US ENERGY CORP
Form 10-Q/A
April 05, 2006

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q/A

x Quarterly report pursuant to section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarter ended March 31, 2005 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 whether the Company (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 an accelerated filer (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 13, 2005
Common stock, $.01 par value	16,373,630

Explanation

U.S. Energy Corp. ("USE" or "the Company") is filing this Amendment No. 1 on Form 10-Q/A (this "Form 10-Q/A") to amend our Quarterly Report on Form 10-Q for the first quarter ended March 31, 2005, as initially filed with the Securities and Exchange Commission (the "SEC") on May 18, 2005, and is being filed to reflect the restatement of our condensed consolidated balance sheet as of March 31, 2005 and the related consolidated statements of operations and cash flows for the three months ended March 31, 2005, as discussed in Note 16 to the unaudited condensed consolidated financial statements.

All of the changes in these restated financial statements and corresponding notes to the financial statements relate specifically to the accounting treatment given to the beneficial conversion feature associated with senior convertible debentures which were entered into on February 9, 2005. The convertible debentures include beneficial conversion features. Pursuant to EITF 98-5~ *Accounting for Convertible Securities with Beneficial Conversion Features and Contingently Adjustable Conversion Ratios* and EITF 00-27~ *Application of Issue No. 98-5 to Certain Convertible Instruments,* the Company determined that the effective conversion price should be used to compute the intrinsic value of the embedded conversion option.

Except for the foregoing amended information required to reflect the effects of the restated condensed consolidated balance sheet, statements of operations and cash flows this Form 10-Q/A continues to describe conditions as presented in the original report on Form 10-Q filed on May 18, 2005. Information not affected by the restatement is unchanged and reflects the disclosures made at the time of the original filing of the Form 10-Q.

Accordingly, this Form 10-Q/A should be read in conjunction with our filings made with the SEC subsequent to the filing of the original Form 10-Q, including any amendments to those filings.

U.S. ENERGY CORP. and SUBSIDIARIES

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

	March 31, 2005 (Restated)	December 31, 2004
CURRENT ASSETS:		
Cash and cash equivalents	$ 7,996,600	$ 3,842,500
Accounts receivable		
Trade, net of allowance of $111,300	802,000	797,500
Affiliates	13,300	13,500
Other	--	52,700
Current portion of long-term notes receivable	35,500	49,500
Prepaid expenses	408,200	489,700
Inventories	176,300	176,100
Total current assets	9,431,900	5,421,500
INVESTMENTS:		
Non-affiliated company	957,700	957,700
Restricted investments	6,851,500	6,852,300
Total investments	7,809,200	7,810,000
PROPERTIES AND EQUIPMENT:	22,519,800	22,088,600
Less accumulated depreciation, depletion and amortization	(8,674,500)	(8,322,000)
Net properties and equipment	13,845,300	13,766,600
OTHER ASSETS:		
Notes receivable trade	2,950,800	2,971,800
Deposits and other	1,019,400	733,800
Total other assets	3,970,200	3,705,600
Total assets	$ 35,056,600	$ 30,703,700

The accompanying notes are an integral part of these statements.

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

	March 31, 2005 (Restated)	December 31, 2004
CURRENT LIABILITIES:		
Accounts payable	$ 1,382,000	$ 1,751,300
Accrued compensation expense	168,900	181,700
Asset retirement obligation	192,700	192,700
Current portion of long-term debt	3,332,400	3,400,100
Escrow	500,000	--
Other current liabilities	829,500	532,200
Total current liabilities	6,405,500	6,058,000
LONG-TERM DEBT	5,176,100	3,780,600
ASSET RETIREMENT OBLIGATIONS	7,986,800	7,882,400
OTHER ACCRUED LIABILITIES	1,928,600	1,952,300
DEFERRED GAIN ON SALE OF ASSET	1,279,000	1,279,000
MINORITY INTERESTS	434,900	871,100
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; 15,936,113		
and 15,231,237 shares issued net of		
treasury stock, respectively	159,300	152,300
Additional paid-in capital	64,041,100	59,157,100
Accumulated deficit	(50,920,200)	(49,321,700)
Treasury stock at cost,		
977,306 and 972,306 shares respectively	(2,800,400)	(2,779,900)
Accumulated comprehensive loss	(742,600)	(436,000)
Unallocated ESOP contribution	(490,500)	(490,500)
Total shareholders' equity	9,246,700	6,281,300

Total liabilities and shareholders' equity	$	35,056,600	$	30,703,700

The accompanying notes are an integral part of these statements.

