

US ENERGY CORP
Form 10-Q
November 06, 2009

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

- Quarterly report pursuant to section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarter ended September 30, 2009 or
- 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 registrant as specified in its charter)

Wyoming
(State or other jurisdiction of
incorporation or organization)

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

877 North 8th West, Riverton, WY
(Address of principal executive offices)

82501
(Zip Code)

Registrant'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 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 NO

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to rule 405 of Regulations S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required

to submit and post such files).

YES

NO

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

YES NO

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

At November 6, 2009, there were issued and outstanding 21,349,058 shares of the Company’s common stock, \$.01 par value.

U.S. ENERGY CORP. and SUBSIDIARIES

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PART I. FINANCIAL INFORMATION

ITEM 1. Financial Statements

U.S. ENERGY CORP.
CONDENSED BALANCE SHEETS
ASSETS
(Amounts in thousands)

	September 30, 2009 (Unaudited)	December 31, 2008
CURRENT ASSETS:		
Cash and cash equivalents	\$11,671	\$8,434
Marketable securities		
Held to maturity - treasuries	27,224	51,152
Available for sale securities	1,170	576
Accounts receivable		
Trade	408	600
Reimbursable project costs	2	442
Income taxes	353	5,896
Restricted investments	--	4,929
Other current assets	570	738
Total current assets	41,398	72,767
INVESTMENT	3,827	3,455
PROPERTIES AND EQUIPMENT:		
Oil & gas properties under full cost method, net	13,723	7,906
Undeveloped mining claims	22,967	23,950
Commercial real estate, net	23,433	23,998
Property, plant and equipment, net	9,374	9,639
Net properties and equipment	69,497	65,493
OTHER ASSETS	1,161	916
Total assets	\$115,883	\$142,631

The accompanying notes are an integral part of these statements.

U.S. ENERGY CORP.
CONDENSED BALANCE SHEETS
LIABILITIES AND SHAREHOLDERS' EQUITY
(Amounts in thousands)

	September 30, 2009 (Unaudited)	December 31, 2008
CURRENT LIABILITIES:		
Accounts payable	\$243	\$898
Accrued compensation	585	682
Short term construction debt	--	16,813
Current portion of long-term debt	200	875
Other current liabilities	246	715
Total current liabilities	1,274	19,983
LONG-TERM DEBT, net of current portion	800	1,000
DEFERRED TAX LIABILITY	7,869	8,945
ASSET RETIREMENT OBLIGATIONS	153	144
OTHER ACCRUED LIABILITIES	717	726
SHAREHOLDERS' EQUITY:		
Common stock, \$.01 par value; unlimited shares authorized; 21,289,058 and 21,935,129 shares issued, respectively	213	219
Additional paid-in capital	93,790	93,951
Accumulated surplus	10,687	17,663
Unrealized gain on marketable securities	380	--
Total shareholders' equity	105,070	111,833
Total liabilities and shareholders' equity	\$115,883	\$142,631

The accompanying notes are an integral part of these statements.

U.S. ENERGY CORP.
CONDENSED STATEMENTS OF OPERATIONS
(Unaudited)
(Amounts in thousands, except per share data)

	Three months ended September 30,		Nine months ended September 30,	
	2009	2008	2009	2008
OPERATING REVENUES:				
Real estate	\$686	\$497	\$2,165	\$995
Oil & gas	593	67	1,912	--
Management fees and other	5	5	14	52
	1,284	569	4,091	1,047
OPERATING COSTS AND EXPENSES:				
Real estate	507	311	1,517	712
Oil and gas	446	--	1,936	--
Impairment of oil and gas properties	405	--	1,468	--
Water treatment plant	379	326	1,398	724
Mineral holding costs	--	883	--	1,558
General and administrative	1,838	1,697	5,675	5,969
	3,575	3,217	11,994	8,963
OPERATING LOSS	(2,291)	(2,648)	(7,903)	(7,916)
OTHER INCOME & (EXPENSES):				
Gain on sales of assets	(46)	12	(41)	(17)
Equity loss	(339)	--	(505)	--
Interest income	88	324	264	1,175
Interest expense	(20)	(146)	(78)	(254)
	(317)	190	(360)	904
LOSS BEFORE PROVISION FOR INCOME TAXES AND DISCONTINUED OPERATIONS	(2,608)	(2,458)	(8,263)	(7,012)
INCOME TAXES:				
Current benefit from (provision for)	(3)	1,881	210	4,003
Deferred benefit from (provision for)	867	(819)	1,077	(1,563)
	864	1,062	1,287	2,440
LOSS FROM CONTINUING OPERATIONS	(1,744)	(1,396)	(6,976)	(4,572)
DISCONTINUED OPERATIONS				
Loss from discontinued operations	--	(211)	--	(502)
Gain on sale of discontinued operations (net of taxes)	--	5,408	--	5,408
	--	5,197	--	4,906

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NET (LOSS) INCOME					
		\$(1,744) \$3,801	\$(6,976) \$334

The accompanying notes are an integral part of these statements.

