & SUBSIDIARIES

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

3) Recent Accounting Pronouncements

FIN 48 In June 2006, the FASB issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes," ("FIN 48") an interpretation of FASB Statement No. 109, "Accounting for Income Taxes." FIN 48 prescribes a model recognition threshold and measurement attribute for the financial statement recognition and measurement of uncertain tax positions taken or expected to be taken in a tax return. FIN 48 requires that the Company recognize in its financial statements, the impact of an uncertain tax position, if it is not more likely than not of being sustained on audit, based on the technical merits of the position. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods and disclosure. The provisions of FIN 48 are effective beginning January 1, 2007 with the cumulative effect of the change in accounting principle recorded as an adjustment to the opening balance of retained earnings, goodwill, deferred income taxes and income taxes payable in the Consolidated Balance Sheets. The adoption of FIN 48 had no significant impact on the financial statements of the Company at September 30, 2007.

FAS 157 In September 2006, the FASB issued FASB Statement No. 157, "Fair Value Measurements" ("FAS 157"). FAS 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. The provisions for FAS 157 are effective for the Company's fiscal year beginning January 1, 2008. We do not believe the adoption of this statement will have an impact on the Company's consolidated financial position, results of operations or cash flows.

FAS 159 In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* ("SFAS 159") which permits entities to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. SFAS 159 will be effective for the Company's fiscal year beginning January 1, 2008. We are currently evaluating the impact of adopting SFAS 159 on our financial position, cash flows, and results of operations.

The Company has reviewed other recently issued accounting pronouncements and does not believe that any of those pronouncements will have a material effect on the Company's financial position or results of operations when adopted.

4) Stock Based Compensation

Stock Options - The Company accounts for all stock-based compensation pursuant to SFAS 123R, "Share Based Payment" which requires the recognition of the fair value of stock-based compensation in operations. Stock-based compensation primarily consists of stock options. Stock options are granted to employees at exercise prices equal to the fair market value of the Company's stock at the dates of grant.

Historically, options vested fully at time of grant and expire 90 days after the employee voluntarily terminates their employment with the Company and twelve months after retirement, disability or death. During the most recent 12 months the Company has altered the vesting plans for new option grants to have them vest over three to seven years. The Company recognizes the stock-based compensation expense over the requisite service period of the individual grantees, which generally equals the vesting period. The Company provides newly issued shares to satisfy stock option exercises. See Note 13.

U.S. ENERGY CORP. & SUBSIDIARIES

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

Forfeitable Shares – In connection with the retirement of an officer of the Company in January 2007, 112,680 previously forfeitable shares were released to the former officer pursuant to the Stock Bonus Plan. On June 22, 2007 the shareholders of the Company voted to release the remaining 180,060 similar forfeitable shares to various officers and employees. The Board of Directors cancelled an additional 4,800 shares of previously forfeitable shares which had been issued to an employee who left the employment of the Company. The shareholders additionally authorized the payment of taxes on the forfeitable shares distributed. See Note 20.

5) Properties and Equipment

The components of Properties and Equipment at September 30, 2007, consist of land, buildings and equipment.

	Cost	Accumulated Amortization Depletion and Depreciation	Net Book Value
Oil & Gas properties	$ 2,894,100	$ -	$ 2,894,100
Mining properties	823,600	-	823,600
Buildings, land and equipment	20,604,700	(4,561,700)	16,043,000
Totals	$ 24,322,400	$ (4,561,700)	$ 19,760,700

The Company evaluates assets for impairment when events or circumstances indicate that recorded values may not be recoverable. There were no impairments for the nine months ended September 30, 2007.

6) Marketable Securities

The Company accounts for its marketable securities as (1) held-to-maturity, (2) available-for-sale and (3) trading. The Company holds short-term securities which have maturities of greater than three months but less than one year from the date of purchase. These securities are classified as held-to-maturity based on the Company's intent to hold such securities to the maturity date. All held-to-maturity securities are U.S. Government securities and are stated at amortized cost, which approximates fair market value. Income related to these securities is reported as a component of interest income. The Company's available-for-sale securities are carried at fair value with net unrealized gain or (loss) recorded as a separate component of shareholders' equity. If a decline in fair value of held-to-maturity securities is determined to be other than temporary, the investment is written down to fair value. Based on the Company's intent to sell the securities, its equity securities are reported as trading securities.

U.S. ENERGY CORP. & SUBSIDIARIES

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

At September 30, 2007, the Company owned held-to-maturity, available-for-sale securities and trading.

	Cost	Value	Unrealized Gain/(Loss)
Held to maturity - treasury bills		$ 71,274,000	
Available for sale securities			
Kobex shares	$ 703,600	$ 339,000	$ (364,600)
Premier shares	195,300	235,900	40,600
	$ 898,900	$ 574,900	$ (324,000)

7) Other Comprehensive Income (Loss)

Unrealized gains and losses on investments are excluded from net income but are reported as comprehensive income on the Condensed Consolidated Balance Sheets under Shareholders' equity. The following table illustrates the effect on net income (loss) if the Company had recognized comprehensive income:

	Nine months ending September 30,	
	2007	2006
Net gain/(loss)	$ 57,227,200	$ (10,279,700)
Comprehensive loss from the unrealized loss on marketable securities	(324,000)	(127,000)
Reclassification adjustment for gains included in net income	(305,100)	--
Deferred income taxes on marketable securities	127,300	--
Other comprehensive loss	(501,800)	(127,000)

Comprehensive gain/(loss)	$ 56,725,400	$ (10,406,700)

U.S. ENERGY CORP. & SUBSIDIARIES

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

8) Income Taxes

The income tax provision differs from the amounts computed by applying the statutory federal income tax rate to income from continuing operations before taxes. The reasons for these differences are as follows:

	Three Months	Nine