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

	Three months ended March 31, 2005 (Restated)	Three months ended March 31, 2004
OPERATING REVENUES:		
Real estate operations	$ 85,100	$ 51,200
Gas sales	833,400	593,400
Management fees	533,000	222,900
	1,451,500	867,500
OPERATING COSTS AND EXPENSES:		
Real estate operations	68,100	77,500
Gas operations	995,400	741,400
Mineral holding costs	292,900	389,200
General and administrative	1,478,000	1,530,700
	2,834,400	2,738,800
OPERATING LOSS	(1,382,900)	(1,871,300)
OTHER INCOME & EXPENSES:		
Gain on sales of assets	9,500	--
Gain on sale of investment	66,500	279,200
Interest income	55,700	60,900
Interest expense	(401,100)	(284,400)
	(269,400)	55,700
LOSS BEFORE MINORITY INTEREST AND PROVISION FOR INCOME TAXES,	(1,652,300)	(1,815,600)
MINORITY INTEREST IN LOSS OF CONSOLIDATED SUBSIDIARIES	53,800	40,600
LOSS BEFORE PROVISION FOR INCOME TAXES	(1,598,500)	(1,775,000)
PROVISION FOR INCOME TAXES	--	--
NET LOSS	$ (1,598,500)	$ (1,775,000)
NET LOSS PER SHARE BASIC AND DILUTED	$ (0.11)	$ (0.14)
BASIC AND DILUTED WEIGHTED AVERAGE SHARES OUTSTANDING	14,398,093	12,319,657

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, 2005 (Restated)	2004
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$ (1,598,500)	$ (1,775,000)
Adjustments to reconcile net loss to net cash used in operating activities:		
Minority interest in loss of consolidated subsidiaries	(53,800)	(40,600)
Amortization of deferred charge	23,600	--
Depreciation, depletion and amortization	352,500	288,500
Accretion of asset retirement obligations	91,700	71,800
Amortization of debt discount	200,500	172,400
Non cash services	35,600	3,300
Gain on sale of assets	(9,500)	--
Gain on sale investments	(66,500)	(279,200)
Non cash compensation	86,100	157,000
Net changes in assets and liabilities:	(222,800)	95,600
NET CASH USED IN OPERATING ACTIVITIES	(1,161,100)	(1,306,200)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Development of proved gas properties	(9,000)	--
Development of unproved gas properties	(205,900)	(2,000)
Acquisition of producing gas properties	--	(1,198,000)
Acquisition of undeveloped gas properties	--	(3,213,000)
Development of unproved mining claims	(53,300)	158,400
Proceeds on sale of property and equipment	9,500	--
Proceeds from sale of investments	66,500	279,200
Escrow proceeds	500,000	--
Net change in restricted investments	800	31,500
Purchase of property and equipment	(100,300)	(162,900)
Net change in notes receivable	14,500	--
Net change in investments in affiliates	117,300	--
NET CASH PROVIDED BY (USED IN) BY INVESTING ACTIVITIES	340,100	(4,106,800)

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, 2005 (Restated)	2004
CASH FLOWS FROM FINANCING ACTIVITIES:		
Issuance of common stock	$ 1,416,700	$ 350,000
Issuance of subsidiary stock	--	2,068,700
Proceeds from long term debt	3,700,000	3,184,700
Repayments of long term debt	(141,500)	(78,300)
NET CASH PROVIDED BY FINANCING ACTIVITIES	4,975,200	5,525,100
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	4,154,200	112,100
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	3,842,500	4,084,800
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 7,996,600	$ 4,196,900
SUPPLEMENTAL DISCLOSURES:		
Income tax paid	$ --	$ --
Interest paid	$ 105,400	$ 112,000

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, 2005 (Restated)	2004
NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Issuance of stock warrants in conjunction with debt	$ 1,226,200	$ --
Issuance of stock as conversion of subsidiary stock	$ 499,700	$ --
Satisfaction of receivable - employee with stock in company	$ 20,500	$ 20,500
Acquisition of assets through issuance of debt	$ 50,000	$ --
Issuance of stock for services	$ 35,600	$ --
Initial valuation of new asset retirement obligations	$ --	$ 372,100
Acquisition of assets through issuance of stock	$ --	$ 1,396,200
Issuance of stock to satisfy debt	$ --	$ 500,000

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, 2005, the Condensed Consolidated Statements of Operations for the three months ended March 31, 2005 and 2004 and the Condensed Consolidated Statements of Cash Flows for the three months ended March 31, 2005 and 2004, have been prepared by the Company without audit. The Condensed Consolidated Balance Sheet at December 31, 2004 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, 2005 and December 31, 2004, the results of operations for the three months ended March 31, 2005, and 2004 and cash flows for the three months ended March 31, 2005 and 2004.