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U.S. ENERGY CORP.
CONDENSED STATEMENTS OF OPERATIONS
(Unaudited)
(Amounts in thousands, except per share data)

	Three months ended September 30,		Nine months ended September 30,	
	2009	2008	2009	2008
PER SHARE DATA				
Basic and diluted loss				
from continuing operations	\$(0.09	) \$(0.06	) \$(0.33	) \$(0.19
Basic and diluted gain				
from discontinued operations	--	0.22	--	0.20
Basic and diluted (loss) gain per share	\$(0.09	) \$0.16	\$(0.33	) \$0.01
BASIC AND DILUTED WEIGHTED				
AVERAGE SHARES OUTSTANDING	21,288,841	23,505,340	21,416,869	23,629,490
Diluted loss				
from continuing operations	\$(0.09	) \$(0.06	) \$(0.33	) \$(0.19
Diluted earnings				
from discontinued operations	--	0.22	--	0.20
Diluted (loss) earnings per share	\$(0.09	) \$0.16	\$(0.33	) \$0.01
DILUTED WEIGHTED AVERAGE				
SHARES OUTSTANDING	21,288,841	23,505,340	21,416,869	23,629,490

The accompanying notes are an integral part of these statements.

U.S. ENERGY CORP.
 CONDENSED STATEMENTS OF CASH FLOWS
 (Unaudited)
 (Amounts in thousands)

	For the nine months ended September 30,	
	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net (loss) income	\$(6,976)	\$334
Gain on the sale of SGMI stock	--	(5,407)
Loss from discontinued operations	--	501
Loss from continuing operations	(6,976)	(4,572)
Reconcile net loss to net cash used in operations		
Depreciation, depletion & amortization	2,918	688
Accretion of discount on treasury investment	(160)	(992)
Impairment of oil and gas properties	1,468	--
Equity loss from Standard Steam	505	--
Income tax receivable	5,543	(3,399)
Deferred income taxes	(1,077)	1,563
Loss on sale of assets	41	17
Noncash compensation	1,283	2,135
Noncash services	50	24
Net changes in assets and liabilities	(741)	187
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	2,854	(4,349)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Net investment in treasury investments	\$24,088	\$(67,569)
Investment in Standard Steam	(877)	--
Acquisition & development of real estate	(91)	(11,001)
Acquisition of oil & gas properties	(9,078)	(4,534)
Acquisition & development of mining properties	(10)	(518)
Minining property option payment	1,000	--
Acquisition of property and equipment	(249)	(56)
Proceeds from sale of property and equipment	5	1,097
Net change in restricted investments	4,682	1,704
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	19,470	(80,877)

The accompanying notes are an integral part of these statements.

CONDENSED STATEMENTS OF CASH FLOWS
(Unaudited)
(Amounts in thousands)

	For the nine months ended September 30,	
	2009	2008
CASH FLOWS FROM FINANCING ACTIVITIES:		
Issuance of common stock	\$--	\$1,528
Tax benefit from the exercise of stock options	--	171
Proceeds from short-term construction debt	--	10,945
Repayments of debt	(17,688)	(57)
Stock buyback program	(1,399)	(2,832)
NET CASH (USED IN) PROVIDED BY FINANCING ACTIVITIES	(19,087)	9,755
Net cash used in operating activities of discontinued operations	--	(76)
Net cash provided by investing activities of discontinued operations	--	4,402
Net cash used in financing activities of discontinued operations	--	--
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	3,237	(71,145)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	8,434	72,292
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$11,671	\$ 1,147
SUPPLEMENTAL DISCLOSURES:		
Income tax received	\$(5,753)	\$ (945)
Interest paid	\$34	\$ 48
NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Unrealized gain/(loss)	\$143	\$ (459)

The accompanying notes are an integral part of these statements.

U.S. ENERGY CORP.

Notes to Condensed Financial Statements (Unaudited)

1) Basis of Presentation

The accompanying unaudited condensed financial statements for the periods ended September 30, 2009 and September 30, 2008 have been prepared by U.S. Energy Corp. ("USE" or the "Company") in accordance with U.S. generally accepted accounting principles. The Condensed Balance Sheet at December 31, 2008 was derived from audited financial statements. 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 for the reported periods. 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. The unaudited condensed financial statements should be read in conjunction with the Company's December 31, 2008 Annual Report on Form 10-K.

Subsequent events known to the Company's principal executive officer or principal financial officer prior to the first issuance of the financial statements are evaluated for incorporation in the financial statements and notes thereto. These financial statements were first issued on November 6, 2009 at the time of filing this Form 10-Q with the SEC.

2) Summary of Significant Accounting Policies

For detailed descriptions of the Company's significant accounting policies, please see Form 10-K for the year ended December 31, 2008 (Note B pages 72 to 79).