2) The accompanying condensed consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America, which contemplate continuation of the Company as a going concern. The Company has sustained substantial losses from operations in recent years, and such losses have continued through March 31, 2005. In addition, the Company has used, rather than provided, cash in its operations.

In view of the matters described in the preceding paragraph, recoverability of a major portion of the recorded asset amounts shown in the condensed consolidated accompanying balance sheet is dependent upon continued operations of the Company, which in turn is dependent upon its ability to meet its financing requirements on a continuing basis, and to succeed in its future operations.

To ensure that the Company has adequate cash to satisfy our capital requirements, the Company is working with several different sources for capital resources, including both strategic and financial investors. Although there is no assurance that funding will be available; we believe that our current business plan, if funded, will significantly improve our operating results and cash flow in the future.

3) Certain reclassifications have been made in the December 31, 2004 Financial Statements to conform to the classifications used in the March 31, 2005 Financial Statements.

4) 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, 2004 Form 10-K. The results of operations for the periods ended March 31, 2005 and 2004 are not necessarily indicative of the operating results for the full year.

5) The consolidated financial statements of the Company include its majority-owned and controlled subsidiaries: Energx Ltd. ("Energx")(90%); Crested Corp. ("Crested")(70.1%); Plateau Resources Limited ("Plateau")(100%); Sutter Gold Mining Inc. ("SGMI")(65.5%); Yellow Stone Fuels Corp. ("YSFC")(35.9%); Four Nines Gold, Inc. ("FNG")(50.9%); Rocky Mountain Gas, Inc. ("RMG")(95.6%), 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. All material intercompany profits and balances have been eliminated.

U.S. ENERGY CORP. & SUBSIDIARIES

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

6) The Company has adopted the disclosure requirements of SFAS No. 148 "Accounting for Stock - Based Compensation - Transition and Disclosure" and has elected to continue to record employee compensation expense utilizing the intrinsic value method permitted under Accounting Principles Board (APB) Opinion No. 25, "Accounting for Stock Issued to Employees" and its related interpretations. The Company has two employee stock incentive plans. There were no options granted to employees or directors under either employee stock incentive plan during the quarter ended March 31, 2005. No stock-based employee compensation cost is reflected in net income, as all options granted under the plans had an exercise price equal to the market value of the underlying common stock on the date of grant. The following table illustrates the effect on net income and earnings per share if the Company had applied the fair value recognition provisions of Financial Accounting Standards Board Statement ("FASB") No. 123, Accounting for Stock-Based Compensation, to stock-based employee compensation.

	Three months Ended March 31,			
		2005		2004
Net loss, as reported	$	(1,598,500)	$	(1,775,000)
Deduct: Total stock-based employee compensation expense determined under fair value based method for all award, net of related tax effects	$	(102,900)		--
Pro forma net loss	$	(1,701,400)	$	(1,775,000)
Earnings per share:				
Basic and diluted - as reported	$	(0.11)	$	(0.14)
Basic and diluted - pro forma	$	(0.12)	$	(0.14)

7) Components of Properties and Equipment at March 31, 2005, consist of coalbed methane properties, land, buildings and equipment.

		Cost		Accumulated Amortization, Depletion and Depreciation		Net Book Value
Coalbed methane and oil properties	$	10,898,600	$	(3,102,600)	$	7,796,000
Buildings, land and equipment		11,621,200		(5,571,900)		6,049,300
	$	22,519,800	$	(8,674,500)	$	13,845,300

The Company has impaired a portion of historical costs associated with its properties in prior periods. The Company will provide additional impairments if necessary in the future. No additional impairments are required at March 31, 2005.