We follow accounting standards set by the Financial Accounting Standards Board, commonly referred to as the "FASB." The FASB sets generally accepted accounting principles (GAAP) that we follow to ensure we consistently report our financial condition, results of operations, and cash flows. References to GAAP issued by the FASB in these footnotes are to the FASB Accounting Standards Codification,TM sometimes referred to as the Codification or ASC. The FASB finalized the Codification effective for periods ending on or after September 15, 2009. Prior FASB standards like FASB Statement No. 128, "Earnings per Share," are no longer being issued by the FASB. For further discussion of the Codification see "FASB Codification Discussion" in Management's Discussion and Analysis of Financial Condition and Results of Operations (commonly referred to as MD&A) elsewhere in this report.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and 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 condensed financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates include oil and gas reserves used for depletion and impairment considerations and the cost of future asset retirement obligations. Due to inherent uncertainties, including the future prices of oil and natural gas, these estimates could change in the near term and such changes could be material.

U.S. ENERGY CORP.

Notes to Condensed Financial Statements (Unaudited)
(Continued)

Oil and Gas Properties

The Company follows the full cost method in accounting for its oil and gas properties. Under the full cost method, all costs associated with the acquisition, exploration and development of oil and gas properties are capitalized and accumulated in a country-wide cost center. This includes any internal costs that are directly related to development and exploration activities, but does not include any costs related to production, general corporate overhead or similar activities. Proceeds received from disposals are credited against accumulated cost except when the sale represents a significant disposal of reserves, in which case a gain or loss is recognized. The sum of net capitalized costs and estimated future development and dismantlement costs for each cost center is depleted on the equivalent unit-of-production method, based on proved oil and gas reserves. Excluded from amounts subject to depletion are costs associated with unevaluated properties.

Under the full cost method, net capitalized costs are limited to the lower of unamortized cost reduced by the related net deferred tax liability and asset retirement obligations or the cost center ceiling. The cost center ceiling is defined as the sum of (i) estimated future net revenue, discounted at 10% per annum, from proved reserves, based on unescalated year-end prices and costs, adjusted for contract provisions, financial derivatives that hedge the Company's oil and gas revenue and asset retirement obligations, (ii) the cost of properties not being amortized, and (iii) the lower of cost or market value of unproved properties included in the cost being amortized, less (iv) income tax effects related to differences between the book and tax basis of the natural gas and crude oil properties. If the net book value reduced by the related net deferred income tax liability and asset retirement obligations exceeds the cost center ceiling limitation, a non-cash impairment charge is required in the period in which the impairment occurs.

Revenue Recognition

The Company records natural gas and oil revenue under the sales method of accounting. Under the sales method, the Company recognizes revenues based on the amount of natural gas or oil sold to purchasers, which may differ from the amounts to which the Company is entitled based on its interest in the properties. Natural gas balancing obligations as of September 30, 2009 were not significant.

Revenues from real estate operations are reported on a gross revenue basis and are recorded at the time the service is provided.

Management fees are recorded when the service is provided. Management fees are for operating and overseeing services performed on mineral properties in which the Company participates with joint venture or industry partners.

U.S. ENERGY CORP. & SUBSIDIARIES

Notes to Condensed Financial Statements (Unaudited)
(Continued)

Recent Accounting Pronouncements

On December 31, 2008, the SEC adopted major revisions to its rules governing oil and gas company reporting requirements. These new rules will permit the use of new technologies to determine proved reserves and allow companies to disclose their probable and possible reserves to investors. The current rules limit disclosure to only proved reserves. The new rules require companies to report the independence and qualification of the person primarily responsible for the preparation or audit of its reserve estimates, and to file reports when a third party is relied upon to prepare or audit its reserve estimates. The new rules also require that the net present value of oil and gas reserves reported and used in the full cost ceiling test calculation be based upon an average price for the prior 12-month period. The new oil and gas reporting requirements are effective for annual reports on Form 10-K for fiscal years ending on or after December 31, 2009, with early adoption not permitted. The Company is in the process of assessing the impact of these new requirements on its financial position, results of operations and financial disclosures.

As of September 30, 2009, there have been no recent accounting pronouncements currently relevant to the Company in addition to those discussed on pages 78 to 79 of our Annual Report on Form 10-K for the year ended December 31, 2008. The Company continues to review current outstanding statements from the Financial Accounting Standards Board ("FASB") and does not believe that any of those statements will have a material effect on the financial statements of the Company when adopted.

3) Properties and Equipment

Land, buildings, improvements, machinery and equipment are carried at cost. Depreciation of buildings, improvements, machinery and equipment is provided principally by the straight-line method over estimated useful lives ranging from 3 to 45 years.

U.S. ENERGY CORP. & SUBSIDIARIES

Notes to Condensed Financial Statements (Unaudited)
(Continued)

Components of Property and Equipment as of September 30, 2009 are as follows:

Components of Properties & Equipment
(Amounts in thousands)

	September 30, 2009	December 31, 2008
Oil & Gas properties		
Unevaluated	\$ 3,231	\$ 2,968
Well in progress	8,087	--
Evaluated	4,582	5,320
	15,900	8,288
Less accumulated depreciation depletion and amortization	(2,177)	(382)
Net book value	\$ 13,723	\$ 7,906