U.S. ENERGY CORP. & SUBSIDIARIES

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

8) The Company presents basic and diluted earnings per share in accordance with the provisions of Statement of Financial Accounting Standards No. 128, "Earnings per Share". Basic earnings per common share is based on the weighted average number of common shares outstanding during the period. Diluted earnings per share is computed based on the weighted average number of common shares outstanding adjusted for the incremental shares attributed to outstanding options to purchase common stock, if dilutive. Potential common shares relating to options and warrants are excluded from the computation of diluted earnings (loss) per share, because they are ant dilutive. These options and warrants totaled 6,004,619 and 4,498,835 at March 31, 2005 and 2004, respectively. Stock options and warrants have a weighted average exercise price of $2.93 and $2.96 per share at March 31, 2005 and 2004, respectively. Potential common shares relating to convertible debt are excluded from the computation of diluted loss per share, because they are ant dilutive.

9) Long term debt at March 31, 2005 consists of:

Debt for the purchase of coalbed methane properties, interest at 11% per annum; due January 29, 2007 (less discount of $241,200 for RMG warrants) (see note 13)	$	3,179,700
Current portion of debt for the purchase of aircraft and equipment at various interest rates and due dates		152,700
Current portion of long term debt		3,332,400
$3.0 million credit facility with interest at 10%; due July 30, 2006 (less discount of $233,500 for RMG warrants)		2,766,500
$4.0 million credit facility with interest at 6% simple; due February 9, 2008 (less discount of $2,653,100 for USE warrants)		1,346,900
Long term portion of debt for the purchase of aircraft and equipment at various interest rates and due dates		1,062,700
Long term portion of debt		5,176,100
	$	8,508,500

10) The Company has uranium properties that are in a shut down status in Wyoming and southern Utah for which it is responsible for the reclamation expense. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America, requires management to make estimates for these reclamation expenses 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.

The Company accounts for the reclamation of its mineral properties, coalbed methane and oil properties pursuant to SFAS No. 143, “Accounting for Asset Retirement Obligation.” Under the provisions of this accounting statement, the Company records the estimated fair value of the reclamation liability on its mineral properties as of the date that the liability is incurred with a corresponding increase in the property’s book value. Actual costs could differ from those estimates. The reclamation liabilities are reviewed each quarter to determine whether estimates for the total asset retirement obligation are sufficient to complete the reclamation work required.

U.S. ENERGY CORP. & SUBSIDIARIES

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

The Company deducts any actual funds expended for reclamation from the asset retirement obligations during the quarter in which it occurs. As a result of the Company taking impairment allowances in prior periods on its shut-down mining properties, it has no remaining book value for these properties. Any upward revisions of retirement costs, on its mineral properties will therefore be expensed in the quarter in which they are recorded. Retirement obligations related to coalbed methane and oil properties result in increases to the property costs which are depleted over the economic life of the properties.

The following is a reconciliation of the total liability for asset retirement obligations (unaudited):

Balance December 31, 2004	$	8,075,100
Addition to Liability		--
Liability Settled		--
Accretion Expense		104,400
Balance March 31, 2005	$	8,179,500

11) During the three months ended March 31, 2005, the Company issued 704,876 shares of its common stock. The following table details the number of shares issued and the dollar values received.

	Common Stock				Additional Paid-In
	Shares		Amount		Capital
Balance December 31, 2004	15,231,237	$	152,300	$	59,157,100
Conversion of RMG Investment	34,227	$	300	$	99,700
Conversion of 100,000 RMG Series A Preferred Shares	91,743	$	900	$	299,100
Dividend on RMG Series A Preferred Shares	44,195	$	400	$	99,300
2001 Stock Compensation Plan	15,000	$	200	$	43,200
Exercise of Options	115,425	$	1,200	$	23,800
Exercise of Warrants	392,811	$	3,900	$	1,387,800
Outside Directors	11,475	$	100	$	35,500
Value of Company warrants issued attached to new debt				$	1,029,800
Beneficial Conversion Feature on Convertible Debentures				$	1,751,300

Value of Company warrants issued					
for professional services				$	114,500
	15,936,113	$	159,300	$	64,041,100

U.S. ENERGY CORP. & SUBSIDIARIES

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

12) The Company's revenues are derived from two segments: 1) Coalbed methane (and holding costs for inactive mining properties) and 2) Commercial real estate. The following table sets forth the operating results of each segment for the three months ended March 31, 2005 and 2004.

Three months ended March 31, 2005

	Coalbed Methane (and holding